AUDITORS’ LIABILITY: SETTLING IN THE SHADOWS

Auditor liability research historically has concentrated on understanding the process and factors that influence in-court settlements of auditor liability cases (Macaulay, 1980). However, the majority of auditors’ liability cases are settled out-of-court without ever being sent to trial (Galentar and Cahill, 1994; Mnookin and Kornhauser, 1979). Consequently, our understanding of auditors’ liability is limited as it fails to consider the factors that influence auditors’ liability in out-of-court settlements. To address this gap, we develop a descriptive model of the out-of-court settlement process and use interview data to identify key factors that influence auditors’ liability in out-of-court settlements. Our participants include lawyers, accountants and insurance professionals that are key in the determination of auditor liability claims and in the determination of which claims go to court. Finally, we discuss the implications our findings and identify avenues for future research.