

## ***Liability of Professionals***

The liability of professionals to their clients is based on contract law and negligence. For accountants and lawyers, additional obligations and liabilities are imposed by codes of ethics and licensing. Contractually a professional owes a duty to a client to honor the terms of the contract which may include time constraints, fee limitations and scope of work. It is imperative that these terms be discussed in advance and carefully worded to avoid ambiguity in interpretation. Failure to perform as per the contract will subject the professional to damages incurred by the client as a result of the professional's breach. Negligence involves a duty of care which if breached results in economic harm to the client, the duty of care is not spelled out in a contract but includes the standard of care, knowledge and judgment, generally accepted by the members of a profession as well as standards imposed by codes of ethics for licensing requirements. A significant source of concern for accountants is the Sarbanes-Oxley Act of 2002. This act imposes requirements on a public accounting firm providing auditing services to a company that has securities registered under Section 12 of the Securities Exchange Act of 1934, is required to file reports under Section 15D of the Securities Exchange Act of 1934 or files a registration statement not yet effective under the Securities Exchange Act of 1933. The Sarbanes-Oxley Act provides numerous regulations for public accountants preparing financial statements for publicly traded companies. One regulation is that public accountants cannot perform both audit and non-audit services for a client. Non-audit services include bookkeeping, appraisal or valuation services, management functions, investment advising services and others.