

Auditor's Liability for Financial Statement Fraud in Taiwan from Li-Bar Verdict: An Empirical Analysis

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Abstract

In the end of 2008, the Taipei district court held two auditors in Li-Bar Case guilty for the financial statement fraud and security fraud. Some auditors and researches worry that the court will enhance auditors' legal liability when audit failure happens. However, by an empirical analysis, this paper finds that in the past, Taiwan's courts no matter in criminal or civil trial, tended to adopt conservative attitudes and favor the defendant auditors in the cases involving financial statement fraud. Moreover, the empirical statistic indicates that the enforcement of auditor's disciplinary punishment in Taiwan is ineffective and insufficient. Therefore, this paper concludes that the conviction of two auditors in Li-Bar case is an exception. However, it should be noted that in Taiwan, according to the precedent, the theory of accomplice is very loose. Auditors might be hold criminal liable if the court or the prosecutor can find any confession or testimony from other defendants in the case. The accounting profession in Taiwan should accelerate the reform to ensure the auditing quality. Otherwise, the expectation gap among accounting profession, legal profession, and the public will keep enlarging, and the holding like Li-Bar Case will happen again unsurprisingly.

Keywords: auditor's liability, financial statement audit, financial statement fraud, auditor disciplinary, expectation gap, audit failure

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