

Appendix A – An Issue for Bay Street and Main Street

It is a fact that the legal liability problem for Canadian auditors is getting sharply worse for the larger public accounting firms. But how big is the issue for practitioners in small and medium-sized firms, and among sole practitioners, many of whom serve smaller clients in our smaller communities?

According to a spring 2007 online survey conducted in Ontario, the need for legal liability reform is indeed as big an issue on “Main Street” as it is on “Bay Street”. The survey of practitioners in these segments*, conducted in June 2007 by the Institute of Chartered Accountants of Ontario, is identical to one conducted exactly two years before. Both netted high response rates (nearly 20 per cent). On the major measures, respondents in the most recent survey said the liability crunch, both for practitioners and for smaller Ontario enterprises, is worse now than it was then. Key excerpts, as expressed by percentage of respondents:

“To what extent are liability related issues deterring your firm or practice from taking on assurance engagements?”

Moderate or significant extent, 2005: 64%

Moderate or significant extent, 2007: 71%

“To what extent are liability-related issues making it increasingly difficult for clients to access quality assurance services?”

Moderate or significant difficulty, 2005: 58%

Moderate or significant difficulty, 2007: 69%

Additionally, 73 per cent of 2007 respondents report a moderate-to-significant increase in professional liability insurance costs over the past five years.

Here is a sampling of written comments submitted by survey respondents:

“Significant numbers of public accountants are walking away from audits. Others are simply declining engagements where risk is significant, because if an audit client fails economically, the auditor is often seen by investors and creditors as a way to recover, even when auditors may not have had any role in such failures and have only partial responsibility regarding inadequate reporting.”

“(This is) particularly an issue as we try and expand our partner base. Further, we’re dropping potential work due to risk.”

“I do not perform audits and even try to avoid review engagements. It is the ever-increasing cost of liability insurance that concerns me.”

“Our firm refuses audits because of the liability issue.”

“There is NO INSURANCE market for firms our size.”

* About the respondents:

- 64 per cent sole practitioners, 28 per cent two-to-five partners, eight per cent over five partners
- 75 per cent have one-to-seven full-time staff, 14 per cent eight-to-twenty, 11 per cent 21 to 40 or more
- 95 per cent have no public companies as clients
- 7 per cent in business 21 years or more, 31 per cent 11 to 20 years, 20 per cent one to 10 years

Note that while this survey was conducted in Ontario, the liability issue is a Canadian-wide one and similar results could be expected in other provinces.