

EFFECTS OF REGULATORY ENVIRONMENT UPON THE AUDITOR-CLIENT RELATIONSHIP

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Abstract: *The auditor-client relationship has been the subject of many previous studies and, due to the complex and dynamics nature of the relationship, will continue to be the focus of further research. Along with the dynamics within the relationship it is also compulsory to analyze the context and regulatory framework in which the relationship unfolds. As the interaction among the auditor and client could lead to several problems, the relationship and interactions between them has been one of the focus points of the International Standards on Audit and other regulations. Analyzing the specific International Standards on Audit that are related to the auditor-client relationship reveals the margins within the parties can unfold. Moreover, this essential analysis brings to light the potential areas of interest that are not sufficient covered by the existing regulations. This analysis is conducted on a concentric approach starting from the international regulations, moving on to the ones enforced at the European Union level and, in the end, Romanian applicable regulations, all of them concerning auditor-client relationship. Moreover, this study contributes to the existing literature by revealing the differences in transposing regulations at different levels (international, European and national) as well as the specific generated by each of the mentioned levels.*

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Introduction

Another layer of the auditor-client relationship is the legal context which is in tight connection with the professional, accounting, and economic aspects of the interaction. The auditor-client relation is where the economic and legal domains meet and interact, determining together the way interactions unfold. In this case, almost any action has a double valence from the two previously mentioned perspectives. The legal aspect is mostly determined by the applicable regulations, the national regulations regarding fiscal and accounting domains as well as the contractual law involved in the relation. The audit contract not only defines the object, length, price and conditions of the audit mission through its binding legal power towards the parties, but also determines the rights and obligations for both the auditor and the client.

The International Standards in Audit (the ISA's 700, 701, 705) set up that a financial audit report concludes with an opinion on whether the financial statements of a business provide a "true and fair view and present fairly all material aspects" of a companies operations and financial situation, in accordance with the reporting standards, international or national frameworks. An audit is a complete examination of financial information and reports of a business, performed from side to side audit procedures and resulting in a series of audit facts. This procedure is completed with an audit

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report, which expresses an opinion (unmodified, modified, contrary or disclaimer of opinion) concerning the fulfilment of abovementioned information with a reporting framework. In this view, the auditor is responsible that the collected data is sufficient and accurate. The aim of any audit mission is to make sure users about the reliability of the provided information (Church et al., 2008; Francis, 2011; Knechel *et al.*, 2013; Nagy, 2014; Christensen *et al.*, 2015).

Auditor client relationship approach in the International Standards on Auditing

The relationship between the auditor and the client is of such importance that it is a focus point in the International Standards on Audit (ISA) issue by IFAC (International Federation of Accountants). After analyzing the whole set of ISA, we found the auditor client relationship issues debated, directly or indirectly, mainly in the following ISAs: 210, 220, 240, 260, 265, 300, 550, 580.

ISA 210, agreeing the Terms of Audit Engagements, is one of the most important as it precedes any potential future relationship between auditor and client. It stands as a guideline is the steps necessary to follow in order to determine whether a certain client is suitable for signing an audit contract with, based on various aspects such as legal, regulatory and management responsibility and approach. ISA 210 guidelines allow the auditor to make an agreement with the client concerning engagement's terms, responding in an adequate manner to any requests made by the auditor regarding changing audit engagement's terms. For the auditor, Standard 210 recommends sending to his client, preferably prior to the commencement of the engagement, a letter of engagement in order to avoid any misunderstandings that may arise in fulfilling it. The finality of this letter of commitment is to document and accept by the auditor the appointment, purpose and scope of the audit engagement, the extent of the auditor's responsibility to the client, and the form of any reporting.

ISA 220 on Quality Management for an Audit of Financial Statements has to be interpreted in accordance with the proper and adequate ethical requirements as it tackles the responsibilities that an auditor has towards enforcing procedures for quality control for financial statements' audit and the engagement quality control reviewer on the other hand. According to the objectives of ISA 220, the auditor's objective is to manage the quality and level of commitment to obtain reasonable assurance of the quality achieved so that:

- the auditor has complied with its responsibilities in accordance with professional standards and regulatory requirements;
- the auditor's report is appropriate to the circumstance.

The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements, defined by *ISA 240*, also has an indirect influence regarding the auditor client relationship. The main goal of ISA 240 is to enforce that the auditor would present specific processes in order to determine if there is risk of material misstatement due to fraud or error. The way in which it interacts with the auditor client relationship is that the procedures also target the risk of client's management influencing the control mechanisms regarding estimates, unusual transactions and journal entries, which are considered to represent significant risk, this leading to engagement teams spending more of their times in these areas in order to determine fraud or error if the case.

ISA 260, Communication with those charged with governance, targets directly the manner in which the relationship between the auditor and the client unfolds, as two-way communication among the two parties, the auditor and the departments that deal with corporate governance in the audited company, is of key importance. ISA 260, defines auditor's objectives regarding communication during the engagement to be the following:

- clear communication with those charged with governance in relation to the audit of the respective financial statements
- Obtaining relevant information from those in charge of governance
- Provide meaningful and relevant in a timely manner to those charged with governance, who are significant and relevant in overseeing the work carried out

- Promote two-way communication between auditors and those in charge of governance

In case communication is not effective and does not properly work in a two-way mode for the purposes of the auditor and the audit, the auditors should be the first to take into consideration personal capacity to accept reappointment.

In addition, *ISA 265 on Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*, is a new standard that tackles the communication of any deficiencies that might occur regarding internal control mechanisms to client's management. Therefore, according to this standard, "the objective of the auditor is to communicate appropriately to those charged with governance and management deficiencies in internal control that the auditor has identified during the audit and that, in the auditor's professional judgment, are of sufficient importance to merit their respective attentions". If during an engagement, the auditor does not identify the expected internal control systems, this aspect should be communicated to those in charge with governance or management even though this aspect is or is not considered to pose a significant risk regarding the unfolding of the audit mission.

ISA 300, Planning an Audit of Financial Statements, is maybe one of the standards that has the widest influence in the auditor client relationship as it determines how and to what extent will the audit engagement unfold, therefore making it's object subject to either inconveniences or negotiations between auditor and client. In alliance with ISA 300, "the objective of the auditor is to plan the audit so that it will be performed in an effective manner". As a consequence, the auditor should maintain in thinking the scope of the audit and plan it accordingly even though this might not be suitable or pleasing to client's management, considering that adequate planning brings various benefits to the audit of the financial reports.

ISA 550, Related Parties, has been improved in order to better identify and produce adequate responses to the risk generated by the misstatement of the financial reports that might occur from associated party relations or transactions. The types of risks of misstatements due to related parties relationships or transactions are even higher than others, as they are more difficult to detect because the management or company does not properly understand the importance of these requirements and do not have the proper means of identifying or recording such related parties. Consequently, the impact of ISA 550 upon the auditor client relationship is regarding the discussions that arise between auditor and client during which the importance of identifying and disclosing such parties. Another influence of the Related Parties in the auditor client relationship is connected to the fact that some related parties could have been previously either involved in another audit or have been the subject of an audit mission conducted by the same auditors. Professional skepticism of the auditor has to be met also by applying the proper audit procedures regarding related parties as the audit evidence obtained from them contribute to supporting auditor's opinion and implicitly, the finality of the auditor client relationship. Arguments can be brought to the statement that even the CEO can be included in the category of Related Parties. Based on the fact that the CEO, most of the times, works according to the terms of a management contract that he has signed with the company, he cannot be per se included in the employee category. Being somehow external party as compared to the actual employees of the company, the CEO is closer to the Related Parties category. During the engagement mission, when negotiations and discussions occur, the auditor sometimes end up relating to the CEO as well. Therefore, we can conclude that ISA 550 regarding Related Parties is very much connected to the auditor client relationship unfolding.

There are several procedures that are suggested by ISA 550 in order to detect related parties that have not been disclosed by management, setting several requirements such as:

- the engagement team should maintain its susceptibility regarding the potential misstatements of the financial reports having as a generating factor fraud or error due to client's linked parties associations and operations;

- the auditor should verify with the management aspects such as the identity of the firm's linked parties, the nature of their relationship and if there were some transactions made among the firm and the associated parties while also defining the type and purpose of these operations;
- the auditor should verify with the management in order to understand the control mechanisms, if any, that are empowered by administration to identify and disclose related parties associations and transactions, provide authorization or consent of important transactions and arrangements either with related parties or outside the normal course of business;
- the auditor must remain vigilant throughout the verification of records and documents, to identify transactions or relationships with related parties that management has not disclosed
- to identify the transitions or relations with related parties not presented or not disclosed by management, the auditor will use bank confirmations, minutes of shareholders' meetings and other documents that the auditor considers important.
- in case the auditor recognizes transactions that are not part of the usual path of business either by applying the mentioned procedures or during the audit mission or procedures, these should be subject of inquiry towards the management related their nature and whether correlated parties could be involved;
- following the audits, the auditor shares relevant information with related parties and members of the engagement team.

ISA 580, Written Representations, as it states the name, has one of the objectives the requirement for the auditor to obtain written representations from the entity. The management will have to provide the auditor with written representations through which the management gets accountability for preparing the accounts and providing full and complete information to the auditor. This implies, the management, in the proper financial reporting framework, having all the transactions displayed in the financial reports and providing the auditor the kind of access agreed in the audit engagement, while providing written representations for this other ISAs require a written statement. At the same time, if the auditor considers it necessary to obtain other written statements for other relevant issues that could affect the financial statements, he may request such statements. Therefore, the various written representations that could appear as necessary during the audit mission can generate direct influence in defining how the relationship between the auditor and the client evolves.

The sensible parts in the association among the auditor and the client is also a matter of ethics which starts to apply from the moment of analyzing a potential new client and the acceptance of one. Therefore, the International Federation of Accountants (IFAC) has issued a Code of Ethics for Professional Accountants which, regarding to the acceptance of a new client, states: "Before accepting a new client relationship, a professional accountant in public practice shall determine whether acceptance would create any threats to compliance with the fundamental principles. Potential threats to integrity or professional behavior may be created from, for example, questionable issues associated with the client (its owners, management or activities)". This translates into increased skepticism as a necessary attitude when analyzing a potential new client in order to determine if some aspect directly or indirectly linked to that certain client could, by signing an audit contract, raise a too high to accept risk for the audit company.

Of course, that even after the due diligence actions have been taken before signing a contract, this does not mean that the ethical integrity of the auditor will not continue to be put to a test on the period of the audit and audit engagements. Consequently, the due diligence action should be a constant one as it should target every requirement that the client makes, in order to establish if it is ethical acceptable for the auditor. Along the auditor client relationship there are various threats that might occur which could pose a threat to the auditor's objectivity. Such threats might consist in personal or financial relations between participants of the audit firm and ones of the client, leading to the necessity of implementing safeguards measures in order to diminish the risk.

The types of risks that are posed to the auditor are various starting from the professional competence when a more difficult engagement arises until potential fee dependence is case of big

clients and complex engagements that lead to bigger audit fees. Of course, the engagement should be profitable for the audit company, but its commercial concerns should not overcome other important aspects. As it is a dynamic sector and information is valid only for a limited period of time, IFAC Code states that “It is recommended that a professional accountant in public practice periodically review acceptance decisions for recurring client engagements.”, as it is likely for the conditions of a certain engagement to suffer changes over time.

There are certain conditions that are required before accepting an audit and those conditions, should also be verified along the way, to check if any alterations have occurred as stated before. The preconditions for an audit are defined by *ISA 210, Agreeing the Terms of Audit Engagements*, as follows: “The use by management of an acceptable financial reporting framework in the preparation of the financial statements and the agreement of management and, where appropriate, those charged with governance to the premise on which an audit is conducted”. As a consequence, it is of an auditor duty to follow up some verification steps:

- make a law and regulation check upon the appliance of the correct financial exposure structure and other additional rules;
- check whether he has the agreement of client's management and responsibility assumption regarding the appliance of adequate regulatory framework concerning:
 - ensure that internal control functions are in place and provide sufficient assurance against fraud or error;
 - the groundwork of financial reports;
 - provide auditors sufficient access to the needed information.

In case the upper mentioned conditions are not met, the audit should be declined due inadequate financial reporting framework or lack of management agreements based on *ISA 580, Written Representations*.

Another major risk to the auditor's independence are the non-audit services that some client might require extra to the audit services that they have already contracted. The main negative effect could be the affecting of auditor's objectivity. In this case, a 2018 report of IESBA supported by IFAC, *Non-Assurance Services - Exploring Issues to Determine a Way Forward*, states “that it is in the public interest that its NAS provisions are not only sufficiently robust, but also principles-based in order that they remain relevant and applicable at the international level” also including prohibitions regarding NAS. Such unconditional prohibitions are as follows:

- when the result of the NAS is substantial or considerable to the financial reports on which the entity will communicate an opinion ;
- dependent on whether the NAS is presence offered to an audit client that is a PIE or a non-PIE.

Moreover, there are references regarding non-audit services and the influence generated upon auditor's independence in the *ISA 260*, which requires the auditor to communicate to those with governance responsibilities all relationships and total fees (NAS included) which might impact upon independence. Non-audit services provision towards clients could generate, according to *Supplement to the Handbook of International - A Framework for Audit Quality issued by IAASB and IFAC in 2018*, threats upon auditor's independence such as: self-review, threats regarding advocacy and self-interest. Therefore, international provision try to content the problems generated by the NAS by identifying the risks regarding auditor's independence.

Moreover, regulators consider that the Code ought to contain other various unconditional NAS prohibitions for the Code to be more in accordance with the latest EU audit legislation:

- Accounting and bookkeeping services such as preparing accounting records and financial reporting, involving those NAS of a regular or mechanical nature provided to divisions or related entities;
- Constructing and applying IT practices, internal control or risk management procedures;

- Services related to the audited entity's internal audit function;
- Services associated to the audited entity's funding, investment structure and distribution, and investment asset;
- Litigation support services when used for the purpose of advancing the entity's interest in a legal proceeding or investigation with respect to amounts that are material to the financial statements subject to audit or review;
- Evaluation services, involving tax facilities including evaluation;
- Specific forms of tax services.

Every professional act done by an auditor must comply to the requirements of the main principles of the Ethics Code which all are, directly or indirectly, linked to the auditor client relationship. The first one, *Integrity*, states as a general guide that the auditor should not be associated with reports that do not reveals false or misleading information and misstatements provided the auditor discovered this information. When encountering such a problem or any other is issue that lead to a discussion, one of the main parts of the auditor client relationship, the principle of Integrity describes the recommended auditor conduct as fair dealing and based on true information. Moreover, another main ethic principle, *Objectivity*, requires for the auditor not to allow both the auditor client relationship and any other elements connected or not let the auditor client relationship influence the applied professional reasoning. The third principle, regarding *Professional Competence and Due Care*, find its application in the auditor client relationship based on the fact that auditors are required to acquire and continuously maintain an adequate level of professional competence allowing to provide competent services and be able to deal with any discussions that might occur. *Confidentiality* as a Ethics Code principle implies that the auditor should not disclose information obtained during a certain engagement mission to anybody who is not the owner of that information or not use that kind of information to his own advantage and interest. Basically, the auditor should maintain at the level of the auditor client relationship any information obtained in that context, except the cases where the law or other specific mentioned situations require such a disclose. The last main ethic principle, *Professional Behaviour*, define as an adequate conduct for the auditor in the auditor client relationship, restraining from any actions that are against the law, negatively affect the audit profession's image or have disproportionate approaches and requirements from the client.

Nevertheless, when contracting for NAS, in accordance with the UK Corporate Governance Code for example and many other important ones, there should be an opened discussion between the auditors and the client's departments that have as a focus enforcing corporate governance rules, including the audit committee, to determine whether to go ahead with the engagement. Therefore, it can be stated that audit committee also plays an important role in maintaining a good and ethical association among auditor and the client.

Corporate governance can be considered as the binder that holds an organization functional and can be described as being the analysis of structures and procedures linked with manufacture, decision-making, control and so on within a company (Keasey&Wright, 1993). Therefore, the audit committee function is in direct relation with corporate governance. Audit committee is an active mechanism in both two important characteristics of corporate governance:

- supervision and monitoring of management performance i.e., the necessary for authority mechanisms to inspire organization in relation to growing company prosperity (the *enterprise* aspect);
- certifying responsibility of management to shareholders and other stakeholders (the *accountability* aspect) (Beattie et. al., 2001).

Therefore, the value of the audit committees in the role of an internal monitoring mechanism ensuring the good function of the corporate governance was highlighted by many and by The Cadbury Report as well (Beattie et. al., 2001).

Audit committees are a concept brought to the attention of companies by corporate governance, being defined by the 5th pillar of corporate governance in the model developed by Spencer Pickett. Thus, the key concerns of the audit committee are concentrating on establishing and certifying the accurate performance of risk management, internal control, internal audit and its association with financial auditor (Tiron-Tudor et. al., 2009). It can be deduced that these audit committees arose as a result of a need, a need for communication between auditors and management to transmit information, recommendations and to support the latter. This was followed in 1991 by the establishment of one of the most well-known bodies in this field, the Cadbury Committee, which had the difficult task of clarifying a multitude of doubts regarding financial reporting obligations, relations between company actors, the responsibility of directors, managers, and the role of audit committees.

Also, the practice and literature highlight a number of direct responsibilities of the audit committee, including the possibility to make recommendations on the position of the external auditor, his compensation and any other issues regarding resignation or dismissal. The audit committee is also responsible for auditing the half-yearly financial reports before submitting them to the Board of Directors, reviewing the external auditor's report and the company's statement on internal control systems before approving them by the Board of Directors. The position of guarantor of the audit committee is also fulfilled in a broader context, by preventing the “engagement of the company in projects, in assuming obligations and duties that are not in accordance with the statutory objectives or in high-risk transactions, such as to cause major damage “(Morariu et. al., 2009).

In summary, the audit committee “acquired responsibilities for ensuring the quality of accounts and reports to shareholders, the remuneration and appointments of directors, ensuring shareholders' independence of opinion” (Tiron-Tudor et. al., 2009).

European regulation about Auditor-Client Relationship

In Europe the financial markets crisis has brought up to the light that to certify suitable-operative framework in the internal market there are several issues that should serve as starting ground, issues regarding financial reporting and the supervision of financial institutions on the one hand and auditing on the other hand. An audit, in conjunction with together satisfactory surveillance and corporate governance, can add with regard to the companies' financial wellbeing by assuring higher financial stability in their reports (European Commission [EC], 2015).

There are two major benefits that the assurance provided by the auditors create: the reduction of the risk of misstatements and also the risk of having the cost of failure to be supported by the entities stakeholders. The audit reinstates market trust and confidence by contributing to protecting the investors' investments and, moreover, it reduces the companies' cost of capital.

Consequently, the Directive on statutory audit (Directive 2006/43/CE) entrusted auditors to perform statutory audits concluding that their position is of crucial significance in relation to auditor and client trust. This allocation is centered mostly on the auditor's social role towards the provision of an opinion founded on honesty and impartiality of the financial reports of the audited company.

By the EC notes (2015), the development of statutory audits can be linked to the certification of revenue, expenditure, assets and liabilities to a risk-based approach. From a user standpoint, stakeholders ought to be presented with an elevated amount of confidence regarding the balance sheet elements by the auditors and, nonetheless, their assessment up to the period of the balance sheet. The audited firm's management has the main responsibility as towards providing sound financial information; as a result, the auditors take their part in challenging the management in support of the users. There is a high need to reflect upon the degree of evidence that ought to be presented and disclosed to the public. The main reason for this is that specific evidence could be linked, for example, to the companies' exposure to risk/events/intellectual property or other such undesirable effects that could potentially cause damage to the intangible assets. Having this on focus, in order to improve external communication, auditors should act upon the appropriateness and regularity of their consultation towards the stakeholders (EC, 2015).

It is a must for the auditors to take into consideration the internal communication provided they want to deliver a high-quality audit. For better internal communication, having a regular dialogue involving the firm's audit committee, statutory auditor and the internal auditors is a necessary condition. Internal control represents the function which assures that the ambiguities are removed in the total reporting of risk monitoring, compliance and the fundamental certification of assets, liabilities, revenues and expenses (EC, 2015). Auditors, to a great extent, attention on the audits of past financial evidence. Nevertheless, it is of crucial importance to take a look into the future information as concerned to the role of auditors; the ones that should offer an outlook regarding the company's economic and financial information founded on the fortunate approach to the vital data. The Directive on Statutory Audit (EC, 2015) contains a requirement towards statutory auditors having to comply with requirements regarding professional ethics laying down principles such as fees, independence, rotation or companies' governance and audit committees, reaching from social parts to contemplations about possession.

The auditor is paid by the company that requires to be audited, having him appointed as element of a commercial tendering process, also based on auditors' having their responsibility to the shareholders of the audited firm on the one hand, and other stakeholders. On the other hand, at the same time as having their fees paid by the audited firm distorts within the system. The European Commission (2015) is taking into consideration whether it would be feasible to have the audit role as a statutory inspection and placing the responsibility to agree upon the choosing, period of the assignation and remuneration of an auditor to a third party, for example, a regulator, rather than the audited firm. There is a need for exploring this matter both because of the risk of amplified bureaucracy and the potential societal benefits of perceptibly independent appointments (EC, 2015).

Audit firms provide not only audit services, but NAS as well. Debates relating to the NAS offered by the audit company to the same clients as for audit services have been for a long time now on the tables. As European Union is concerned there are, until now, no official bans forbidding the auditors from offering NAS excepting the article 22 of the directive stating that audit services are not supposed to be offered in the cases where "an objective, reasonable and informed third party would conclude that the statutory auditor's or audit firm's independence is compromised (EC, 2015)". How this directive has been implemented auditor-client relationshiposs the EU is rather divergent; for example, France has implemented an absolute ban towards the provision of non-audit services by the auditor to his audit services clients. In contrary, other EU states, have relaxed rules on the subject of the provision of non-audit services to the audit client by the same auditor. The EC is planning on examining the reinforcement of the ban of the provision of non-audit services by the auditors with the scope of building the system of pure audit firms. The main reason for this is that auditors ought to provide an independent opinion regarding the companies' financial health without having any interest in the companies to be audited (EC, 2015).

As in every profession, accounting and auditing sector also need professional bodies in order to generate regulations and enforce them. This need is for achieving the main scope of maintaining a reliable and trust providing profession for the economic and business environment.

Romanian regulation about auditor-client relationship

The financial audit in Romania is performed in accordance with the International Auditing Standards (ISA) adopted by the Romanian Chamber of Financial Auditors (CAFR) as a national audit standard or with other generally accepted audit standards.

Considering that, as a Member State with full rights of the European Union, Romania has the task of transposing and implementing the directives issued by the European Union, in order to transpose Directive 2006/43 / EC of 17 May 2006 of the European Parliament and on the statutory audit of annual accounts and consolidated accounts, amending Council Directives 78/660 / EEC and 83/349 / EEC and repealing Council Directive 84/253 / EEC, published in the Official Journal of the European Union no. L 157 of June 9, 2006, in order to achieve a harmonized approach to statutory audit in the European Union, to ensure compliance of statutory audit in Romania with the

requirements of European directives, by constantly reviewing legislation in the field, and to create a system of public oversight for statutory auditors and audit firms based on European principles.

Also, the IFAC Code of ethics, which establishes the fundamental principles of professional ethics for professional accountants and provides guidelines for the application of these principles, is translated and applied in the accounting profession by Romania. This code provides some general directions regarding the typical situations encountered in the accounting profession. According to the mentioned Code of Ethics, the objectives of the accounting profession are established in order to meet the highest standards of professionalism and performance levels but also to meet the requirements of the public interest. Achieving these goals requires meeting four basic requirements: credibility, professionalism, quality of service and trust. According to the National Code of Ethics for Professional Accountants in Romania, a professional accountant must comply with ethical principles according to the IFAC Code of Ethics.

Conclusions

Based on the above reasons it can be concluded that both auditors and attorneys have to gain by leaving the trial as a last resort and primary opting for settlements. On one hand, attorneys provide to auditors a middle resolution, the settlement, which from auditors' and external perspective could be considered as a form of win, thus contributing to the public image of the attorneys. On the other hand, for the auditors and the auditing company, going to trial has a variable amount of unpredictability that could lead to prolonged trial expenses and higher damages which in the end might put at risk the very future existence of the audit company. Basically, as long as it is based on solid arguments and fair and reasonable positions, settling appears to be the best choice for both of the two parties that are headed for a lawsuit, the auditor and the client.

All the interactions that emerge between the auditor and the client are manifested under the umbrella of regulations and legal aspect of the auditing domain. Increased interest in the legal aspects of the relationship has been seen along with the increasing number of legal issues or lawsuits, as well as the ones that are recurring, having as a main party the auditor and the auditing professional practice. Auditor's legal liability, as an integrated part of audit profession, also has the role of providing investors additional assurance regarding audit quality and, therefore, upon the reliability of the company in which they chose to invest. Therefore, investors tend to increase their financing directly related to an increase in auditor's damage payment in case of audit failure, while this partially compensate by higher fees the increased liability exposure on auditor's behalf. The legal liability mechanism is variable from it's strength perspective over time as it continuously adapts to changing legal regulations. In the end, auditor's legal liability system directly influences the quality of a specific audit mission, benefiting to all the stakeholders involved.

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