5-20 Yes. Normally a CPA firm will not be liable to third parties with whom it has neither dealt nor for whose benefit its work was performed. One notable exception to this rule is fraud. When the financial statements were fraudulently prepared, liability runs to all third parties who relied upon the false information contained in them. Fraud can be either actual or constructive. Here, there was no actual fraud on the part of Small or the firm in that there was no deliberate falsehood made with the requisite intent to deceive. However, it would appear that constructive fraud may be present. Constructive fraud is found where the auditor's performance is found to be grossly negligent. That is, the auditor really had either no basis or so flimsy a basis for his or her opinion that he or she has manifested a reckless disregard for the truth. Small's disregard for standard auditing procedures would seem to indicate such gross negligence and, therefore, the firm is liable to third parties who relied on the financial statements and suffered a loss as a result.