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Litigation

Can you sue bad auditors if you're not their client?

By: Max Langley

Auditors have a responsibility towards their client and towards a certain class of non-clients. A non-client third-party may sue the auditor for reliance on the audit. The cause of action is "negligent misrepresentation", and it is one of the most misunderstood torts.

Most states follow the Restatement of Torts to delineate the elements of, and defenses to, negligent misrepresentation.

Texas is one of those states. Like the majority of other states, Texas follows the Restatement (Second) of Torts — a practice guide written in 1977.

Recently, the Restatement received an update to the Third edition. However, no states have explicitly adopted the Third Restatement (at least when it comes to negligent misrepresentation). Nevertheless, we believe a court facing a negligent misrepresentation question should review and rely on the Third Restatement.

We wrote a 22-page primer on suing auditors, and it's available here.

There are not a lot of cases about non-parties suing auditors, for any number of reasons, including: the difficulties in determining whether an auditor screwed up; the time gap between the audit date and the damages caused to the non-party; and reluctance to spend the time and money to obtain outside help from lawyers and experts to determine whether a claim exists.

Langley LLP has a passion for holding auditors accountable.

If you present the right set of facts, we may be able to help you pursue a claim for negligent misrepresentation.

Auditors often have insurance policies with high-dollar limits. Accounting firms often have significant assets.

Langley LLP believes a substantial number of cases against auditors exist, but are not pursued. Every year, millions and millions (if not billions and billions)

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To "Go Green", our firm uses recyclable paper or ceramic cups and no longer uses Styrofoam cups. In addition, we have adopted a less-paper office environment.

We hope that these changes make big differences in the future.

Well done is better than well said.

- Benjamin Franklin

of dollars are lost due to negligent audits. Recovery is a real possibility.

Accountants and their insurance carriers should be held liable to those who properly rely upon negligently performed audits. The new Third Restatement of Torts (Economic Harm) goes a long way in helping victims recover money from negligent auditors. As this is such a specialized field, it is extremely important to hire counsel and experts who have expertise in evaluating potentially negligent audits and pursuing negligent auditors.

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