

Foreword

We are delighted to present Jonas Tritschler's dissertation on Audit Quality. Auditing remains a very active research area in financial economics and accounting. Much of the research focuses on audit quality, materiality, error rates, audit partner tenure, and auditor experience. Although there has been a convergence of thought among regulators and enforcement agencies on characteristics of audit quality, there is no widely-held operational definition of audit quality in the research literature. Moreover, most audit research on German firms has not made use of actual audit errors reported in the German Federal Gazette.

Arising from the author's experience as a practicing CPA in a "Big Four" audit firm, this book is quite different from other research in this field, as it confronts the subject of audit quality from a pragmatic perspective. The approach the author adopts is based on the very origins of quality considerations, and does not rely on the seemingly-ubiquitous earnings management approach.

In the 1940s, manufacturing quality was usually measured by the number of defects per thousand units of finished products. The researcher uses a similar approach to measure audit quality at the audit firm level. Since 2005, public interest entities have been required to publish their material reporting errors in the German Federal Gazette. Actual published audit failures, the remaining material misstatements identified in audited financial statements by regulatory authorities, thus comprise the data points used in this research to measure audit quality.

Auditing is a people business, with human resources as production factors. Quantified audit input factors, such as competence and experience, provide variables to explain performance differences in audit service quality. Favorable input factors, associated with low auditor failure rates (the number of absolute reporting errors divided by the auditor's number of clients in the public market), suggest causality.

In essence, this is a study that focuses on the audit quality of German audit firms and the unique aspects of the German regulatory framework. It includes a wealth of institutional detail on German enforcement authority (FREP) examination triggers, as well as on how these fit into EU securities markets oversight.

International accounting standards are converging over time. Much contemporary research covers similarities and differences among developed nations.

Given the scarcity of empirical research into auditors of German public companies and their regulatory environment, the focus and encyclopedic detail of this book mark it as authoritative, innovative, and significant.

Last but not least, we believe that a periodic disclosure of audit quality would increase audit quality over time. Thus, research on the development of a transparent audit quality measure at the audit firm level in Germany (or even world-wide) would be an important first step towards creating competition in both audit fees and audit quality. This in turn could lead to a win-win situation for capital markets, regulators, and economies in general.

Because of the somewhat unusual but interesting and very relevant content, we are confident that this research work will appeal to a wide selection of academic and professional readers. Students, researchers, practitioners, and regulators will find this book useful for further study and additional research.

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