

Latvijas Universitāte

Ekonomikas un vadības fakultāte



Gabriele Elisabeth Hahne

**ĀRĒJĀS KVALITĀTES KONTROLES IETEKME UZ
KVALITĀTI AUDITORKOMPĀNIJĀS**

PROMOCIJAS DARBS

Doktora grāda iegūšanai vadības zinātnē (Dr.sc.admin.)

Apakšnozare: uzņēmējdarbības vadība

Zinātniskais vadītājs,

Dr. habil.rel.pol. profesors

Klaus Kellner

Rīga, 2015

UNIVERSITY OF LATVIA
FACULTY OF ECONOMICS AND MANAGEMENT



Gabriele Elisabeth Hahne

**THE EFFECTS OF EXTERNAL QUALITY CONTROL ON
QUALITY IN AUDITING COMPANIES**

DOCTORAL THESIS

Submitted for the Doctor's degree in Management science

Subfield Business Management

Supervisor:

Professor Dr. habil rer.pol. Klaus Kellner

Riga, 2015

ANNOTATION

At the beginning of the century, the public witnessed scandals of big companies like “Enron”, “Parmalat” or “World.com” and the high financial damage to shareholders, caused by these shocking scandals. This led to an international discussion about the quality of audits,¹ since prior to this almost all failed companies had received an unrestricted audit certificate.

This research paper was concerned with the evaluation of the effects of external quality control on the quality in auditing companies and annual final audits as well as on the continuity of small and medium-sized auditing companies. By means of an empirical study it was to be found out, in how far there is a uniform understanding of quality existing in the profession of the auditors, which importance of the external quality is attributed to this quality and whether factors such as the size, remuneration or the separation of audit and consulting services have had an effect on this quality.

Neither the profession of auditors, nor legislators who issues new laws and regulations, have a uniform view of quality. The empirical analysis also confirmed that there is no uniform understanding of quality and even more no holistic understanding of it in the profession of auditors. This applies without any exception for the auditor, for the representatives of the profession and for the professional further education. The existing understanding of quality issues principally from an object-related quality concept.

Because of this, the author of this thesis has developed a new model of quality development in auditing companies, named the **AuditCompanies–QualityDevelopment-Model (AC-QD model)**.

Key Words: Quality, External Quality Control, Auditor, Quality in Auditing Companies

¹ Pfitzer, 2006, p. 187

TABLE OF CONTENTS

ANNOTATION.....	II
List of Abbreviations	V
List of Figures.....	VII
List of Tables	VII
List of Appendices.....	VIII
INTRODUCTION	1
1. THE ORIGIN OF QUALITY IT'S APPROACHES AND MODELS	12
1.1. Quality in General Business Management	14
1.1.1. Quality Standards	19
1.1.2. The concept of Total Quality Management	21
1.2. Quality in Services	25
1.3. Quality Research in Audits	37
1.3.1. A Framework for Audit Quality	40
1.3.2. Direct and Indirect Audit Quality Research	42
2. AUDITING AND EXTERNAL QUALITY CONTROL IN AUDITING COMPANIES	48
2.1. The auditor and the role of the auditor	50
2.2. Professionals as Human Capital	58
2.3. Internal and External Quality Control System	59
2.3.1. Process and Implementation of External Quality Control.....	68
2.3.2. Research on External Quality Control.....	72
2.4. The Auditor's Market and the Influences of External Quality Control.....	73
2.5. Differences and Similarities in the Quality Control System in Other European Countries and Planned Measures	83
3. NEW MODEL OF QUALITY DEVELOPMENT AND RESEARCH DEVELOPMENT.....	87
3.1. The Individual Components of the AC-QD Model	89
3.2. Comparison with Theoretical Quality Approaches and TQM.....	97
3.3. Summary and Novelty of the AC-QD Model.....	102
3.4. Main Tests for Research and Research Questions for Quality	104
3.5. Research Methods and Research Design for Quality	109
3.6. Quality Criteria for Research and Empirical Research Methods	112

4. RESULTS OF RESEARCH OF QUALITY AND EXTERNAL QUALITY CONTROL	120
4.1. Quantitative Evaluation	120
4.2. Qualitative Evaluation	123
4.3. Summary of the Results of the Empirical Study of the Effects of External Quality Control on Quality	139
CONCLUSIONS	142
OUTLOOK AND SUGGESTIONS	145
LIST OF LITERATURE	147
Appendices	159

LIST OF ABBREVIATIONS

<u>Abbreviation</u>	<u>Stands for:</u>
<i>A-QSG</i>	Auditing Quality Assurance Act
<i>AAC</i>	Audit Advisory Council
<i>AC-QD model</i>	Audit Companies- Quality Development Model
<i>AeQ</i>	Working Committee for external quality audits
<i>AEUV</i>	Treaty of the Functioning of the European Union
<i>AOC</i>	Auditor Oversight Commission
<i>APAG</i>	Audit Amendment Act
<i>APAK</i>	Audit Oversight Commission
<i>Art.</i>	Article
<i>BaFin</i>	Federal Financial Supervisory Authority
<i>BARefG</i>	Professional regulatory reform law
<i>BilReG</i>	Accounting Law Reform Act
<i>BilMoG</i>	Accounting Law Modernization Act
<i>BS</i>	Professional Charter for Auditor
<i>CEO</i>	Chief executive Officer
<i>EU</i>	European Union
<i>ECGS</i>	Shareholder Association Expert Corporate Governance Service
<i>HGB</i>	Commercial Code
<i>IDW</i>	Institute of Chartered Accountants
<i>IFAC</i>	International Federation of Accountants
<i>IFRS</i>	International Financial Reporting Standards
<i>IfM</i>	The Institute for Research on Medium-Sized Businesses
<i>IAASB</i>	International Auditing and Assurance Standards Board

<i>ISO</i>	International Organization for Standardizing
<i>KfQK</i>	The Commission for Quality Control
<i>PCAOB</i>	Public Company Accounting Oversight Board
<i>PfQK</i>	Procedure for Registering Reviewer for Quality Control
<i>QKB</i>	Quality Control Agency
<i>TQM</i>	Total Quality Management
<i>VO 1/2006</i>	Requirements for Quality Assurance in Auditing
<i>WPK</i>	Chamber of Public Accountants
<i>WPO</i>	Public Accountant Act
<i>WPOÄG</i>	Amendment to the German Auditor's Ordinance

List of Figures

Figure 1: Components of Quality	14
Figure 2: Cornerstone of Total Quality Management	24
Figure 3: Three Phases of Service Quality	31
Figure 4: The Quality Model of Grönroos.....	33
Figure 5: GAP-Model.....	35
Figure 6: Structure of Quality Control in Auditing Companies	61
Figure 7: AC-QD Model	90
Figure 8: Independence of an Auditor	93

List of Tables

Table 1: Number of Auditing Companies, abstracted from WPK magazine, Communications of the Chamber of Public Accountants 4/2013, p. 2.....	76
Table 2: Auditors with a Certificate of Quality Control, abstracted from WPK magazine, Communications of the Chamber of Public Accountants 4/2013, p. 3	83
Table 3: Groups of respondents.....	119
Table 4: Spread of the Sample.....	122
Table 5: Distribution of the auditors	123
Table 6: Number of audits per year	123
Table 7: Number of participation in external quality control.....	124
Table 8: Definition of quality	126
Table 9: Importance of Components – Auditors	128
Table 10: Importance of Components - Reviewer.....	128
Table 11: Ranking of components according to their importance – Auditors.....	129
Table 12: Ranking of components according to their importance - Reviewer.....	129
Table 13: Important elements to guarantee high quality in financial audits	131
Table 14: Measurements to ensure quality	131
Table 15: Effects of external quality control on quality	132
Table 16: Influence of external quality control on quality	133
Table 17: Is a fee ordinance able to enhance the quality in financial audits	135

Table 18: Do large companies provide higher quality because of their size - according to groups	135
Table 19: Do large companies provide higher quality because of their size - according to company's size.....	136
Table 20: Large companies have a greater interest in providing a high-quality audit	137
Table 21: Opportunities of small and medium-sized auditing companies	138
Table 22: Opportunities of small and medium-sized auditing companies according to company's size.....	138

List of Appendices

Appendix 1: Comparison new model's components with theoretical approaches	159
Appendix 2: Content and design parameter of AC-QD model	160
Appendix 3: Example of applying the AC-QD model	163
Appendix 4: Questionnaire	165
Appendix 5: Glossary	170

INTRODUCTION

Actuality of the topic

At the beginning of the century, the public witnessed scandals of companies like “Enron”, “Parmalat” or “World.com” and the high financial damage for shareholders, which is linked to these scandals. This led to an international discussion over the quality of audits,² since prior to this almost all of the affected companies concerned had received an unrestricted audit certificate. Doubts concerning the quality of auditing were voiced to a heretofore unheard of extent. The quality was questioned and the work of the statutory auditor viewed with increasing distrust, nationally as well as internationally. The criticism directed against the profession of auditors as a whole, led to a great loss of trust in the public. To regain the trust in statutory audits, political leaders were forced to take action. The United States of America responded to this discussion with the “Sarbanes-Oxley Act”, while the European Union passed the Directive 2006/43/EC.³

The Directive updated the statutory provisions for the professional guild of auditors to improve the quality of audits. In detail, the Directive demanded an external quality-control-system and a public supervision for the profession of auditors. In addition to that the Directive set arrangements, which should improve the cooperation between the EU-regulation offices.

The EU-member-states, including Germany, were obligated to integrate this Directive into national law by June 28th, 2009.⁴ A characteristic of directives passed by the EU is that the directive sets a frame and the member-states are in charge of filling the frame.⁵ In addition, since the year 2000, there have been a number of amendments and new professional frameworks on the national as well as the European level, which up to that point had not existed to this extent for the entire auditing profession. According to their respective explanatory memorandums, these extensive regulatory impacts are supposed to improve the quality of the auditors’ work and reestablish public trust, which forms the basis of the statutory audit⁶.

² Pfitzer, 2006, p. 187

³ Lanfermann; Maul, 2002, p. 1725

⁴ Maccari-Peukert, 2011, p.1

⁵ Heininger, Bertram, 2003, p. 1057

⁶ Moxter, 1981, p. 580

The view of the present financial crisis, the final audit has again returned to the headlines and renewed discussion. As a consequence of the financial crisis, the European Commission has published a green book, in which several measures are presented which are to contribute to raising the quality of final audits as well as dealing with the general role of the final auditor.

Aim and Tasks

The aim of this dissertation is to prove, whether the quality of auditing companies, especially the quality of the final audit has been raised as a result of the implementation of the external quality control, which is a result of the new legally mandated and professional framework. Additionally it analyzes whether this change of framework has had and has any influence on the continuing existence of small and medium-sized auditing companies and individual auditors. Furthermore the aim of the dissertation is to identify which understanding of quality prevails in small and medium-sized auditing companies. In order to achieve these aims, several tasks have been established:

1. to find out which external quality control system is established in Germany.
2. to examine if the external quality control within the new legal framework has actually led to an increase on the quality of auditing companies and on the quality in financial audits or if it is disproportionate and leads to an over-regulation of the profession, and hence putting a special burden on small and medium-sized auditing companies.
3. to investigate if an external quality control has an impact on the consistency of small and medium-sized auditing companies and, if there is an impact, how they reflect on the survival of small and medium-sized auditing companies.
4. to analyze what quality in auditing companies exactly is.

The dissertation will concentrate on the effects on small and medium-sized auditing companies in Germany. No research exists in Europe which deals with the effects of external quality control on the quality of the auditors' performance with special focus on small and medium-sized companies.

Research Object

Small and medium-sized auditing companies in Germany.

Research subject

Impact of external quality control in small- and medium sized auditing companies.

Tests and Research Questions

1. Is there a uniform understanding of quality in the profession of auditors?
2. Has the introduction of external quality control increased the quality of audits?
3. Does the size of an auditing company have an effect on the quality of audits?
4. Does external quality control have an effect on the continuance of small and medium-sized auditing companies?

So the Tests derived from these research questions are the following:

Test 1: There is no uniform and fits-it all approach of quality understanding in auditing companies.

Test 2: The external quality control did not improve the quality of audits and auditing companies.

Test 3: The size of the auditing company has no influence on the quality of audits.

Test 4: The external quality control has negatively influenced the continuance of small and medium-sized auditing companies.

Main Thesis for Defense

1. The external quality control was a burden for small- and medium-sized auditing companies nevertheless its implementation led to an increase of quality in auditing companies.
2. The effects of external quality control depend on the company's size. Small- and medium-sized auditing companies feel much more burdened by normative changes.
3. The implementation and application of the AC-QD model enables a uniform development of quality for every small- and medium sized auditing company in Germany.
4. The implementation of the AC-QD model replaces the external quality control in small- and medium-sized auditing companies.

Methods Used

The research questions and tests were analyzed scientifically and confirmed in several expert interviews with four different expert groups with a total of 46 interviews in Germany. The purpose of these interviews was to show whether the external quality control was and is able to increase quality in audits and auditing companies and if it has had an influence on the auditor's market in these last years. It also was to show whether there is a difference in the quality in small and medium-sized auditing companies and in big ones, and whether the aforementioned tests could be proved. The four groups include representatives of auditors

themselves, reviewers of quality control, a representative of the auditing profession and a representative of professional education.

Sampling Size

As the purpose of the data collection was to collect concrete statements, the expert interviews were designed as semi-structured interviews. Expert interviews are a specific form of applying semi-structured interviews. “If expert interviews are used, mostly staff members of an organization with a specific experience and knowledge are target groups.”⁷ In this case auditors, reviewers of auditors, professional consultation and professional representatives were questioned. All of them have professional experience and an inside view of the market structure. For the selection of auditors the experts had to be self-employed in their own company. Furthermore it was important that all experts had a valid certificate of participation for quality control according to § 57a WPO in order to guarantee sufficient experience in the process of quality control. Next, among the experts should be auditors who participated once, twice and even three times in the process of external quality control. Therefore it could also be investigated whether experts who have already participated more often, show different responses. The author explicitly excluded the Big-4 companies as this research concentrates on small- and medium sized auditing companies. In total 46 experts have been interviewed, divided into 34 auditors, 10 auditors who are active quality control reviewer, 1 auditor who is a representative for professional education and 1 auditor who is a representative of the auditing profession as he has been the President of the Chamber of Public Accountants. The composition of experts has been chosen according to company size in order to correspond to the company sizes of the auditing profession. Therefore the research results are adaptable throughout the auditing profession without claiming to be representative.

Content of Dissertation

This dissertation will be structured into four main Chapters:

Chapter One: „The Origin of Quality it’s Approaches and Models”

Chapter One contains the broad theoretical analysis of the term quality. Almost all of the regulatory measures were implemented with the justification of increasing the quality of

⁷ Flick, 1999, p. 166

audits and final audits, without, however, defining, what is meant by quality in general and in the audit/final audit especially. Since there is no generally valid understanding of the term quality, the term will be systematized. In order to do this, its origin will be examined first, and then several chosen principles of quality will be discussed, which prevail in general business management, in the service sector, and in auditing. The presentation of quality standards according to ISO and the annotation of Total Quality Management (TQM) are used to supplement the analysis of different approaches of quality research.

Chapter Two: “Auditing and External Quality Control in Auditing Companies”

Chapter Two shows the theoretical background of risk management and quality control in auditing companies. First, there is a review about the function of auditing and the auditors, the role of the auditors and internal quality control. After a short demarcation of small and medium-sized companies there is an overview of the external quality control system in Germany. An overview of the development of the market for auditors during the last few years shall demonstrate how far regulatory measures have had an influence on the change of the market. Chapter Two ends with a description and analysis of the measures planned by the European Union for the market of auditing companies.

Chapter Three: “New Model of Quality Development in Auditing Companies and Research Development”

Building on the previous chapters, in chapter three, through a model of the authors’ own comprehensive, principles of quality have been developed. This approach combines several aspects of different theoretical approaches described in Chapter One, with the specific which results from the legal and professional mandated responsibilities of the auditor as well as of his functions (see chapter 2). This new model contains eight components in total which are discussed in detail. The result is a new holistic quality model for the entire small- and medium-sized auditing company (**AC-QD model**). Additionally the author derived a unique definition of audit quality which will be presented in the following. Based on the research questions and the holistic quality model developed, the Tests will be developed and presented in this Chapter, too, also the research methods and the research design.

Chapter Four: “Results of Research for Quality and External Quality Control”

Chapter four follows the empirical analysis of which understanding of quality is prevalent in auditing companies, the importance of the components of the new model for the quality in

auditing companies, the impacts of the influence of external quality control on the quality and continuity of small and medium-sized auditing companies. Chapter Four is concerned with main findings and the results of the foregoing research. A summary of all results finishes this dissertation.

Limitations

The target groups of this dissertation are only small and medium-sized auditing companies in Germany, which have participated in the external quality control. Auditing companies were involved which had taken part in an external quality control procedure once, twice or three times. Large auditing companies as well as companies belonging to the so-called “Big-4” were excluded from consideration.

Main results and conclusions

After analyzing important aspects of the term quality according to business management, service quality and quality in audits, it is clarified, that no single area of business management offers a uniform approach to the term quality. Neither the profession of auditors, nor the legislator who issues new laws and regulations stating by this, a higher quality will be reached, have a uniform view of quality.

The empirical research confirms the theoretical proposition that there is no uniform understanding of quality and even no holistic understanding of it in the auditing profession. This applies without limit, to the auditor, the representatives of the profession and the professional ongoing education. However, it could be demonstrated that all 8 components of the author’s new developed AC-QD model are considered as important for quality by the profession. At the same time the experts allocate different importance to the individual components. It also became clear that there still is no real conscious and comprehensive understanding of quality in the profession. Contrary to the author’s tests, it is proven that the external quality control increases the quality in auditing companies and final audits by the implementation of the external quality control procedure.

But small and medium-sized auditing companies saw external quality control as an unnecessary burden put onto them by bigger companies. The answers show, however, that even small and medium-sized auditing companies have initiated a rethinking process since the implementation of external quality control procedure.

Another goal of this research project was to find out, in how far external quality control has an impact on the continuity of small and medium-sized auditing companies. The empirical analysis led to different results: one part of the companies interviewed still sees a good chance to remain successful in the market, another part regards a further increase in regulation a danger for the continuity of small companies. It was noted, that the effects of external quality control depend on the company's size. Small auditing companies feel much more burdened by the normative changes in the profession. As the first letters of recommendations show, the AC-QD model is a real contribution to the profession and is already used in micro auditing companies in Germany.

Main suggestions

The results presented make clear, that it has become more and more difficult to fulfill the increasing legal and professional law guidelines, especially for the "lone fighters", typically for the audit market but also for other small auditing companies. Therefore the author developed an alternative approach of a quality model. The goal is that the application of this new holistic model of quality (AC-QD model) in every auditing company spares further legal prescriptions, as it reaches a holistic perception of quality.

Used sources

In general the used sources include special literature on management, audits, the profession of auditing and quality in form of books, scientific articles and journals.

The primary sources in the field of quality in audits are Marten, K.U. (1999, 2001, 2004, 2006), Marten, K.U.; Köhler, A.G. (2000, 2003), Ballwieser, W. (2003, 2005) and DeAngelo, L. (1981), in quality and quality management Heinold, M.; Pasch, H. (1999), Garvin, D.A. (1984, 1987, 1988), Feigenbaum, A.V. (1991), Kellner, K. (2007, 2010), Zollandz, H.D. (2011) and Bruhn, M. (2008).

In addition to the Directives from the European Commission, legal and professional requirements for auditors have also been taken into account. The author's own experience as an independent auditor and as a certified auditor for quality control to section §57a WPO (Public Accountant Act) and his peer reviews conducted mainly for small and medium-sized audit companies influenced this research.

The research questions and tests are analyzed scientifically and proven with several expert interviews (in total 46). The experts are all independent auditors and all have a valid

certificate of participation for the system of quality control. The experts were thus separated in four interest groups, so that different perspectives were taken into account:

- Auditors with their own company of different sizes
- Quality control reviewers
- Representatives of the profession
- Representatives of the professional consultation and advanced training.

Novelty

- The author developed a new model of quality development in auditing companies, named the “**AuditCompanies–QualityDevelopment Model (AC-QD model)**” with eight components for small- and medium-sized auditing companies.
- The novelty is that there is no existent model that includes and combines all eight components. But only when all components are taken into account by the auditor, he is able to develop his own quality as a holistic enterprise approach and he will achieve the highest possible quality.
- The author derived a unique definition of audit quality: Auditing Quality is flawless work, which is performed independently and in consideration of all legal, professional and ethical requirements, exposing mistakes, reporting them and fulfilling publics’ and clients’ expectations.
- The individual quality of each single auditing company is obtained when the eight components of the AC-QD model are developed and applied in a constantly evolving process. The results are: accurate audit services provided independently and in compliance with all legal and professional requirements and meeting the expectations of both the recipient and the public.
- The research questions for small- and medium-sized auditing companies of this dissertation were conducted in Germany for the first time. As a result, it was demonstrated that the external quality control leads to noticeable effects, especially for small- and medium-sized auditing companies (see chapter 4).

Approbation of the results of research

The main results have been presented to the scientific community for use and further research. The author participated at nine international scientific conferences:

Hahne, G. 2011. The impact of the European Commission's "Green Paper" on the European Auditor Market. International Conference "Current Issues in Management of Business and Society Development" organized by University of Latvia, Riga, Latvia. May 5th- 7th, 2011.

Hahne, G. 2011. Quality in Audits and extern quality control - from the special viewpoint of small and medium-sized auditing companies –. International Conference for Doctoral Students "Current Issues in Economic and Management Sciences" organized by Faculty of Economics and Management, University of Latvia in cooperation with Latvian European Community Studies Association, Riga, Latvia, November 10th – 12th, 2011.

Hahne, G. 2011. The Importance of the Auditor's Independence for the quality of his services. Global Business Management Research Conference 2011 "Recent Development in Business Management Research" organized by Fulda University of Applied Sciences, Faculty of Business, Fulda, Germany, December 2nd - 4th, 2011.

Hahne, G. 2012. The Effects of the External Quality Control on the Auditor Market in Germany, Latvia and Austria. International Scientific Conference in "New Challenges of Economic and Business Development" organized by Faculty of Economics and Management, University of Latvia, Riga, Latvia, May 10th – 13th 2012.

Hahne, G. 2012. The Effects of External Quality Control on Quality in Auditing Companies. International Business & Economics Conference in "Innovative Approaches of Management Research for Regional and Global Business Development" organized by the University of Applied Sciences Kufstein, Kufstein, Austria, August 3rd – 5th, 2012.

Hahne, G. 2013. The New Model of Quality in Auditing Companies named the AuditCompanies-QualityDevelopment Model (AC-QD model). International Scientific Conference in "New Challenges of Economic and Business Development" organized by Faculty of Economics and Management, University of Latvia, Riga, Latvia, May, 9th -11th, 2013.

Hahne, G. 2013. Quality Research in Auditing Companies. 1st International Scientific Forum organized by European Scientific Institute, Tirana, Albania, December, 12th – 14th, 2013.

Hahne, G. 2014. Influences of Regulations on the Continuity of Small- and Medium-sized Auditing companies. 2nd Global Virtual Conference 2014 organized by Goce Delchev University Macedonia & THOMSON Ltd. Slovakia, April 7th – 11th, 2014.

Hahne, G. 2014. Differences and Similarities of TQM and AC-QD model. 9th International Academic Conference organized by International Institute of Social and Economic Sciences Selcuk University, Konya and University of Economics, Prague, Faculty of Economics. Istanbul, Turkey, April 13th - 16th, 2014.

Publications:

Papers have been published in combination with the conferences and in one scientific journal:

- Hahne, G. 2011. The impact of the European Commission's "Green Paper" on the European Auditor Market. Conference proceedings "Current Issues in Management of Business and Society Development", Riga, Latvia, May 2011. ISBN 978-9984-45-348-4, pp. 193 – 203.
- Hahne, G. 2011. Quality in Audits and Extern Quality Control - By the special viewpoint of small and medium-sized auditing companies. Conference proceedings "Current Issues in Economic and Management Sciences [International Conference for Doctoral Students]" Riga, Latvia, November 2011. ISBN 978-9984-45-417-7, pp. 267-276.
- Hahne, G. 2012. The Effects of the External Quality Control on the Auditor Market in Germany, Latvia and Austria. Conference proceedings "New Challenges of Economic and Business Development – 2012", Riga, Latvia, May 2012. ISBN 978-9984-45-519-78, pp. 251-259.
- Hahne, G. 2013. New Model of Quality Development in Auditing Companies. Conference proceedings "New Challenges of Economic and Business Development – 2013", Riga, Latvia May 2013. ISBN 978-9984-45-715-4, pp. 268 - 279.
- Hahne, G. 2013. Quality Research in Audits. European Scientific Journal. International Scientific Forum, Tirana, Albania December 2013. ISBN 978-608-4642-17-6, pp. 36-45.
- Hahne, G. 2013. The Importance of the Auditor's Independence for the quality of his services. Business Management Strategies and Research Development - Discussion Paper No. 8 Dezember 2013, Fulda, Germany, December 2013. ISSN 2194-7309, pp. 30 – 38.
- Hahne, G. 2014. Influences of Regulations on the Continuity of Small- and Medium-sized Auditing companies. Proceedings in Global Virtual Conference, Slovak Republic, April 2014. ISBN 978-80-554-0866-8, pp. 227-234.
- Hahne, G. 2014. Differences and Similarities of TQM and AC-QD-Model. International Journal of Business and Management, Istanbul, Turkey April 2014. ISSN 2336-2197, pp. 11-24.

- Hahne, G. 2014. External Quality Control and its Impacts on Quality in Auditing Companies with Focus on small and medium-sized Audit Companies. Economics World Vol. 2 (3), ISSN 2328-7144, pp. 169 - 179.

Acknowledgements (Words of Gratitude)

First and foremost I thank Prof. Dr. Josef Neuert, the main initiator of the doctoral program offered by the University of Applied Sciences Kufstein in cooperation with the University of Riga, Latvia. I am grateful to belong to the first group of those chosen for this course of study as well as for his support and accompaniment during the entire time of study and research.

My thanks go to my dissertation supervisor, Prof. Dr. Klaus Kellner, for his constructive feedback, his support and his critical comments.

I gratefully acknowledge all professors and their assistants at the University of Latvia, especially Mrs. Prof. Dr. Baiba Savrina, Mrs. Prof. Dr. Erika Sumilo, Mrs. Prof. Dr. Tatjana Volkova, Prof. Dr. Maris Purgailis and Dr. Dzineta Dimante for their support, additional reviews and valuable feedback.

Also thanks to all colleagues interviewed for participating in my research and to all others that were involved in the production process.

1. THE ORIGIN OF QUALITY IT'S APPROACHES AND MODELS

The meaning of the term quality has been discussed controversially in business management and in the profession of auditors. There is a variety of approaches for defining the term. The quality of the immaterial good “service“ has been in the center of scientific interest from the 80s on. Nevertheless, until today a unified conceptual classification of the term quality is missing.⁸ Since the accounting scandals from the beginning of the year 2000, quality with regard to auditing, or the improvement of quality in these services has been in the spotlight of the public, the legislative and scientific research.

But if one wants to be able to implement measures, which increase the quality of financial audits, it is necessary to determine first what the term “quality” means. What constitutes quality in financial audits? Does this definition differ depending on the perspective of the beholder? Does quality depend on the size of the auditing company? Is the external quality control able to increase quality of financial audits – according to the law? To answer these questions, the term quality has to be defined first.

The following chapter is concerned with quality and its different definitions and approaches. On the basis of the original meaning of the word quality with its potential of being interpreted in two different ways, many different scientific approaches will be taken into account in order to give a detailed explanation of “what quality is”. The different approaches will be analyzed concerning the following fields:

- Quality in General Business Management
- Quality in Services, with particular consideration:
 - o Quality in Audits

The author chose this approach to first examine which research approaches exist to quality in general business management. This is followed by an analysis of particular approaches in the service sector, which is a part of general business management. The characteristics of auditing, representing a part of the service sector, find expression in specific research.

The presentation of quality standards according to ISO and the annotation of Total Quality Management (TQM) are used to supplement the analysis of different approaches of quality

⁸ Corsten, Gössinger, 2007, p. 274

research. After presenting and interpreting the different approaches, ISO standards and TQM, a new model of quality in audits will be presented, which will combine different aspects of the various approaches with the specific structural needs of the auditor's market.

The term quality has its origin in the Latin word "qualitas"⁹, which means condition, characteristic, property or condition. Because of the different meanings of the word, one has to distinguish between the objective condition of an object and its subjective quality, which means how an object will be perceived and rated by the receiver.¹⁰ Both dimensions of the term quality are quite different but nevertheless they represent a unit.¹¹ On this basis, quality has a technical, objective and a subjective component.

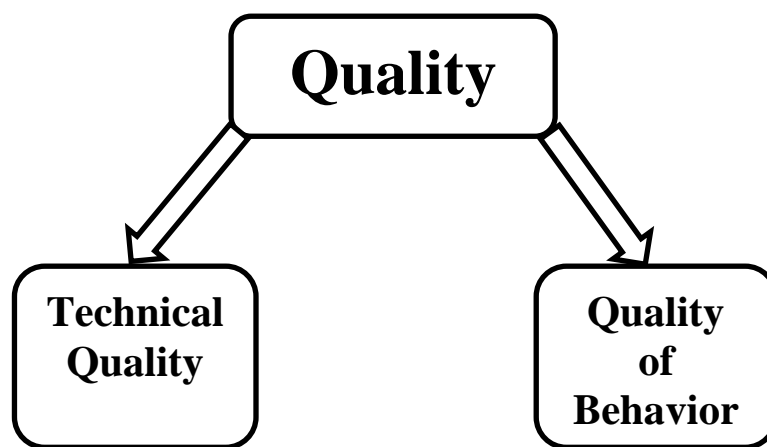


Figure 1: Components of quality designed by the author, (2013)¹², based upon Orosdowski and Heinold; Pasch

Technical quality can be measured objectively and includes, for example, material, form and technical performance, while quality of behavior includes subjective elements and cannot be determined objectively.¹³ The behavioral quality relates to the behavior of all employees, which are included in the productions of the service, towards the customer, as this behavior influences the customer's judgment of quality.¹⁴ Based on this simple division of the term, several different approaches to definition will be presented later.

⁹ Orosdowski, 1997, p. 563

¹⁰ Heinold; Pasch, 1999, pp. 17

¹¹ Heinold; Pasch, 1999, pp. 587

¹² Hahne, 2013, p. 274

¹³ Sieker, 2000, p. 22

¹⁴ Umbreit, 2008, p. 44

1.1. Quality in General Business Management

General Business Management is an application-oriented science, which wants to give recommendations for action. These recommendations shall refer to sub-areas of human activities, concretely to economies in businesses.¹⁵ What is meant by quality is intensively discussed in the economic literature for a long time. However, the focus of this discussion is the manufacturing sector. Until today, a unified conceptual differentiation is missing.¹⁶ This chapter discusses quality in general business management and examines different professional perspectives. First, in business the discussion of the question “What is quality?” needs to be clarified. Quality refers to the criteria, according to which a product or a service can be evaluated.¹⁷ However, in general business management there is no uniform understanding of quality.

Thus, a part of the business literature expresses the opinion, that fulfilling the expectations of customers is the only right approach. Peter Drucker defines quality as: “Quality in a product or service is not what the suppliers put in, it is what the customer gets out of it and is willing to pay for it.”¹⁸ Further research is based on different concepts of a number of quality experts, which can be called intellectual leaders in the field at the beginning of the 20th century. As their research has had a great impact on the development of quality sciences and quality management. In the following, various approaches are presented that represent the foundations of the discipline and simultaneously show how it has evolved since its founding. They are the approaches of Garving, Deming, Feigenbaum and Juran. After the presentation of these four approaches it is illustrated which quality standards are available and how they define the term quality. In chapter 1.1.2. the concept of Total Quality Management (TQM) is described and critically analyzed. In the following section four different quality approach of Garvin, Demin, Feigenbaum and Juran are presented. One interesting distinction can be traced back to David A. Garvin, who aimed to distinguish various facets of quality. Garvin¹⁹ identified five different major approaches in four disciplines: philosophy, economics, marketing, and operations management. The five approaches were: the transcendent approach of philosophy, the product-based approach of economics, the user-based approach of

¹⁵ Wöhe, Döhring, 2010, p. 27

¹⁶ Corsten; Gössinger, 2007, p. 274

¹⁷ Heinhold; Pasch, 1999, pp. 14

¹⁸ Drucker, 2010, p. 225

¹⁹ Garvin, 1984, p. 25

economics, marketing, and operations management, the manufacturing- and the value-based approaches of operations management.

The first approach to define quality, the **transcendent** approach, has its origin in philosophy. It states that quality is a subjective experience for customers regarding the unique characteristics of a product. “According to the transcendent view, quality is synonymous with “innate excellence”.²⁰ In this case quality cannot be rated or measured exactly, but depends on the perspective of the beholder. It aims to represent the innate excellence or unique qualities of a product or service and therefore is also referred to as “absolute” quality²¹. In this approach quality can be understood as a simple property which cannot be analyzed but can only be understood through one’s own experience.²² The **product-based** approach concentrates on the product itself and its specified requirements. In this case, the focal point is the product, which is analyzed according to set standards; customer needs and expectations are not taken into account. It is a technical and objective facet. According to Garvin, the main aspect of quality, according to this approach, lies in the resilience and longevity of the assets.²³ These characteristics cannot be found, however, in services, which are immaterial assets.²⁴ For this reason, the product-oriented definition of quality seems to be more suitable for goods in general. The **user-based** approach attempts to identify and satisfy or even exceed the needs and expectations of the customer. Individual consumers have different wants or needs, and those goods that best satisfy their preferences have the highest quality for them²⁵. Thus, quality can only be evaluated and measured individually by every single customer. The user-based approach can be explained as the capacity of a service or commodity to fulfill the needs of the customer, whereby the customer decides if it is a quality product or not. In this solely customer-oriented approach, it is problematic that every customer has different expectations and needs and therefore a problem of measurability arises. On the other side, this view offers the advantage, that the customer’s needs, meaning the needs of those who buy the product, are put into the focus of all considerations. In this way, the orientation veers towards sales or towards profits.²⁶ The **manufacturing-based** approach represents the view of quality within the company. It focuses on the compliance of different standards and norms. The

²⁰ Garvin, 1984, p. 25

²¹ Zollondz, 2011, p. 168

²² Garvin, 1984, p. 25

²³ Garvin, 1984, p. 26

²⁴ Bruhn, 2008, p. 34

²⁵ Garvin, 1988, p. 26

²⁶ Sieker, 2000, p. 24

standards are drawn from objective (e.g. production data) and/or customer-oriented, subjective sources. In case norms and standards have not been fulfilled, the product is of inferior quality.²⁷ The last approach of Garvin is the **value-based** approach which focuses on the cost effectiveness of products. It defines quality in terms of costs and benefits. According to this point of view, a quality product is a product which can be purchased at an appropriate price. In this case price is not only the financial value of a product but it also includes other costs such as time, physical and psychological efforts. In this context, quality becomes a relative factor depending on the various costs and the perceived quality.²⁸ Furthermore, Garvin identified eight dimensions as a framework for thinking about the basic elements of product quality and to develop connections between the different approaches. The eight dimensions are: performance, features, reliability, conformance, durability, serviceability, aesthetics and perceived quality.²⁹ Each dimension is self-contained and distinct. Using that framework, Garvin addresses the empirical relationships between quality and some important variables. When critically analyzing Garvin's ideas, one can conclude that his explanations are not further elaborated and therefore only serve for illustrating the term of quality. Zollondz³⁰ raises the point that, from a present-day perspective, a sixth approach is missing, namely that of the personnel base, meaning quality of the employees, as it is known today that the quality of the employees also influences the overall quality. Sieker³¹ adds to this, that some of the definitions are not workable according to the absolute or transcendental approach. According to this approach, quality is not measurable and therefore is not useful for defining quality with regard to the intention of creating and improving quality.

Deming, a pioneer of quality research and an American statistician working in Japan after World War II, was convinced that quality has to be considered in every field that a company is operating in.³² One of Deming's achievements was to encourage companies to focus on the customer and his needs and expectations, which was a novel concept at that time.³³ This focus on the customer also formed his idea of quality. As the future customers' needs and expectations cannot be predicted with precision far in advance, a fixed, mathematically calculable definition of quality is not possible, but will evolve through time. The starting point

²⁷ Garvin, 1988, p. 26

²⁸ Garvin, 1988, p. 319

²⁹ Garvin, 1987, p. 102

³⁰ Zollondz, 2011, pp. 169

³¹ Sieker, 2000, pp. 23-25

³² Kamiske, 2011, p. 42

³³ Zollondz, 2011, p. 86

in any process of quality improvement is the customers' needs. Therefore the closest approximation to a definition of quality would most likely be the most efficient fulfillment of customer needs. Deming introduced a so-called reaction chain, which contains numerous steps for companies to improve quality and their position in the market. The implementation of these steps runs in a cycle of four phases, the PDCA cycle (plan, do, check, act), which is not intended to be run through once, but continuously, as a constant search for better quality and higher effectiveness.³⁴ In his opinion, workers can only compensate for 10 percent of quality loss by working more efficiently. The other 90 percent of loss of quality is caused by the underlying system itself and can only be overcome by fundamental changes of the system. These changes of the system can only be undertaken and therefore be eliminated by the management. The basis of his thesis was a well-formulated business policy with the aim to improve products and services continuously. Deming was most known for his management program, which had as a core 14 management rules for improving quality and productivity.³⁵ These rules seem to be production-oriented at first, but can easily be applied to other aspects of quality as well.³⁶ They were extended firstly by the Seven Deadly Diseases (or mortal sins) - typical violations of the 14 rules, that entail negative results and may even lead to a failure of the whole quality management and secondly by a number of obstacles and False Starts, that lead to failure from the very beginning of a process.³⁷ Deming's management program also includes the aforementioned reaction chain and the PDCA cycle.

As stated by Feigenbaum, quality is: "The total composite product and service characteristics of marketing, engineering, manufacture, and maintenance through which the product and service in use will meet the expectations of the customer."³⁸ Consequently, this definition means that quality is based on customer satisfaction and their expectations. As customer needs and expectations change from time to time, quality has to change with it. It is the management's challenge to recognize these changes and act upon them. Among his requirements for quality, besides the utility, there is also the price, which led to a more value-based definition of quality.³⁹ For Feigenbaum, quality is a task that applies to the entire company, not only production or quality control, nevertheless all departments, which have to

³⁴ Zollondz, 2011, p. 89

³⁵ An abbreviated enumeration of these rules can be found in Bruhn, 2008, p. 71 and also in Kamiske, 2011, pp. 37

³⁶ Kamiske, 2011, pp. 37

³⁷ Kamiske, 2011, p. 39

³⁸ Feigenbaum, 1991, p. 896

³⁹ Garvin, 1984, p. 26

meet this standard under the leadership of the top level.⁴⁰ This changed quality from mere cost management into a comprehensive and overarching concept, which all levels and departments of a company are to aspire to. The various departments or areas of a company are to work parallel, making use of synergy effects or working on a problem from different perspectives. This process is also referred to as simultaneous engineering.⁴¹ Feigenbaum laid the foundation for what later became known as Total Quality Management. According to Feigenbaum the Total Quality Control represents a system which integrates the efforts of various areas for developing, maintaining and continuously improving the quality within the company. Especially the departments marketing, developing, production and customer service are intended to fully satisfy customer expectation in the best economical way. In general every work task has quality related elements. In particular Feigenbaum characterizes that for example the fulfillment of customer requirements and analysis of potential errors should already take place during the construction phase. Moreover a company has to monitor the quality of supplied parts as well as to control production according to the quality requirements. In order to identify causes of problems and improve products an implementation of specific quality studies should take place within the company.⁴² Even though Feigenbaum had a general demand for the participation of all employees, the participation of all levels of hierarchy can only be recognized slightly.

Joseph Juran, who began his career in engineering and later became the Chairman for Industrial Engineering at New York University, was one of the leading thinkers on quality management.⁴³ Similar to his contemporary, Deming, his approach was based on the needs and expectations of the customer. Whilst quality control had ever since been an issue of technical inspection of the production process, Juran transformed it into a management philosophy. Juran developed a so-called **Trilogy**, which is designed as a continual and systematic process and consists of the following steps⁴⁴:

- Quality planning
- Quality management
- Quality improvement

⁴⁰ Feigenbaum, 1991, pp. 7

⁴¹ Kamiske, 2011, p. 43

⁴² Kamiske, Brauer, 2011, p. 307

⁴³ Zollondz, 2011, p. 96

⁴⁴ Juran, 1993, p. 25

The first stage, **quality planning**, consists of providing the producer with anything he needs to meet customer demands, from product design to contracts. After this initial stage, the product goes into production. During the production process, problems or losses due to ineffectiveness or insufficient planning can be identified and corrected, which Juran refers to as **quality management**. In the final phase, **quality improvement**, concrete measures to improve quality and correct losses and problems are decided on and implemented. This trilogy is designed as a comprehensive approach which is to include all levels of a company. All three phases of the trilogy are intended to be repeated in a continuous process. This continuous cycle as well as the focus on customer needs bears similarities to Deming's approach, however, Juran developed more specific requirements for the process, the so-called roadmap.⁴⁵ The process mostly relies on the management level of a company to identify the customer needs and possible problems and to implement the necessary steps. In this process, Juran was also convinced, that there are only very few sources that can potentially create problems and need to be improved upon; only about 20% of possible reasons truly are essential and have a (negative or positive) effect on the quality of the process.⁴⁶ One can assume, however, that Juran's definition of quality is similar to Deming's and also process-based: the best and most effective product and production process are to fulfill the needs and expectations of the customer. Both, Deming and Juran, put the customer at the top of the quality process planning.⁴⁷ With this approach to quality, Juran and Feigenbaum can be classified among what is known today as the Total Quality Management (TQM). In his later years, Juran modified his approach, taking a closer look and connection to the recent Six Sigma concept.⁴⁸

1.1.1. Quality Standards

With the introduction of DIN EN ISO-standards, formal and general standards were established to provide a basis for quality management systems and definitions for the area of quality and quality management worldwide. The standards of DIN unify and they represent a requirement. Companies working according to these standards, proceed according to

⁴⁵ Juran, 1993, p. 25

⁴⁶ Kamiske, 2011, p. 45

⁴⁷ For Deming: c.f. Chapter 1.2.1. and Zollondz, 2011, p. 88: "The customer is the most important part of the production line.", for Juran: Zollondz 2011, p.100 image 2.19.

⁴⁸ Zollondz, 2011, p.103

statements. Consequently, the standards here are a precisely fixed template which has to be followed by the users.⁴⁹ The International Organization for Standardization (ISO), a global association of national standardization institutes, establishes international standards. The ISO 8402 are of central importance for the field of quality, which specifies the basic definitions. The international norms ISO 9000 – ISO 9004 contain norms for quality assurance: (DIN EN ISO 9000:2000)⁵⁰. The ISO-standard 8402 provides definitions for a number of terms concerning quality and quality assurance. According to DIN EN ISO 8402, quality is defined as the “characteristics of an entity that bear on its ability to satisfy stated and implied needs“: (ISO 8402, 1995)⁵¹. Following this definition, all features of a product have to fulfill the requirements. A failure to comply with the target in a target-performance comparison leads to a defect and thus to a defective product. The quality standard DIN ISO 9000 goes a step further and describes quality as “the capacity of an entirety of inherent features of a product, a system or a process to fulfill the demands of customers and other interested persons”.⁵² The norm 9000:2000 was the first to introduce a definition of quality and quality management and has been tremendously successful in terms of its implementation. The growing interconnectedness of companies and their globalization has led to a greater need for quality standards which are not only established within a single company, but within an industry and beyond that. The set of standards of the ISO 9000 series was recommended by the European Commission as the measure for quality systems, which effectively made it the standard for Europe.⁵³ This fast-paced development has been surprising, as there were numerous points of criticism since the introduction of the series in 1994. For one thing, there was a lack of process-orientation in the norms, which meant that they had to be made compatible and be combined with process models. Another criticism was that in its language and perspective, the series was highly influenced by mechanical engineering, which made an application in other areas difficult, as it had to be translated into the various professional terms and conditions.⁵⁴ Additionally critical voices have been raised as a specific arrangement is not mandatory. Each organization should rather develop their own individual quality management system based on their specifications. Accordingly, these standards are only regulated in scope and process of quality management whereas the implementation needs to be planned individually. Zollondz

⁴⁹ Zollondz, 2011, p. 302

⁵⁰ Bruhn, 2008, p. 424

⁵¹ Kamiske, 2011, p. 310

⁵² Brauer, 2009, p. 18

⁵³ Brauer, 2009, p. 13

⁵⁴ Seghezzi/Fahrni/Herrmann, 2007, p. 224

argues that the ISO 9001 occasionally meets the process orientation and the certification does not confirm that the quality management system is based on a systematically structured and effective process management.⁵⁵ As the ISO follows their own set goals which aim for revised versions of these standards in a 5-year time period, they constantly publish a code of practices which contain different adjustments. After the various adaptations, the aforementioned points have been improved and the success can be explained with the function of the norm, which is in general rather specific and therefore fulfills the function of a so-called “meta standard”, which allows companies to develop their own system of implementation of these standards.⁵⁶

1.1.2. The concept of Total Quality Management

The concept of Total Quality Management (TQM) was getting more attention in the literature during the 1980's and its origin goes back to the Total Quality Control approach developed from Feigenbaum in 1961 (see chapter 1.1.). Based on this development Ishikawa extended the concept and constructed the Company –Wide Quality Control, which differs in terms of comprehension of employees. The origins of Total Quality Management and thus the beginning of the modern quality movement began in Japan in the early 1950s. The Japanese economy implemented the recommendations of Edward Deming in terms of statistical process control (SPC) and problem solving techniques. Deming's 14 point program did not have a direct influence on the TQM development but it delivered the first impulse to rethink outdated strategies. The TQM strategy involves the elements of Company – Wide Quality Control and goes even one step further by including the environment of the company and the company's philosophy which is focused on the quality objective.⁵⁷ When considering the development and implementation of a comprehensive quality management system a philosophy is necessary to improve the quality of products and services. Consequently managers and employees at all hierarchy levels are responsible for the quality management as they all follow the same philosophy.⁵⁸ There are numerous approaches of definition of the term Total Quality Management and in the following some examples will be presented. The Steering Committee Community Work of the German Society for Quality defines Total Quality

⁵⁵ Zollondz, 2011, p. 320

⁵⁶ Uzumeri, 1997, p. 21, p. 36

⁵⁷ Kamiske, Brauer, 2011, p. 310

⁵⁸ Bruhn, 2008, p. 400

Management as “leadership method that includes the participation of all its members of an organization, focusing on high quality and aiming for long-term customer satisfaction as well as benefits for all its members and the organization itself.”⁵⁹ Oess concretized this definition by stating that through the participation of motivated employees and lowest costs an optimal satisfaction of customer needs is achieved and the quality of products and services in development, manufacturing, design and customer service is ensured.⁶⁰ Rampersad includes similar key components in his definition of TQM: “TQM is both: a philosophy and a set of guiding principles that represent the foundation of a continuously improving organization. It encompasses mobilizing the entire organization to satisfy the demands of the customers. [...] It involves each individual group within all parts of the organization.”⁶¹ According to these concepts common principles can be formulated. In contrast to prior quality management concepts, the understanding that quality can only be aligned by the market and the customers is emphasized. In order to reach market leadership among today’s global market conditions it is vital to realize customer requirements in terms of quality. This can only be realized when quality is extended to all departments of an organization and all employees are involved.⁶² Quality becomes the integrated goal of any organization.⁶³ Quality is a long-term and dynamic management concept with the goal to implement the concept of quality in all areas of an organization.⁶⁴ TQM differs from other management not only in terms of quality but also through the highlighted position of the employees.⁶⁵ Herewith a positive impact on the shortage factors time and costs is expected.⁶⁶ It is assumed that motivated employees work more efficiently and make fewer mistakes through optimized processes. Based on the approaches explained above, the following definition is set: the literal interpretation of “Total”, “Quality” and “Management”, whereas “Total” means the inclusion of all groups of people, employees, departments, products and services which are involved in the creation of products and services. Consequently it is a holistic thinking beyond the entire value chain. Therefor “total” can be considered as divisional- and cross-functional, fair communication with customers (customer-oriented), dialogue and more participatory-oriented public relations

⁵⁹ Bruhn, 2008, p. 69

⁶⁰ Oess, 1994, p. 89

⁶¹ Rampersad, 2011, p. 213

⁶² Hummel, Malorny, 2011, p. 7

⁶³ Zollandz, 2011, pp. 191

⁶⁴ Seghezzi, 2003, p. 213

⁶⁵ Kamiske, Umbreit, 2006, p. 1

⁶⁶ Theden, 2001, p. 239

(society oriented) as well as the involvement of all members of the company (employee-oriented).⁶⁷

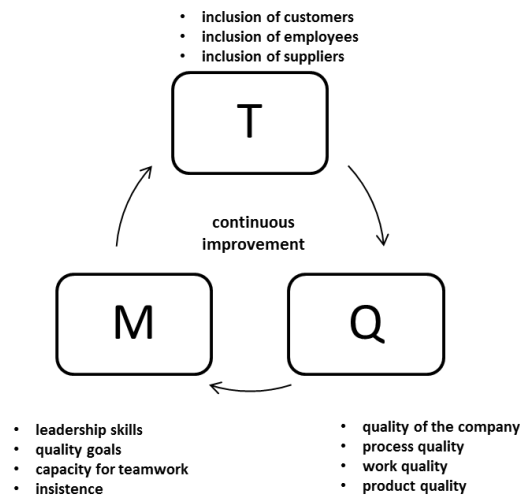


Figure 2: Cornerstone of Total Quality Management according to Kamiske and Brauer, 2011 p. 311

Consequently TQM is to be understood as a business strategy. It presupposes that all employees of an organization participate and aspects are in the center of processes and improvements.⁶⁸ The term quality is understood as focused orientation on customer demands. However, all internal and external organizational aspects have to be included in the quality assessment. It comprises employee satisfaction, quality in work or the handling processes with supplier.⁶⁹ The last term management provides a quality-oriented acting already in leading positions in order to imply the fundamental idea of quality at the highest level. It requires a management level, which involves the concept of quality in its own corporate management and the respective actions.⁷⁰

The TQM concept, as one of the most comprehensive quality management concepts, puts the emphasis on the participation of people and continuous improvements and at the same time it integrates the structure and the systematic approach of organizations. On the one hand TQM makes use of concepts of quality assurance and quality control as well as systems according to ISO 9001, but at the same time it goes even further. TQM can be regarded as the most comprehensive quality strategy which is conceivable for a company as all areas are covered and integrated from customers, their own employees and partners to suppliers.⁷¹ There is a

⁶⁷ Kamiske, Malorny, 1994, p. 9

⁶⁸ Zollandz, 2011, p. 193

⁶⁹ Kamiske, Brauer, 2011, pp. 11

⁷⁰ Seghezzi, Fahrni, Herrmann, 2007, p. 273

⁷¹ Seghezzi, Hansen, 1993, p. 83

necessity of integrating the quality objective in the overall corporate policy and the linkage to the corporate culture in order to achieve a long-term entrepreneurial and economic success.⁷² A company has to maintain its traditional strength with which it has been successful in the past, otherwise the TQM concept would be doubtful. Existing strengths need to be identified by the company itself and integrated as well as used in concept. The strength may vary in different countries as these can be of significant value. It is mandatory that the TQM concept is guided by the Management. All activities especially the processes, corporate culture and learning behavior must be supportive. The management has to overtake the leadership of those tasks as well as monitor the quality of the actions, in other words the management has to represent leadership.⁷³ The concept of TQM is multidimensional by simultaneously taking into account quality, time as well as costs and managing it. As stated above, employees and manager are of central importance. They learn to improve and bear the responsibility for quality. In the concept of TQM “soft” factors as culture, style, shared values and quality awareness are important. Nevertheless, those soft factors are not enough for reaching economic success.⁷⁴ Additionally the motivated and qualified employees need to find well-structured and functional processes at their working environment, which are at the same time supportive and based on a clear policy and strategy and for which sufficient resources are available.⁷⁵ When the TQM concept should lead to a company’s success and employee satisfaction, these “hard” factors must be balanced with the soft factors mentioned above.

The aim and purpose of TQM is the maximum customer satisfaction. However, at the same time this goal can be in contrast to a company’s interest as for example the question arises whether to meet customer needs, even if the company has a disadvantage. The difference to classic quality assurance is that this defines its quality through products. In TQM, quality is defined by the customers. Additionally, TQM often causes problems during its implementation since high formal expenses are needed in terms of regulations and checklists. „Studies have shown that managers identify a lack of resources” when they start implementing it which at the same time causes high costs.⁷⁶ TQM does not lead to rapid success and is also associated with high costs for in-house-training and further education of

⁷² Kamiske, Brauer, 2011, p. 311

⁷³ Seghezzi, Fahrni, Herrmann, 2007, p. 274

⁷⁴ Binner, 2002, p. 110

⁷⁵ Rothlauf, 2003, p. 383

⁷⁶ Watson, 2003, p. 8

employees.⁷⁷ It can be stated that TQM is oversized and inefficient for micro-sized auditing companies and self-employed auditors it puts unreasonable additional burden in terms of bureaucracy on auditors and employees.

1.2. Quality in Services

There is a difference between quality in general business management and service quality. As service quality and quality in audits are related this chapter examines the most common principles. There are two main aspects when it comes to quality in services: the process of creating and delivering the product or service, and the perceived value of the product or service by the customer. Before examining the scientific research in terms of service quality, one first needs to clarify and define what service is. As a result of this, it is to state that there are several definitions and explanations in general business management regarding the term “quality”. In everyday life, services are perceived as a counterpart to material services, from a scientific point of view there is no official definition for services. Bezold⁷⁸ said that the separation of services and other material services is often difficult because there is no clear line to divide them. Therefore, the conceptualization of the term cannot be deduced. In business management in general, and especially in marketing, there is a separation between product and services; furthermore there is a separation between the institutional and functional point of view.⁷⁹ The institutional perspective sees services as the main function whereas the functional perspective sees services as a side function of it.⁸⁰ The definition approaches of services, that are to be found in references about service marketing, can be divided into three different approaches⁸¹, namely:

- The concept of service is acquired through an enumeration of examples (enumerative definitions).
- The concept of service is demarcated by means of a negative definition of material goods.

⁷⁷ Hummel, Malorny, 2011, p.12

⁷⁸ Betzold, 1996, p. 20

⁷⁹ Bruhn, 2008, p. 19

⁸⁰ Bruhn, 2008, p. 19

⁸¹ Corsten; Gössinger, 2007, p. 21

- The concept of service is defined on the basis of constituent characteristics: potential-oriented, process-oriented, result-oriented and task-oriented⁸² definitions.

The first definition is not sufficiently comprehensible due to the heterogeneity of the different services, as is a definition approach that is solely represented by means of a negative demarcation. Therefore, the definition approaches of the third group seem to be most suitable.⁸³ As aforementioned, the third approach, which is based on constituent characteristics, is divided into four sub-definitions: potential-oriented, process-oriented, result-oriented and task-oriented approaches.⁸⁴ Schüller's⁸⁵ task-oriented approach is, however, only pursued slightly, as it has a very broad definition.⁸⁶ Meffert and Bruhn consider the three phase notion in their definition of service as follows: "Services are independent, marketable benefits that are connected (**potential-orientation**) with the provision (e.g. insurance benefits) and / or the use of productivities (e.g. hairdressing services). Internal (e.g. premises, personnel, equipment) and external factors (which are not in the sphere of the contractor) are combined within the frame of the build process (**process-orientation**). The combination of factors of the contractor is applied with the aim to obtain useful effects (**result-orientation**) from the external factors, from humans (e.g. clients) and their objects (e.g. the client's car)".⁸⁷ The official literature criticizes that there is no uniform definition that covers all aspects of services and describes them clearly, so that a clear demarcation from other services is not possible.⁸⁸ The author Bruhn tries to overcome these issues by adding certain characteristics to services, with which they can be distinguished from material goods.⁸⁹ They are:

1. Intangibility
2. Uno-Acta-Principle
3. Integration of the external factor
4. Location bondage
5. Individuality

With these service characteristics, one can separate services intangible (immaterial), as their basic core service is not concrete. In contrast to the production of material assets, there is no

⁸² The task-oriented definition, however, is only outlined in Meffert /Bruhn, but not in Corsten / Gössinger.

⁸³ Meffert; Bruhn, 2009, p. 16

⁸⁴ Meffert; Bruhn, 2009, pp. 16

⁸⁵ Schüller, 1967, pp. 67

⁸⁶ Bruhn, 2008, p. 23

⁸⁷ Meffert; Bruhn, 2009, p. 19

⁸⁸ Marten, 1999, p.144

⁸⁹ Bruhn, 2008, pp. 20

material and tangible good. The audit is of immaterial nature as well. Only the service itself is found in the professional competence of the auditor. The audit working papers and the audit are admittedly material but only carriers of the results.⁹⁰ Because of the immateriality of the auditor's services, it is usually not possible to estimate the audit quality when choosing an auditor for the first time. In contrast to material assets, services are not storable. This is due to the inseparability or even simultaneity of their production and sale (Uno-Actu-Principle).⁹¹ The integration of the external factor describes the inclusion of the customer, meaning the direct contact between providers and consumers.⁹² The external factor may be the customer himself, objects brought in by the customer in order to get a service or pieces of information of the customer. The inclusion of the external factor leads to the service being location-bound – a service therefore is not transportable.⁹³ Another characteristic of services is the individuality and variability, due to the simultaneity of production and sales and the inclusion of the external factors, i.e. the catering to customer wishes. The service is made new for each customer regarding his or her specific wishes. The aforementioned characteristics don't apply to all services. As an example, the simultaneity of service and sales is given, when the service is provided to the customer and at his (e.g. haircut, consultation in a travel agency). However, it is also possible, that services are provided in advance, without the customer, e.g. in case of special standard products such as software. The same applies when including the external factor (those of the customer). This also isn't a clear characteristic of a service, if as mentioned before, standard products are being offered. Simultaneously, the inclusion of the external factor influences the service process, if for example certain needs or only the customer's demands need to be considered.⁹⁴ This makes it difficult for the customer to judge the service in advance. The customer cannot run the rule over the service when ordering or commissioning it. When buying a service, customers acquire a service promise referring to the future. This insecurity from the customer's perspective is usually higher for services than it is for material goods, as the customer is able to touch and look at those in advance.⁹⁵ This means for the service provider, that the performed service not only depends on their own input factors and their own skill, but also on the customer who has got a significant influence

⁹⁰ Maleri, 1991, p. 75

⁹¹ Pasch, Heinold, 1999, pp. 157

⁹² Faßnacht, 2001, p.133

⁹³ Bruhn, 2008, p. 22

⁹⁴ Sieker, 2000, p. 15

⁹⁵ Gouthier, Strauss, 2003, pp. 20

on the efficiency of the service.⁹⁶ The provider is dependent on the cooperation with the customer. After describing the various features and characteristics of services some different approaches of service quality and their explanations will be investigated.

Quality approaches in the service sector have been formed by Meffert and Bruhn. Meffert and Bruhn define quality of service as “the ability of a provider to create characteristics of primarily intangible services needed by the customer, thereby creating expectations at a certain level of requirements. Quality defines itself by the sum of characteristics of the service in order to meet certain expectations.”⁹⁷ Therefore, this definition says that it is all about meeting the customer’s expectations at a certain level. When service quality is being judged, the customer’s expectations play a decisive role.⁹⁸ It is difficult to measure service quality as there is no absolute definition of quality and the recipients’ expectations are subjective. Therefore it will be examined in the following in how far the different approaches of quality definitions (cf. Chapter 1.1. Garvin’s Research) are suitable for making service quality measurable. The **transcendental approach** (cf. Chapter 1.1.) is not going to be examined further as it is not workable. The solely **product-oriented approach** is also not suitable, as it is restricted to objectively measurable characteristics of a service and is not used for measuring service quality due to the immateriality of services.⁹⁹ The application of objective testing procedures is difficult in case of the immateriality of results.¹⁰⁰ This quality approach is therefore not taken into further consideration when evaluating the different approaches. The **product-oriented approach** is the basis of quality management and control tools. With this approach, set standards can be measured and complied with.¹⁰¹ The **customer- and value-oriented approach** takes another viewpoint, namely of regarding quality from the customer’s perspective. The customer sets the standards and evaluates the service on the basis of these standards. Bruhn therefore advocates a linkage of product- and customer-oriented approaches when measuring service quality.¹⁰² The characteristics of services lead to a second problem when measuring quality, which is even more complicated through the integration of the external factor (the customer). The result of the service and therefore its quality is decisively dependent on the customer. Due to the characteristics of services and the simultaneity of the

⁹⁶ Kleinaltenkamp et. al, 2006, p. 33

⁹⁷ Meffert; Bruhn, 2009, p. 19

⁹⁸ Parasuraman, Zeithaml, Berry, 1988, p. 14

⁹⁹ Maleri, 1991, p. 106

¹⁰⁰ Oppermann, 1998, p. 90

¹⁰¹ Haller, 1998, p. 89

¹⁰² Bruhn, 2008, p. 39

service production, the customer, however, is not able to see in advance, if the service will meet his expectations.¹⁰³ The provider of the service (the company) is thus only able to make a service promise, which he does not know in advance either.¹⁰⁴ The customer takes on different roles; to begin with he is the purchaser, contributes to the design but also is the informant of the service provider. The provider can only work according to the information he receives from the customer. The customer thus is receiver of the service and contributor at the same time.¹⁰⁵ The quality of the production process is influenced by external factors as well, which are not completely controllable by the provider. These external factors influence the service result due to the lack of possibilities of standardization.¹⁰⁶ The inclusion of the client is also typical for audits and is expressed through the provision of material through the client for the auditor, as well as the unrestricted, legally anchored duty of disclosure towards the auditor.¹⁰⁷ According to the aforementioned definition (Chapter 1.2.), service quality emerges through “the perception of the customer when comparing the perceived service and the customer’s expectation in regard to the service”¹⁰⁸. But the requirements in service quality, as in the definitions of Meffert and Bruhns, are not one-dimensional or determined unilaterally. Meffert and Bruhns would rather define it as a triangle correlation, or even as an area of conflict between the three pillars Customer, Competitor and Company.¹⁰⁹ For evaluating services, all three aspects need to be taken into consideration.

In the following, chosen models will be presented that are concerned with the evaluation of service quality. These are the models of Donabedian, Grönroos, the GAP-Model and the model of Kellner. In addition, it is pointed out, that there are numerous models on service quality, that try to make service quality workable in order to make it measurable in a second step. The following approaches have been chosen as they seem to be beneficial for the research question of this paper. The American quality scientist Avedis Donabedian, who researched the term “quality” in his work in 1980, concentrated on the medical area in order to develop a service-oriented model. Donabedian divides quality into three different dimensions:

¹⁰³ Meyer; Mattmüller, 1987, pp. 189

¹⁰⁴ Meyer; Mattmüller, 1987, pp. 189

¹⁰⁵ Scharitzer, 1994, pp. 118

¹⁰⁶ Pasch, Heinold, 1999, pp. 27

¹⁰⁷ § 320 HGB

¹⁰⁸ Bruhn, 2008, p. 39

¹⁰⁹ Bruhn; Strauss, 1995, p. 57



Figure 3: three phases of service quality according to Donabedian, 1980, p. 81

When it comes to these three components, a linear relationship is assumed. Herewith not only the outcome of service quality is important but also the structure and process as a whole of all performed activities. Donabedian defines “**structure**” as “the organization of the medical and nursing staff in a hospital, and the presence or absence of quality review efforts¹¹⁰. Structure means especially the skills of the provider and his employees, the technical equipment, the physical and organizational working conditions, and the access and usage possibilities of the customer.¹¹¹ The “**process**” is seen as the totality of all activities taking place during the actual service provision. The “**outcome**” describes the difference of the outcome between beginning and end of the performance: “A change in a patient’s current and future health status that can be attributed to antecedent health care.”¹¹² According to Donabedian, the structural quality refers to the objective (for example technical equipment), organizational (work concepts), and human (education and training of employees) conditions and requirements of a service provider. Of special importance is the perception of structure and potentials of the service provider.¹¹³ For example regarding an auditing company, the market position, size, number and qualifications of the employees are taken into account. Between these components, a linear relationship is assumed. This approach is tied up to the phases of the service term and shows that not only the results are important for service quality but also the structure and process which are necessary to deliver the service.¹¹⁴

Process quality refers to the way in which services are provided (eg. conduct a medical treatment or counseling). Donabedian refers to a process as a number of interaction-oriented activities, which can be measured directly or indirectly. Therefore, the evaluation of the service necessarily takes place during its provision.¹¹⁵ Examples for this are an auditing company taking care of a client, the processing of an order, or conducting a test. The quality

¹¹⁰ Donabedian, 1980, p. 81

¹¹¹ Donabedian, 1980, p. 81

¹¹² Donabedian, 1980, p. 82

¹¹³ Meyer, Mattmüller, 1987, p. 190

¹¹⁴ Corsten, Gössinger, 2007, p.277

¹¹⁵ Zollandz, 2011, p. 170

of the results is measured by changes that take place in the patient's condition. They constitute the achievements of the performance targets. It is the assessment of the existing efficiency, in other words the results of the service process in total, if they can be traced back to the beginning of the service process.¹¹⁶ Donabedian demonstrates with his model that the quality dimensions influence one another. The structures affect the processes and they determine the quality of earnings. On the other hand, these earnings influence planning and optimizing of the subsequent processes and cause changes in existing structures.¹¹⁷ Donabedian's concepts of quality management can be found (structure, process, and outcome) in most quality management systems nowadays. According to Haller¹¹⁸, it already finds application and the division of quality in these three areas has been widely accepted. There have been attempts to transfer Donabedian's concept of quality to other areas. A problem occurred while trying to transfer this model, as there is a causal relationship between these categories. That means that if one changes the structural basic conditions, the outcome quality will change as well. It is critical to remark, that there is a linear relationship Donabedian assumes between structure and process quality, which, however, finds no application in real life. Furthermore, the external factor was not taken into account, even though his model focuses on service quality in the medical area.¹¹⁹

Christian Grönroos describes the quality model from the perspective of a customer. He divides service quality into a technical and a functional dimension.¹²⁰ The technical quality, according to Grönroos, includes the service the customer receives. The technical quality can be seen as the scope of services, in other words as the performance outcome that is acquired. Grönroos assumes that the technical quality is measurable. It "can be measured by the customer in a rather objective manner, as any technical dimension of a product."¹²¹ This contrasts with the functional quality. An example could be the friendliness of the staff, which is more likely to be interpreted in a subjective manner. "It is rather perceived in a very subjective way".¹²² Therefore the two dimensions are divided into sub-categories.

¹¹⁶ Zollandz, 2011, p. 170

¹¹⁷ Donabedian, 1980, p. 92

¹¹⁸ Haller, 1998, p. 189

¹¹⁹ Zollandz, 2011, p. 171

¹²⁰ Grönroos, 1982, p. 61

¹²¹ Grönroos, 1982, p. 61

¹²² Grönroos, 1982, p. 61

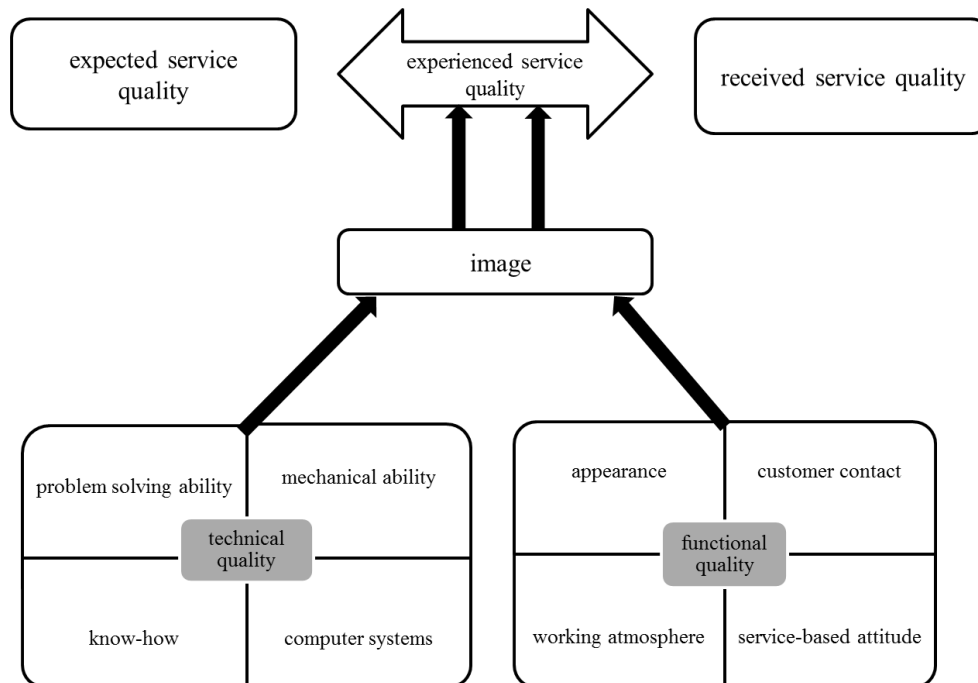


Figure 4: The Quality Model of Grönroos, Grönroos, 1982, p. 79

His expectation is that the customer compares the perceived performance with the expected performance and evaluates.¹²³ According to Grönroos, the expectations of the customers depend on the one hand on tradition and conviction, on the other hand also on recommendations from other customers and the appearance and publicity of the service company. Both dimensions, technical and functional, can influence each other. Nevertheless, there is a stronger focus on the functional quality type of service performance creation, than on the actual outcome. A customer can excuse temporarily occurring technical quality problems, if the functional quality still meets the customers' expectations.¹²⁴ In addition to these two components a third one is added in Grönroos' concept. The image of the service provider influences and effects the other components mentioned above. This image of a company is a filter function in the performance between the perceived technical and functional quality.¹²⁵ The customer's opinion can act positively as well as negatively, as image filters on the service provided to the expectations and perceived service. The image is created out of the functional and the technical dimension of the perceived performance. The third dimension in this model is therefore dependent of the other two mentioned. The perceived service results from a bundle of partial qualities, which can be attributed to the

¹²³ Grönroos, 1984, pp. 36

¹²⁴ Grönroos, 1982, pp. 77

¹²⁵ Betzhold, 1996, p. 46

functional or the technical dimension.¹²⁶ The perception of services occurs when received, and the expected service is compared through the image filter. Grönroos calls the discrepancy between expected service and perceived service a GAP, which is evaluated by the person who calls for service. The idea is to show the service providers how service quality is perceived and through what it is defined. As well as Donabedian's, Grönroos' model makes it clear that not only the result of a service is decisive for its quality but that technical rating components such as technical solutions or knowledge also are important elements.¹²⁷ A new aspect is the consideration of the image, which influences service quality through quality dimension, marketing and external influences. Both models are based on the central assumption that a demander rates a service after it has been provided.¹²⁸ The evaluation of the service is done by a comparison of the service perceived with the expectations to this service before ordering it.¹²⁹ In other words: the evaluation is done by comparing the subjective sector of the profile of properties with the expectations that the evaluator connects with the profile of properties.¹³⁰ Both, the service perceived as well as the service expected, can be described through not just one but a number of variables.¹³¹

Parasuraman, Zeithaml and Berry picked up on the term GAP by Grönroos and developed a GAP-Model for service quality that is divided into a customer and a provider level. In this model, they try to research what the size of a GAP between perceived and expected quality might depend on and which sub-processes of the quality assurance process might be affected by this. The origin of this model is based on empirical research which was conducted by interviewing executives of companies of the same service sector as well as group interviews with customers. The aim was to find out about central rating dimensions of service quality from the customer's perspective and the resulting areas of conflict.¹³² For this, Parasuraman et al. developed the SERVQUAL-approach ("Service Quality") with a standardized questionnaire. This approach has been established especially in American banks even though there were several objections to it due to the validity of the model. This was because with this practical relevant approach, a model for measuring service quality was presented for the first

¹²⁶ Leuchtmann, 2006, p. 123

¹²⁷ Meyer; Mattmüller, 1987, pp. 190

¹²⁸ Donabedian, 1980, pp. 81; Grönroos, 1984, pp. 36

¹²⁹ Leuchtmann, 2006, p. 126

¹³⁰ Grönroos, 1984, pp. 36

¹³¹ Grönroos, 1984, pp. 36

¹³² Zeithaml, Berry, Parasuraman, 1992, pp. 67

time ever.¹³³ The fact that the customer develops a positive perception of quality, is taken as a basis for this model, if the perceived quality of the service complies with the customer's expectations. Parasuman et al. identified five gaps in total.¹³⁴ At that, GAP 5 (customer gap), defines the service quality, is seen as the discrepancy between the customer's expectations and perceptions. Parasuman et al. assume that Gaps 1 to 4 influence the perception of quality through the demander; GAP 5 is seen as a function of the other four gaps which count as the main cause for GAP 5. GAP 5 is therefore called the central gap.¹³⁵

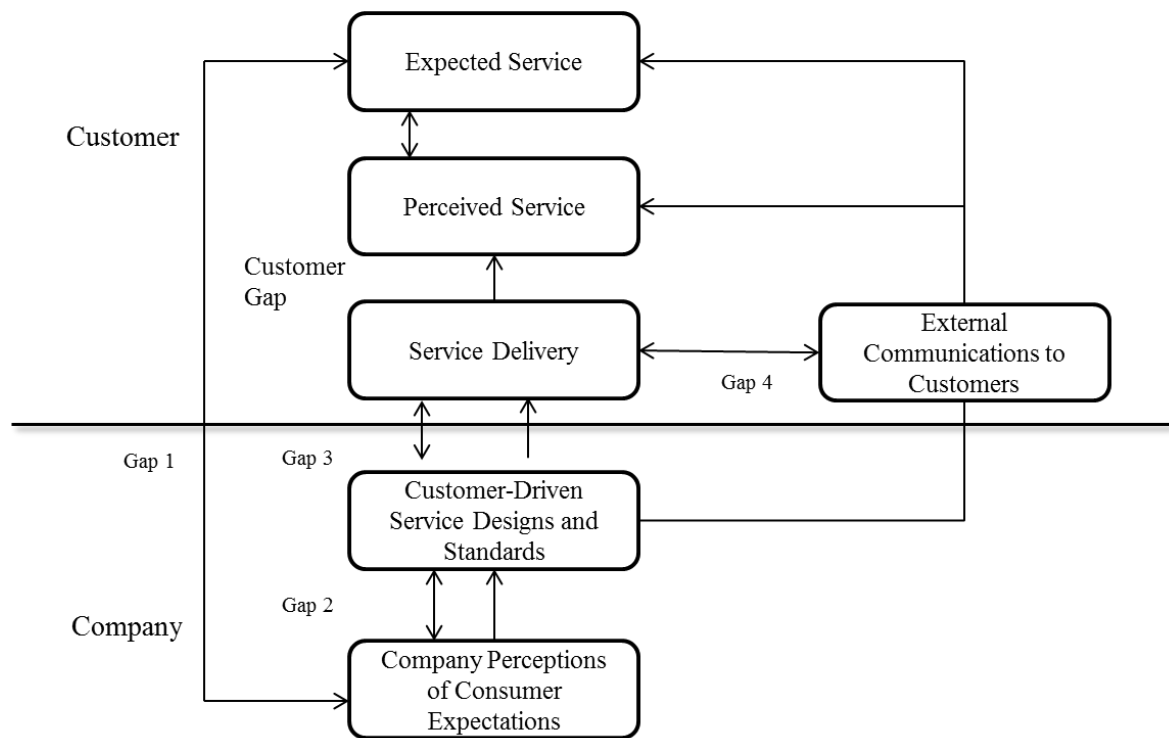


Figure 5: GAP-Model according to Zeithaml et al. 1988, pp. 12¹³⁶

The key points for each gap can be summarized as follows:

- “Customer GAP (GAP 5): The difference between customer expectations and perceptions – the service quality gap.
- GAP 1: The difference between what customers expected and what management perceived about the expectation of customers.
- GAP 2: The difference between management's perceptions of service quality specifications and design.

¹³³ Meffert; Bruhn, 2009, p. 56

¹³⁴ Nguyen, et. al 1985, pp. 44;

¹³⁵ Zeithaml; Berry; Parasuraman, 1992, p. 67

¹³⁶ Parasuraman, Zeithaml, Berry, 1988, p. 12 ff.

- GAP 3: The difference between specifications or standards of service quality and the actual service delivered to customers
- GAP 4: The difference between the services delivered to customers and the promise of the firm to customers about its service quality.¹³⁷

The first gap (GAP 1) develops, when the actual and the perceived expectations of the customer – made by management - don't match. This discrepancy may affect the number and the composition of the criteria judged as well as the expected service. Reasons for this gap may be an insufficient orientation towards market research results, deficient communication between customer services and management or too many management sectors.¹³⁸ The bigger the deviation from GAP 1 to 4 is, the more does the service received deviate from the service expected, the bigger is GAP 5. The service quality may hereby be influenced by the size as well as the direction of the deviation. Bruhn notes that the measuring method called SERVQUAL-approach, which is based on Parasuraman et al. GAP model, takes on an important position. GAP 5 is made measureable with the aid of the SERVQUAL-approach and "represents a combination of attitude- and satisfaction-oriented multi-attributive measurement methods".¹³⁹ This model was enhanced by Marten, Leuchtmann and Rebhan (cf. Chapter 1.3.2.) for measuring the quality of audits.¹⁴⁰

Klaus Kellner characterizes quality as something which needs to be defined by every single company itself. The quality a company wants to deliver and provide has to be determined. Quality is the core value of every segment of an organization. „Quality should be the USP of every organization, the quality provided needs to be defined by every organization and with quality it tries to reach a certain monopoly.“¹⁴¹ Kellner developed his quality model by creating a new consulting instrument to advise municipalities, which is called “Strengthening the Municipal Profile” (Kommunale Profilierung). This developmental approach is supposed to raise the **developmental quality** of municipalities, the aim being to reach the highest developmental quality possible. In developing this approach, Kellner used some of the findings from a comprehensive management and marketing theory, especially of the St. Gallen Management Concept¹⁴² as well as regional and change management. The source of

¹³⁷ Nguyen, et. al 1985, p. 41

¹³⁸ Zeithaml; Berry; Parasuraman, 1992, p. 67

¹³⁹ Bruhn, 2008, pp. 144

¹⁴⁰ Marten, 1999, Leuchtmann, 2006, Rebhan, 2012

¹⁴¹ Kellner, 2007, p. 40

¹⁴² Seghezzi; Fahrni; Herrmann, 2007, p. 9

Kellner's approach is a fundamental and recurring question, which does not only arise in the context of municipalities, but in all areas of economy and finance. It appears frequently in different forms. Any entity offering a product or service, searching for its place in a competitive market, will – especially in the beginning or in the event of market shifts or declining success – ask the question: what do we want and how can we achieve it? While this question is traditionally often answered with advice on image or action plans, Kellner's approach attempts to redirect the perspective towards the question: what is my mission? The term mission is based on three elements: demands of existing or potential beneficiaries and clients, one's own strengths and weaknesses, and the promises of one's competitors.¹⁴³ Finding and clearly defining one's mission - "mission-oriented" thinking – should therefore be the guiding principle of the future development of any entity. The goal of such a process should be to reach a high level of developmental quality.¹⁴⁴ Developmental quality is defined by Kellner as "the degree of correlation between the short-, medium- and long-term demands/expectations of the target group in a municipality and their fulfillment by the municipality".¹⁴⁵ The term developmental quality can be divided into the areas of **process quality** and **outcome quality**. Process quality is a measure of the extent to which the demands/expectations of the parties involved in the developmental process for clarity, efficiency, a new start and implementation are met. Outcome quality describes the degree of correlation between the (regarding their substance) clearly defined future targets and their actual implementation throughout the course of time (target-performance comparison).¹⁴⁶ The first step in the process, finding one's mission, means to clearly understand and define, what one's role is, in other words, of what use can I be, what services can I provide to meet the demands and expectations of my target group? The mission is supposed to be the central, individual and, if possible, unique benefit that can be provided for the target group. This has to be done considering one's strengths and weaknesses. If the mission can be clearly defined, this will provide the guideline which allows for a greater efficiency in pooling all further activities. If the willingness for a new start and an effective implementation of activities to reach the set targets is present, then a high degree of process quality is attained.

If the implementation of the mission and the specific targets and activities developed to fulfill this show a high correlation, then a high degree of outcome quality is attained. Kellner's

¹⁴³ Kellner, 2007, p. 45

¹⁴⁴ Kellner, 2007, p. 43

¹⁴⁵ Kellner, 2007, p. 43

¹⁴⁶ Kellner, 2007, p. 43

definition of quality is therefore characterized by the process and how high the correlation between goals and the various stages of implementation is.

1.3. Quality Research in Audits

This chapter contains an analysis of how different researchers on the topic, such as Linda Elizabeth DeAngelo, Kai-Uwe Marten, Matthias Rebhahn and Mark Leuchtmann, describe and evaluate quality in audits. These researchers focused either on direct or indirect audit quality research, which will be outlined after a short description of the different definitions. In recent years there have been a lot of discussions about the term “Audit Quality”. However, as Marten¹⁴⁷ criticizes, there are – at least in German – no sufficient definitions of the term available to the expert audience. According to Marten, it is taken for granted, that in the auditing profession, everyone is supposed to know, what the term “quality” denotes.¹⁴⁸ DeAngelos’ (American researcher on quality in audits) definition has for a long time been the most quoted.¹⁴⁹: “The quality of audit services is defined to be the market-assessed joint probability that a given auditor will both (a) discover a breach in the client’s accounting system, and (b) report the breach.”¹⁵⁰ To DeAngelo, quality therefore means the “auditor’s technological capabilities” and his independence.¹⁵¹ DeAngelos approach will be described in Chapter 1.3.2. In the German speaking area there is no uniform working definition for what is to be understood by quality in auditing. This applies to research as well as to legislation and profession. Nevertheless, there certainly is a multitude of approaches to be found with try to explain the term. One can make a distinction between those two approaches, similar to the quality of services: Differentiating between those with a product-oriented approach and those also considering the expectations of the recipients concerning the final audits; therefore the customer-oriented approach. According to Schmidt¹⁵², a supporter of the product-oriented approach, this means that the quality of audits depends on whether the auditor is able to give a reliable judgment about the conformity of the annual financial statement computed on the basis of accounting policies. “The quality of the final audit is the qualification of the annual

¹⁴⁷ Marten, 1999, p. 184

¹⁴⁸ Marten, 1999, p. 184

¹⁴⁹ Marten, 1999, p. 185

¹⁵⁰ DeAngelo, 1981b, p. 186

¹⁵¹ DeAngelo, 1981b, p. 186

¹⁵² Schmidt, 2000a, p. 12

auditor (meaning his ability and independence to judge) and accomplishment of action of audit (that means the appropriate judgment) for giving a reliable audit judgment about accounts.”¹⁵³ For Schmidt, an audit therefore is of premium-quality, once it manages to fulfill the legal and professional demands. Copley and Doucet also take the point that the quality of audits depends exclusively on the compliance with auditing-norms.¹⁵⁴ What’s more, Niehues defines quality as product-oriented by stating that quality of the final audit means the implementation and reporting through a member of the profession, who complies with all rules and regulations while performing his duties.¹⁵⁵ The addressee as the recipient of the audit is not being considered. Marti and Eberle anticipate a high quality when one complies with the auditing-norms, but nevertheless concede that the auditing-norms will never be fully able to meet the norms in each and every situation and therefore remain partly in the responsibility of the auditor.¹⁵⁶ Additionally, it is not possible for the external addressee of the audit to assess the performance – in this case controlling the compliance with auditing norms. Only the reviewed annual account with the audit certificate will be published.

It seems, according to Marten¹⁵⁷, that the term audit quality is understood as “synonymous with compliance with requirements and statutes.”¹⁵⁸ For a long time, the recipient of the services of the auditors, the companies which are audited or the interested public, have not been in the focus by the definition of quality in audits.¹⁵⁹ One of the first, who also considered a customer-oriented approach into the definition of quality measurement, was Leffson.¹⁶⁰ He describes “quality as trustworthiness of the judgment which includes as essential component accuracy belongs.” Thereby however it is assumed, that trustworthiness in the auditor’s judgment only can be evaluated by the receiver. Leffson defines quality in the way that the auditor hands in a “trustworthy and flawless” judgment. For Leffson, preconditions for that is the power of judgment of the auditor – the general as well as the specific knowledge; the freedom of judgment – the autonomy of the auditor; as well as the appropriateness of judgment, which is given, once the auditor bears in mind the principles of integrity, essentiality and objectivity. Leffson demands, that the processes of judgment on behalf of the

¹⁵³ Leffson, 1988, p. 66

¹⁵⁴ Copley; Doucet, 1993, pp. 89

¹⁵⁵ Niehues, 2000, p. 1138

¹⁵⁶ Marti; Eberle, 2004, p. 418

¹⁵⁷ Marten, 2004, p. 15

¹⁵⁸ Lindgens-Strache, pp. 275; qtd. in Marten, Kai-Uwe, 2004, p. 15

¹⁵⁹ Marten, 2004, p. 1

¹⁶⁰ Leffson, 1988, p. 8

auditor has to be comprehensible for third parties – he includes the recipient of the final audit into his definition.¹⁶¹ Dr. Anke Müßig is searching for a definition of the term “quality”, as well. She comes to the conclusion, that in the case of financial audits, it is all about the fulfillment of expectations.¹⁶² To define what “quality” means for financial audits, one needs to question whose requirements and expectations need to be fulfilled. Does the judgment of the definition differ on the part of the observer? The few examples show, that an absolute definition of this term does not exist, because the subjective requirements of the service recipients for financial audits are diverse. The auditor himself would certainly define “quality” in a different way than the company that is being audited would do. Similarly the chief executive officer (CEO) would have another definition than the supervisory board would arrive at. For the auditor quality means to perform the audit in a special amount of time and to reduce the risk of liability. For the profession of financial auditors “audit quality is not simply about following a rulebook of auditing standards and regulations (...), it is about professionals reaching the appropriate judgment in difficult and complex situations.”¹⁶³ For the CEO or the management, as the receiver of the service “financial audit”, an audit with high quality is an audit that is run fast and without any problems, questions and discoveries. In contrast to that, a supervisory board judges an audit positively if it gets the information fast and if the mistakes are cleared up fast. The public’s expectation for quality in financial audits is again to receive an audit which contains no mistakes and which they can trust.

Langenbucher¹⁶⁴, who defines quality of audits from the customer perspective, finds that a final audit deserves a very good or good quality judgment, once it meets the expectations of as many stakeholders as possible. He perceives an optimization problem, at the point (as outlined above), where the interests of the addressees of the final audit are divergent. These examples already show that there is no standard answer to the question what “quality” for financial audits means. There is no universal definition to be found in neither in the German speaking or in the English speaking area. Regardless of this, new laws, communiqués, and standards are decreed just to raise the quality in the financial audit. It has been worked out, that the different existing definition of quality can be divided into product- and customer-oriented approaches – similar to the distinction in service quality. The definitions that are solely product-oriented and regard quality as the fulfillment of the legal and professional

¹⁶¹ Leffson, 1988, p. 6

¹⁶² Müßig, 2008, p. 173

¹⁶³ Institute of Chartered Accountants in England & Wales, 2006, p. 3

¹⁶⁴ Langenbucher, 1997, p. 63

expectations are too narrowly defined. That it is absolutely necessary, to include the recipient of the final audit in the evaluation of quality, is reflected by the recurrent expectation gap in the domain of audits. The term expectation gap means the falling short of public expectations of the audit and the actual professional conduct of the auditors.¹⁶⁵

1.3.1. A Framework for Audit Quality

The International Auditing and Assurance Standards Board (IAASB) were concerned with the topic of audit quality in the years from 2009 to 2011. The crucial factor for this work program and the internationally discussion about audit quality was the current financial and economic crisis. The result was the development of a conceptual framework, which was published in January 2014 in the consultation paper, with the title “A Framework for Audit Quality”.¹⁶⁶ The consultation process ended with 76 statements including the Chamber of Public Accountants and the Institute of Public Auditors in Germany.¹⁶⁷ The IAASB published the final framework in February 2014.¹⁶⁸ The framework is summarized and critically assessed in the following. The IAASB describes in its consultation paper four fundamental factors of audit quality, which are: input factors, output factors, key interactions and contextual factors. These four factors are concretized by specification and the description of attributes which in turn determine the characteristic of the respective factor.¹⁶⁹ According to the understanding of the IAASB input factors are appropriate values, process, ethical principles and the attitudes of the auditor.¹⁷⁰ During the consultation paper the factor process was a sub-item of the input factors, whereas it is an independent determinant in the final framework.¹⁷¹ Furthermore the audit quality is influenced by the knowledge, experience, sufficient time as well as the effectiveness of the audit process. However, many of these factors require a self-definition, which can be seen as problematical and weak point in this framework.¹⁷² In contrast to other services the results of financial audits can only be observed and measured by the addresser in

¹⁶⁵ Marten, 1999, p. 78

¹⁶⁶ IAASB, 2013, p. 4

¹⁶⁷ Institut der Wirtschaftsprüfer, 2012

¹⁶⁸ IAASB, 2014

¹⁶⁹ IAASB, 2014, p. 18

¹⁷⁰ IAASB, 2013, p.4

¹⁷¹ Maccari-Peukert, Ratzinger-Sakel, 2014b, p.609

¹⁷² Maccari-Peukert, Ratzinger-Sakel, 2014a, p.253

a limited way.¹⁷³ Although the client receives detailed information, as for example the audit report, the external stakeholders only get constrained information in form of the auditor's opinion. According to the IAASB, the provided information of the auditor is likely to affect audit quality in a positive way.¹⁷⁴ Furthermore they suggest the following output aspects as key audit quality factors for auditors: the auditor's opinion, auditor's reports to those charges with governance, auditor's reports to management and if necessary to other audit committees. On a macroeconomic level, these output factors are completed through additional reports and information from relevant regulatory authorities.¹⁷⁵ The third driver for audit quality named by the IAASB is the contextual factor in which the financial reporting takes place. The framework includes the following contextual factors: cultural factors, laws and regulations relating to financial reporting, the characteristic of corporate governance and litigation environment.¹⁷⁶ At the same time specific interactions can be identified which influence the factors "input, output and contextual factors" and therefore the audit quality.¹⁷⁷ These interactions can be between the auditor and his client, the supervisory body as well as stakeholders and regulators.

The aforementioned factors are not independent but interdependent. Consequently, the output factors are influenced by the context in which the financial reporting is conducted.¹⁷⁸ The executed reports (output) as well as the communication with management and supervisory board have an influence on the used factors. The reports of auditors differ in terms of type and size depending on the particular legal and professional guidelines on reporting. After the illustration of the main aspects of the "framework for audit quality" it can be said that even the IAASB has no definition of audit quality. However, critical voices within the German profession demand for a consistent definition.¹⁷⁹ The lack of an explicit definition is justified by stating that the audit depends on the experience, the characteristics and the profession common skepticism of auditors.¹⁸⁰ An explicit definition was not sought by the IAASB. Instead a framework should be created with the focus on auditors working in large companies.¹⁸¹ The objective of this approach was to initiate a dialogue on audit quality and to

¹⁷³ Hoffmann, 2013, p. 18

¹⁷⁴ IFAC, 2009, note 10

¹⁷⁵ IAASB, 2013, p. 45

¹⁷⁶ IAASB, 2013, p. 58

¹⁷⁷ IFAC; 2008

¹⁷⁸ IAASB; 2013 p. 20

¹⁷⁹ WPK, 2013, p. 2

¹⁸⁰ IAASB, 2014, Appendix 1, note 5

¹⁸¹ Maccari-Peukert, Ratzinger-Sakel, 2014b, p. 610

give this dialogue a framework. Predominantly the IAASB does not create new facts but rather summarizes numerous publications on the subject of audit quality. Without a common understanding of quality, the discussion in the framework about the key factors remains very general and imprecise. Although this framework can capture audit quality in a more detailed and higher level, the work paper is nevertheless filled with general and vague statements and therefore difficult to access the topic.¹⁸² For auditors using this framework it will be difficult to generate successful results in terms of quality. To conclude it has to be said that even such a framework does not replace an actual definition. This should rather be a central part, which primary serves as a basis for an understanding of audit quality. According to the German profession the objective of the IAASB is not reached and in practice it is only partially usable. Finally, it has to be said that this framework is oversized and for micro- and small-sized auditing companies not applicable.

1.3.2. Direct and Indirect Audit Quality Research

When further considering the term “quality” in auditing, the aim is not to find additional single definitions of different authors, but to offer an overview of the current status approaches of audit research (both theoretical and empirical) that examine in how far other factors, such as the size of the auditing office, the reputation, the specialization, the remuneration or the competitive context influence the quality. In the following, the selected research approaches will be outlined and critically evaluated according to the amount of their influence. Within the scope of investigating the audit quality, one can differentiate between direct and indirect inquiry methods.¹⁸³ For the indirect inquiry, factors such as the size of the audit company, the specialization, the remuneration or the balance policy are used for measuring the quality.¹⁸⁴ These factors are also called surrogates. The direct measurement of audit quality derives from such factors and tries to evaluate audit quality on the basis of predefined quality features. As already shown, it is possible that the audit quality can be evaluated in a product-oriented way as well as based on subjective perception. At that, the product-oriented perspective refers to the compliance with certain norms in the sense of an internal objective view on quality. When gaining audit quality on the basis of subjective

¹⁸² Maccari-Peukert, Ratzinger-Sakel, 2014a, p. 257

¹⁸³ Ruhnke, 1997, p. 332

¹⁸⁴ Ruhnke, 1997, p. 332

perceptions, the focus is on the recipients. This takes into account the subjective, demand-oriented view of quality.¹⁸⁵ It is all about the differentiation of actual and perceived quality. The actual quality is what the auditor achieves effectively; the perceived quality however denotes the perception of quality on behalf of the addressees.¹⁸⁶ In the European area, the works of Marten (Germany 1999)¹⁸⁷, Leuchtmann (Switzerland, 2006)¹⁸⁸ and Rebhan (Austria, 2012)¹⁸⁹ rank high among the direct audit quality research papers. In the following, all of those are outlined shortly. Marten further developed the GAP-Model by Parasuraman, Zeithaml and Berry, which they had developed for service quality, in order to find a concept for measuring and controlling the quality of financial audits. They additionally tested this model empirically for its practicability.¹⁹⁰ The basis of Marten's GAP-Model is a comprehensive understanding of quality which considers the compliance with all relevant norms of final audits as well as the expectations of the customers and thus connects the provider and the customer domain. The gaps he found in the symmetrical GAP-Model – 11 in total – were tested empirically by him, in order for him to prove that those GAPs consisted mainly of informational and communicational discrepancies between auditors and customers of audits.¹⁹¹ Leuchtmann's work from 2006 is oriented towards the work of Marten. Leuchtmann developed 25 quality features and surveyed businesses officially listed at the Suisse Stock Exchange as well as their auditors. He came to a conclusion similar to that of Marten, but also determined significant differences in the attitude in which his subject group answered.¹⁹² As Marten's work dates back to 1999 and the work of Leuchtmann (2005) only considers the Suisse market, disregarding the European guidelines, the findings of Rebhan's research work (2012) will be outlined below. Rebhan examined the Austrian auditing market, also building on Marten's GAP-Model. On the basis of the aforementioned studies, he developed 26 quality features relevant for Austria and took both, providers and customers, into consideration in order to detect relevant gaps in the symmetrical GAP-Modell. Of special interest for Rebhan were those gaps referring to processes between provider and customer. Those gaps are the perception gap (GAP 8), the evaluation gap (GAP 10) and the expectation

¹⁸⁵ Rebhan, 2012, p. 70

¹⁸⁶ Jany, 2011, p. 23

¹⁸⁷ Marten, 1999

¹⁸⁸ Leuchtmann, 2006

¹⁸⁹ Rebhan, 2012

¹⁹⁰ Marten, 1999, pp. 327

¹⁹¹ Marten, 1999, pp. 328

¹⁹² Leuchtmann, 2006, pp. 137

gap (GAP 11).¹⁹³ In the summer of 2010, 1096 subjects from groups of auditors, executive boards, supervisory boards and financial analysts were surveyed with a response rate of 11, 3%. In contrast to the results of the studies by Marten and Leuchtmann, Rebhan draws the conclusion, that there are distinctly fewer significant quality gaps in existence in Austria. Concerning the given quality features, the quality of audits in Austria was rated significantly higher.¹⁹⁴ The research papers of Leuchtmann and Rebhan draw on the GAP-Model, which had been developed by Marten in order to measure and control the quality of audits. Marten used the Servqual-approach by Parasuraman, Zeithaml and Berry for measuring, and the GAP-Model, which had been developed for services, by Parasuraman, Zeithaml and by Berry for control. The transfer and application of a chosen method is possible, as auditor services show similar characteristics of services. The assumptions Marten made on his symmetrical GAP-Model, were tested empirically. As the GAP also considers the expectations of the customers in addition to all relevant quality norms of final audits, it postulates a comprehensive understanding of quality which the two other research papers adhere to as well. Through the identification of gaps, it is possible to measure the subjectively perceived audit quality. Thus guidance for raising audit quality can be derived. The model is therefore certainly suitable for revealing gaps and for offering guidance to auditors. However, it does not contain a forecast value.

Within the indirect audit quality research, factors are used to make audit quality measurable. The size of the audit company, membership in the Big4, specialization, liability risk and remuneration are a few factors for measuring audit quality. In the following, because of the importance of DeAngelo's work, the importance of the size of an audit, quality as a factor will be presented. In the following, only the current research papers by Linda Elizabeth DeAngelo will be more closely discussed.¹⁹⁵ DeAngelo's paper of 1981 examines the influence of "the size of the auditing company", measured in reference to the mandates carried out and, the quality of auditing performances. Marten regards DeAngelo's paper as the most influential examination in respect of measuring the audit quality by the help of factors.¹⁹⁶ The main elements of DeAngelo's quality definition are (a) the professional qualification of the auditor together with (b) his independent reporting: "The quality of audit services is defined as joint

¹⁹³ Rebhan, 2012, p. 98

¹⁹⁴ Rebhan, 2012, p. 197

¹⁹⁵ A comprehensive presentation of the theoretical and empirical studies to evaluate research, the Annex to the work of Jany, 2011, pp. 207

¹⁹⁶ Marten, 1999, p. 49

probability assessed by the market that a given auditor will both (a) discover a breach in the client's accounting system, and (b) report the breach."¹⁹⁷ DeAngelo sees a connection between the independence of an auditor and the size of the auditing company. She stated that a bigger auditing company with a higher number of mandates is potentially more independent than a smaller company with only a few mandates, though as far as remuneration is concerned are more important mandates. She therefore assumes that smaller offices are exposed to a higher pressure on the part of the managements of the audited companies, if those threaten with e.g. a change of auditors.¹⁹⁸ To support her view, she brings in her „quasi-rents-model“. The quasi-rents-model supposes that the remuneration of the final audits are in total competition in the auditing market and are higher in case of an original inspection, which means that the remuneration of the original inspection does not cover the expense of the audit. This pricing policy is also called “low balling“.¹⁹⁹ The auditor is able to compensate for this loss through the expected quasi-rents from follow-up audits in the succeeding years.²⁰⁰ The basis for this model is that the auditor is concentrated for other audits as well, and that the remuneration rises with increasing duration of mandates (fee cutting). As a company has to pay transaction fees for a change of auditor, it will refrain from it, as long as the cash value of the audit fees of the current auditor does not exceed the cash value of the new auditor and the additional transaction cost for the company.²⁰¹ DeAngelo derives the conclusion from her quasi-rents-model that bigger auditing companies *ceteris paribus* have a higher incentive to report an error than auditors with a smaller mandate base: “This implies that, *ceteris paribus*, the larger the auditor as measured by the number of clients, the less incentive the auditor has to behave opportunistically and the higher the perceived quality of the audit.”²⁰² It follows from the foregoing that dependence of an auditor is all the more at risk, the higher the remuneration to be lost is concerning one mandate by comparison to others.²⁰³

Jens Jany in his paper of 2011 examines the question whether size and specialization of an auditing company have any influence on the quality of a final audit and whether a possible quality difference depends on the organization of the liability regulations.²⁰⁴ He therefore

¹⁹⁷ DeAngelo, 1981b, p. 186

¹⁹⁸ DeAngelo, 1981b, p. 189

¹⁹⁹ DeAngelo, 1981a, p. 113

²⁰⁰ Ballwieser, 2001, p. 106

²⁰¹ Marten, 1999, p. 51

²⁰² DeAngelo, 1981b, p. 184

²⁰³ Bigus; Zimmermann, 2009, pp. 1283

²⁰⁴ Jany, 2011, p. 203

examines the question, if distinct national liability regulations influence possible differences in quality between big and small (specialized) auditing companies. To be able to show empirically the connection between liability regulations and audit quality, the data of 214.270 company observations from 1999 to 2008 in 34 countries underwent a regression analysis of a number of variants.²⁰⁵ With the aid of this analysis it was shown, that the existing - and in some countries varying liability regulations - have an influence on differences in quality between big and small (resp. specialized vs. non-specialized) auditing companies. This connection was documented by Jany in several sensitivity tests. He states the limitation of his research by the fact that the countries examined have been classified statistically according to their liability regulations and that changes of risk in these countries could not be excluded.²⁰⁶ The claim of model-theoretical approaches²⁰⁷, that big and specialized auditing companies “offer per se a better audit quality“,²⁰⁸ could not be proved by the empirical research of Jany. One needs to consider critically, that Jany has carried out the measurement of the audit quality by the extent of the balance policy. The chosen balance policy of a company might chance the financial, capital and profit situation and consequently not always grant an objective view of the situation. For measuring the effects of the balance policy, several models have been developed in recent years – the most important of those are presented and appreciated critically in Jany’s paper.²⁰⁹ Usually models for measuring the extent of the balance policy are used that divide the period boundaries used, viz. in those from normal business activity (non-discretionary period boundary) and those that are used in the course of balance political arrangements (discretionary period boundary). Models for calculating the discretionary period boundary count as acceptable, if they manage to divide discretionary and non-discretionary as exactly as possible. If the distinction is made inaccurately, the extent of the balance policy will be assessed incorrectly; either over- or underrated. The models for measuring the balance policy are therefore strongly criticized for the following reasons:²¹⁰

- The non-discretionary period boundaries are only calculated on the basis of the preceding year or average values. (This applies for models that have been developed prior to the Jones-Model.)
- Special effects are not considered in the two-years under consideration.

²⁰⁵ Jany, 2011, p. 204

²⁰⁶ Jany, 2011, p. 205

²⁰⁷ DeAngelo, 1981b, p. 185

²⁰⁸ Jany, 2011, p. 205

²⁰⁹ Jany, 2011, pp. 47

²¹⁰ Jany, 2011, pp. 59

- Averaging is taking place. (Healy-Model)
- Unrealistic assumptions are being made. (Jones-Model)

The aforementioned weaknesses of the individual models may lead to falsifications of the results. Jany alludes restrictively to these in the critical analyses of his results.²¹¹

Furthermore, it needs to be noted critically, that there is a multitude of other factors that influence the quality of an audit (e.g. independency, qualification and further education of the auditor and his employees). In relation to the liability risk, it is likewise not comprehensible that the higher the liability risk is, the bigger the difference in the audit quality between bigger and smaller auditing companies becomes. Especially small auditing companies, or the single auditor, that are personally liable, will – because of this - put great emphasis on high-quality audits. Besides, for them, a case of liability would be connected with the loss of their personal reputation, which likewise contributes to the fact that especially small auditing companies perform with the best possible audit quality.

²¹¹ Jany, 2011, p. 205

2. AUDITING AND EXTERNAL QUALITY CONTROL IN AUDITING COMPANIES

Auditing companies belong to so-called professional service firms as well as law firms, tax consulting companies or consulting companies.²¹² Professional service firms differ significantly from other firms, even from service companies.²¹³ The first point to mention is that professional service firms provide highly knowledge-intensive services primarily for business customers and public institutions.²¹⁴ The selection of a suitable service provider is often difficult for the client because of the intangibility (see chapter 1.2.) and complexity of the performances. The market success of a professional service firm is therefore essentially determined by their reputation and the trust of the (potential) clients in the performances of the company and its employees.²¹⁵ The employees, who are also called professionals, represent the most important asset and resource in a professional service firm as they are the carrier of knowledge.

Despite the presented similarities within each of these sectors in which the professional service firms are operating, there are however considerable differences due to the respective various industries such as management consultancy, legal services, engineering services or auditing. Thus the auditing sector stands out against the other industries through a whole range of characteristics. First of all, audits are subject to significantly stronger regulations²¹⁶ and auditors execute a public function when they testify financial statements.²¹⁷ The profession of auditors accounts for the independent profession.²¹⁸ Furthermore the activities of auditors is subjected to the disciplinary oversight by the Chamber of Public Accountants (WPK) and the Auditor Oversight Commission (AOC).²¹⁹ In the daily practice of an auditor he has to comply with the rules set out in the Auditors' Code and the professional code of ethics.²²⁰ According to Kampe and Haßlinger the profession of auditors is determined by the maximal possible degree of concentration of all professional service industries.²²¹ The European Union already speaks about a relevance to the system when it comes to the ranking

²¹² Ringlstetter, Bürger, Kaiser, 2004, pp. 11

²¹³ Gillmann, 2002, p. 2

²¹⁴ Alvesson, 1995, pp. 269

²¹⁵ Ringlstetter, Bürger, Kaiser, 2004, pp. 13

²¹⁶ See chapter 2.4.

²¹⁷ Schulze-Osterloh, 1976, pp. 411; Peemöller, 2004, pp. 55, see chapter 2.1.

²¹⁸ § 1 Abs. 2 WPO „Auditor practice a [so-called] liberal profession. The practice is non-commercial”.

²¹⁹ See chapter 2.1

²²⁰ §§ 43 – 56 WPO regulate the professional standards of auditors, see chapter 2.1.

²²¹ Kampe, 2011, p. 5, Haßlinger, 2011a, pp. 25

of the big four accounting companies (PricewaterhouseCoopers, KPMG, Ernst & Young and Deloitte) as they dominate the German and international market and are associated as “too big to fail”.²²² Additionally it should also be noted that the profession of auditors is currently influenced by strong international harmonization trends.²²³ Numerous statutory provisions are under the influence of international developments which usually have a strongly regulated character and have led to a radical transformation of professional work. A few headwords that should be mentioned here are the internationalization of clients, international accounting and auditing standards and crisis of confidence in public.²²⁴ These aforementioned characteristics or features distinguish the industry of auditors and auditing from other professional service industries.²²⁵

Auditing services belong to the category of services (cf. Chapter 1.2.).²²⁶ Auditing companies are typical service companies, which services are not solely the audits as described above (evaluation of annual audits, IT-audits, special audits etc.), but also tax consulting, expert reports, trust activities, business appraisal and consulting and many more.²²⁷ The increasing competition in the traditional audit market forces especially the small and medium-sized auditing companies to think about measures and offers, which put them in a higher position than other competitors. These strategies, however, require an effective quality control system.²²⁸ Also, before the backdrop of an increasing globalization and the requirements connected to this, the profession is bound nationally and internationally to the commitment of quality control.²²⁹ The fact of an increasing complexity of annual audits due to the change in size, structure and internationalization of companies, makes it obviously more and more difficult for auditors to reach a proper judgment of the annual audit. This requires – also because of the aforementioned functions of the auditor and final audit (public interest) – the development of procedures for guaranteeing audit quality and for assuring quality in auditing companies.²³⁰ These „quality control-procedures“, which were developed for the sector of audits, comprise all “principles, recommendations, standards and measures, which are to ensure the compliance with the norms of final audits and the reporting of accounting and final

²²² European Commission, 2010 , p. 4

²²³ Haßlinger, 2011a, p. 28

²²⁴ Kampe, 2011, p. 6

²²⁵ Kampe, 2011, p. 6

²²⁶ Helm; Mark; Fischer, 2003, p. 1301

²²⁷ Lück, 2000, p. 1

²²⁸ Krawitz, Leukel, 1998, p. 1930

²²⁹ Niehues, 1998, p. 5

²³⁰ Niehues, 1998, p. 6

audits, and additionally to ameliorate the existing principles for quality of audits and reporting“.²³¹ This definition aims essentially to the norm-conformity of the final audit but does neither respect the aims nor the different dimensions of final audits.²³² What’s more, as aforementioned, the function sphere of the auditor contains significantly more tasks than the simple final audit. It thus is of vital importance, to regard quality control as the securing of quality in **all services** of an audit company.

2.1. The auditor and the role of the auditor

The auditing and especially the profession of the auditor have been put in the spotlight in the last years. Considering the dynamic market development and the change of environmental conditions but also the changes of professional demands and requirements, there is a necessity existing for auditing companies, which requires them to set up a broad quality control system.²³³ Auditors have suffered a loss of confidence through diverse accounting scandals. All these scandals happened even though the trust in the auditor is the basis of the institution of final audits.²³⁴ It is of crucial importance to restore this confidence, as external legislation is accessible for the public and the public in return relies on its correctness.²³⁵ The annual final audit is the main result of accounting and the investors of the capital market rely on the final audits made by auditors. Auditing basically means the external evaluation of companies, especially the final annual audits. This may include voluntary or legally prescribed annual audits. The term final audit describes “the evaluation of the financial information set up by a company voluntarily or due to legal prescription over a back-dated period“.²³⁶ According to the two functions fulfilled by the annual audit, namely the informative function and the calculative function²³⁷, the financial information is to inform different circles of addressees about the entrepreneur’s financial and profit situation. These addressees may stem at that from both company internal and company external circles. The management and employees are main examples for those belonging to the company internal addressees. Owners (both actual and potential equity investors), creditors (debt suppliers), business partners (suppliers),

²³¹ Niehues, 1998, p. 656

²³² Schmidt, 2000a, p. 15

²³³ Lück, 2000, p. 1

²³⁴ Moxter, 1981, pp. 579

²³⁵ Lück, 1999, p. 1

²³⁶ Schmidt, 2000a, p. 9

²³⁷ Wagenhofer; Ewert, 2007, p. 4

clients, tax offices and the interested public are ranked amongst the company external addressees.²³⁸ Respective to their different decision situations, the addressees will all have different information needs. Examples are: the management needing information about the company situation and possible development for a profit-oriented remuneration; equity investors needing information about the dividend payments and future profit situation and creditors needing information about the credit worthiness, default risk and the company's ability to pay back credits. Employees in turn are interested in the safeness of wage and salary payments and their workplace, the financial administration and the amount of deferred tax assets. The public is interested in information about the regional and/or economic importance of the company.²³⁹

The annual audit as the management's information tool of the management makes these information available, even though the presentation of the company is oriented towards the past. Next to the annual audit, which is composed of balance, gains and losses calculation and attachment (§ 264 HGB), in Germany, a situation report or a management report is made for further information (which includes historical data, data about possible development). This situation report is to offer a true and fair view of the company independent of the annual audit.²⁴⁰ At that, the situation report complements the final annual audit.²⁴¹ In its function as an information instrument, the annual audit set up by the management of the company delivers important information for the aforementioned addressees. However, it can be influenced by different assessment or valuation options and areas of judgment, which are intended by the accounting standards. A balancing decision can be dominated by the self-interest of the management in such a way, that it negatively affects the reliability or relevance of information, if the manager makes self-interest maximizing decisions, which do not correspond with the interests of the other stakeholders.²⁴² Due to the differing interests and the information deficit of the other stakeholders towards the management, those in turn may have reasonable doubts towards the credibility of the information, as they are not possible to judge from their position, whether or not the present annual audit was made free from electoral rights or discretionary powers und thus is standard-compliant or not.²⁴³ The voluntary or

²³⁸ Wöhe, Döring, 2010, pp. 712

²³⁹ Wöhe; Döring, 2010, pp. 712

²⁴⁰ Ellrott, 2006, p. 1318

²⁴¹ Ellrott, 2006, p. 1318, Ballwieser, 2005, p. 3

²⁴² Ellrott, 2006, p. 1318, Ballwieser, 2005, p. 3

²⁴³ Weber, 2011, p. 7

legally prescribed annual audit through the auditor serves the purpose of being able to verify the reliability of the presented numbers and facts.

The term “auditor” at that means natural and juridical persons, who are licensed to carry out legal annual audits.²⁴⁴ To be allowed to work as a professional auditor, there are broad admission requirements in all countries. The type of authorization differs distinctly internationally. In the USA, Germany and Austria, State Boards of Accountancy are responsible for the authorization. They require a personality beyond reproach, various financial conditions according to §10 WPO, completion of studies and practical working experience in the auditing profession as well as passing a general exam. Subsequently the public appointment and swearing in before the Chamber of Public Accountants follows. The practice of an occupation in a professional society is widely regulated. The Auditors Regulations determine in which legal form the profession is allowed to be practiced. The basis for the practice of an auditor in an auditing company is the approval through the supreme authorities (§§1,30 WPO). The practice of a profession is governed by broad legal restrictions that are stated in the Auditors Regulations and the Commercial Code. Independent, diligent, discreet and independent professionalism is part of the general professional duties (§43 WPO). The auditor has to work in an unbiased manner especially when providing audit reports and expert reports (§43 Abs. 1 WPO). Even beyond his profession, the auditor needs to prove himself worthy of the trust and respect that the profession requires (§43 WPO). In addition broad duties for the implementation of final audits arise from the §§318 HGB as well as from the institutional professional supervision. The institutional professional supervision consists of the sectors²⁴⁵ of supervision, which is established by the Chamber of Public Accountants in Berlin, the system of auditor supervision, which also includes the external quality control by which the internal quality control system is controlled to show whether or not it fulfills the legal mandates²⁴⁶, as well as of the supervision by the law (so-called enforcement laws). One needs to differentiate the system of auditor supervision and supervision by laws, as they focus on the accounts. If any indications of neglect of professional duties are revealed by this, they are to be reported to the auditor`s supervisors for further investigation.²⁴⁷ Even now, broad legal measures are being discussed as to how the European market for final audits and thereby the quality can be improved. As a reaction to the

²⁴⁴ Schmidt, 2000a, p. 10

²⁴⁵ Paulitscheck, 2009, p. 238

²⁴⁶ Jehle, 2007, p. 20

²⁴⁷ Hildebrandt, 2010, p. 2

financial crisis, the EU Commission has presented an EU-green paper for final audits (“Further action in the sector of final audits: Teachings from the crisis”²⁴⁸) on the 13th of October 2010, which discusses various reform proposals for the profession. At the center of the current discussion is the role of the auditor in public and his independence, strengthening measures like the external mandatory rotation, the separation of auditing and consulting and joint audits are considered.²⁴⁹ Auditors’ practice, like doctors or lawyers, is also called liberal profession. The special character of a liberal profession is based on the professional understanding, the practice of the profession and the view of the profession as a public service.²⁵⁰ Liberal professions all have to comply with certain regulations for their respective practices, which are based on the professional ethical rules. For auditors in Germany these are the German Auditors Regulations (WPO) and the regulations and standards specified by the vocational statutes and statements of the institute. The vocational duties presented in the following profoundly influence the presentation of the auditor in public:

- independence, impartiality, and the avoidance of conflicts of interest
- conscientiousness
- discretion
- personal responsibility
- professional dignity

Independence – the most important characteristic of the professionalism of auditors – is established by the legal and professional duties as well as by the Code of Ethics. Because of its great importance in the developed quality model, independence will be presented as an separate component below. The principle of **conscientiousness**, regulated by §43 sect. 1 sentence 1 WPO, is substantiated in § 4 of the Professional Code for Auditors. Conscientious professionalism requires that the auditor complies with legal regulations and technical rules when carrying out his duties. Therefore, employees are placed under the obligation to comply with the regulations of the quality control system of the company, as well as to document this accordingly.²⁵¹ Additionally, professional training, regulated by §4a BS WP/vBP, forms the basis for a conscientious professionalism. When agreeing on the remuneration for audits and reports, it needs to be considered, that the remuneration can guarantee the quality of the

²⁴⁸ European Commission, 2010, p. 13

²⁴⁹ Waldthausen, von, 2011, pp. 119

²⁵⁰ Buhleier, Helmschrott, 1998, p. 22

²⁵¹ Wirtschaftsprüferkammer, 2010, BS WP/vBP, § 4, p. 5

professional work.²⁵² In accordance with §43 sect. 1 sentence 1 WPO, the auditor is obligated to exercise **discretion**. According to the regulations of the professional code (§§9,10), auditors are not allowed an unauthorized disclosure or usage for their own purposes of facts and circumstances they are entrusted to them or that they come to know while exercising their profession. This obligation to discretion also applies to final audits. The obligation to secrecy is without time limitation (§9 Abs. 3 Professional Code) and also holds true for the company's employees. **Personal responsibility**, regulated in §44 WPO, §11 Professional Code, means that the auditor exercises his tasks entirely under his own responsibility and free of instructions. He forms his own opinion and makes his own decisions. He must not accept orders, if he cannot carry out his work with professional responsibility. The compliance with the regulations of personal responsibility serves to secure the quality of the order being done. Moreover, it is meant to contribute to the auditor reaching an independent judgment.²⁵³ **Professional dignity** includes, that the auditor abstains from any work that is incompatible with his vocation or the reputation of the vocation, regulated in §43 sect. 2 WPO. He has to be aware of his special vocational duties resulting from the fact, that he performs legally mandated final audits and that the public and his clients trust his judgment.²⁵⁴ "He therefore has to prove himself worthy of the trust and dignity his profession requires, also beyond his professionalism"²⁵⁵. Concretely, it goes without saying that the auditor is not allowed to agree on success fees, to make or accept the payment of a commission (§55 WPO), and donations. The same applies to all employees of the auditor. Besides the compliance with all legal and professional requirements, an auditor additionally needs to pay attention to the guidelines of the Code of Ethics.²⁵⁶ Those comprise very extensively all prerequisites the auditor needs to consider and fulfill in his office while undertaking the different audits. The **professional requirements**, which are predefined in the professional by-laws of the respective countries, contain e.g. the obligation of an objective and diligent professionalism, the obligation of personal ongoing training as well as those of employees and the obligation to confidentiality, to name but a few.²⁵⁷ The **legal requirements** concern the attention to the various independence and exclusion criteria, confidentiality, diligence, independence as well as the obligation of providing an unbiased report and audit certificates, to name but a few here as

²⁵² § 55 Abs. 1 Satz 4 WPO, § 27 Abs. 1 BS WP/vBP

²⁵³ Institut der Wirtschaftsprüfer, 2011, p. 31

²⁵⁴ Leffson, 1988, p. 90

²⁵⁵ Institut der Wirtschaftsprüfer, 2011, p. 33

²⁵⁶ International Federation of Accountants, 2012

²⁵⁷ Wirtschaftsprüferkammer, 2010

well.²⁵⁸ The **Code of Ethics** for Professional Accountants applies to all professionals that are members of a member-organization of the International Federation of Accountants (IFAC) and contains the behavioral-standards for auditors applicable worldwide. The purpose of the Code of Ethics, which is published by the IFAC in an up to date version in July 2012, is to “serve the public interest by: contributing to the development, adoption, and implementation of high-quality international standards and guidance; contributing to the development of strong professional accounting firms.”²⁵⁹ They also contain professional obligations such as integrity, objectivity, functional responsibility and diligence, confidentiality and independence, to name the most important.²⁶⁰ The Code of Ethics describes in its introduction first, that a professional accountant’s responsibility is more than to satisfy the needs of his clients because he acts in the public interest,²⁶¹ and therefore has to comply with the Code of Ethics. It is divided into three parts. Part A initially describes the general use of the codex, Part B contains regulations for those belonging to the auditing professions and Part C contains regulations for those belonging to the accounting profession. In the following only Part A will be mentioned shortly. This part also defines the general professional duties for auditors and wants to present a framework that professionals have to use in order to:

- “identify threats to compliance with the fundamental principles;
- evaluate the significance of the threats identified; and
- apply safeguards, when necessary, to eliminate the treats or reduce them to an acceptable level.”²⁶²

The professional standards established by the Code of Ethics, which any professional has to adhere to, correspond partly to the standards mentioned above and consist of integrity, objectivity, expertise and diligence, discretion and professional dignity.

The tasks of the Auditor

The main task of the auditor is to check the annual audit as well as the company’s situation report to whether or not it complies with the standards of proper accounting and thus to check if a reliability of numbers and facts is given.²⁶³ The audit of the situation report is to ensure, that it does not contain wrong data on the company’s situation. The concluding audit

²⁵⁸ In Germany: § 43f WPO, § 319 HGB

²⁵⁹ International Federation of Accountants, 2012

²⁶⁰ International Federation of Accountants, 2012, p.3

²⁶¹ International Federation of Accountants, 2012, p. 13

²⁶² International Federation of Accountants, 2012, p. 13

²⁶³ Hücke, 2003, p. 121

certificate sums up the auditor's judgment and signals the credibility and reliability of the data given in the annual audit.²⁶⁴ Final audits are economic examinations with the goal of making a trustworthy judgment about a given economical fact.²⁶⁵ The final audit is to enable the auditor to make a trustworthy judgment about the question as to the account has been made in compliance with all main aspects of accounting.²⁶⁶ The trustworthiness and at that the credibility of the information received in the final audit is to be increased through the final audit.²⁶⁷ The public, creditors, shareholders and other interested parties expect that they can rely on the auditors as guarantors of integrity and the credibility of final audits.²⁶⁸ Thus, in Germany the annual audit also contains the accounting of the year next to the annual account. At that one can describe it as an examination of the complete accounting.²⁶⁹ The final audit fulfills three functions: the control-, the information- and the accreditation-function.²⁷⁰ The **control function**, which included the correction- and the prevention-function, is considered as the main task for the auditor. As the annual final audit of a company fulfills an information-function, the published information not only need to be relevant for decision making but must also be reliable. Relevance to decision is given, when the information influences a recipient in his decision making.²⁷¹ With the conflict of owner-run companies, so called „principal-agent-conflicts“ can arise between the owners or investors (principals) and the management working with the provided capital (agents), which result in different interests of both parties²⁷² and an unequal spread of information in favor of the management.²⁷³ Conflicts arise, for example, when the agent is more informed than the principal, when he can choose the suitable courses of action by himself, which results in a loss for the principal, in case the agent act out of his own interest.²⁷⁴ To reduce these conflicts, an agency is needed that control the compliance with the law and guarantees the reliability of the annual final audit.²⁷⁵ This task is fulfilled by the inspection of the annual final audit and the auditor's certificate which follows. In this way, the auditor takes on a **protective function** in favor of the recipients of final audits, especially

²⁶⁴ Weber, 2011, p. 7

²⁶⁵ Leffson, 1988, p. 13

²⁶⁶ Institute of Chartered Accountants in England & Wales, 2006, p. 56

²⁶⁷ Schmidt, 2000a, p. 11

²⁶⁸ Langenbucher, 1997, pp. 63

²⁶⁹ Wysocki, v., 1988, p. 13

²⁷⁰ Orth, 2000, p. 17

²⁷¹ Jany, 2011, p. 10

²⁷² Fischer, 1995, p. 320

²⁷³ Lück, 1999, p. 1

²⁷⁴ Leuchtmann, 2006, p. 33

²⁷⁵ Jany, 2011, p. 10

investors.²⁷⁶ The control function is directly based on the principal-agent-conflict between investors and management and the possibilities of influence of management on the accounting.²⁷⁷ The control-function is to ensure, that the annual final audit and the situation report meet legal prescriptions. The **correction function** includes revealing mistakes in the accounting; the **preventive function** is to lead the company to avoid mistakes from the very beginning of setting up their final audits in the future.²⁷⁸ A further task of the annual final audit is to inform the supervisory board or the legal representatives and people outside the company about the results of the audit (**information function**). A precondition for this is the responsible reporting of the final auditor as well as compliance with legal and professional disclosures. The audit report and the oral reporting to the general assembly or the supervisory board are the respective instruments of information.²⁷⁹ The audit certificate of the annual auditor summarizes the results of the final audit and furthermore contains an assessment of the accuracy of the accounting towards company externals (**accreditation function**).²⁸⁰ With this assessment as part of the accreditation-function, the auditor takes on a role as an „information mediator“ between the company and external third parties, for which the audit certificate often is the only source information offer of the result of the final audit.²⁸¹

In summary it can be said that the auditor covers several functions: he fulfills a task assigned by the legislator, which is not only of interest for the audited company but also for the whole economy,²⁸² he thus serves the addressee's protection (protective function). With the audit report written by him, he fulfills the information function; the control function is fulfilled by each audit that has got a monitoring function. With the submission of the audit certificate, the auditor bears liability for the correctness of his certificate (accreditation function) and he fulfills the warning function, when “he raises his warning voice” in order to hint at problems in a company.²⁸³

²⁷⁶ Wiemann, 2011, p. 39

²⁷⁷ Buchner, 1996, p. 5

²⁷⁸ Quick, 1996, p. 2

²⁷⁹ Wiemann, 2011, p. 39

²⁸⁰ Schmidt, 2000a, p. 11

²⁸¹ Orth, 2000, pp. 19

²⁸² Verheugen, 2012, p. 3

²⁸³ Kitschler 2005, p. 9

2.2. Professionals as Human Capital

The peculiarities of professional service firms compared to other companies are presented in detail in chapter 2. An important aspect is that the tasks involved in professional service firms are based on knowledge. In particular the technical knowledge and customer knowledge are considered as mission-critical kinds of knowledge for professional service firms.²⁸⁴ However, this knowledge is always associated with the company's employees so that the employees of an auditing company has a special meaning and is also known as human capital. According to Fischer, human capital is understood as the whole knowledge, experience and ability of the employees.²⁸⁵ They own „capabilities, skills and expertise“. ²⁸⁶ Therefore human capital incorporates not only the knowledge itself but also the keeper of it. In accordance to Bürger, in this work all employees are called professionals when they are directly involved in the provision of the service. ²⁸⁷ Consequently not only the auditors themselves are referred to as professionals but also qualified audit assistants and employees of an auditing company.

Although comprehensive technology-based practices are used in the provision of an auditing service, the focus of service delivery is, however, still in the hands and minds of the professionals.²⁸⁸ Established expertise, individual experience, specialized knowledge about the clients' requirements and characteristics as well as the ability to recognize complex structures and processes are components of the business activities which are necessary for the provision of auditing services.²⁸⁹ In addition to these subject-specific skills, the contact with clients is of particular importance since the actual quality is overlaid by the subjective perception of the clients.²⁹⁰ This perception is influenced by the respective individual contact between professionals and clients. The human capital therefore has a significant impact on how the company is perceived by the market and the clients.²⁹¹ The promotion and development of professionals, both professionally as well as in the field of personal development, must be in the focus of any auditing company. Additionally the owner or the leadership of any auditing company has to fulfill higher demands than the management of

²⁸⁴ Kampe, 2011, p. 73

²⁸⁵ Fischer, 2005, p. 876

²⁸⁶ Dzinkowski, 2000, p. 34

²⁸⁷ Bürger, 2005, p. 79

²⁸⁸ Bürger, 2005, p. 81

²⁸⁹ Kampe, 2011, p. 86

²⁹⁰ Bürger, 2004, p. 142

²⁹¹ Kampe, 2011, p. 86

other companies as auditing professionals need to comply with extensive specifications.²⁹² Thus, an auditing company is characterized through a greater dependency on their employees.²⁹³ Employees of auditing companies are not only requested to act in a professional worthy manner (discreet and integer) but their job also requires the constant willingness to educate and train themselves. Furthermore they need to obtain certain soft skills in order to positively influence the contact with clients. The company's management needs to keep track of the professional development of their employees and at the same time they have to address the specific needs of their professionals. These needs can differ and it is the task of management to constantly motivate and commit the employees to the company.

2.3. Internal and External Quality Control System

The system of quality control can generally be divided into the internal quality control and the external quality control, both will be presented in the following chapter. The feature which distinguishes between those two is by whom the quality control is performed. The internal quality control is carried out by the professionals of an auditing company through report critique and internal review, whereas the external quality control is always carried out by an appropriate and certified auditor for quality control.

The internal quality control system is understood as all principles and measures, which are implemented in an auditing company in order to increase quality.²⁹⁴ The overall target of a quality control system is to ensure the correct handling of orders, in compliance with the specific professional requirements of auditors. The establishment of an internal quality control system is the responsibility of the company owner.²⁹⁵ Compared to quality control systems, quality management is a management method of an organization, which situates quality as a core element and includes the participation of all its members. Quality Management aims for long-term success by satisfying customers and being advantageous to the members of an organization.²⁹⁶

²⁹² Kampe, 2011, p. 86

²⁹³ Fischer, 2005, p. 878

²⁹⁴ Schmidt, 2000 a, p. 97

²⁹⁵ Institut der Wirtschaftsprüfer, 2011, p. 3

²⁹⁶ Bruhn, 2008, pp. 69

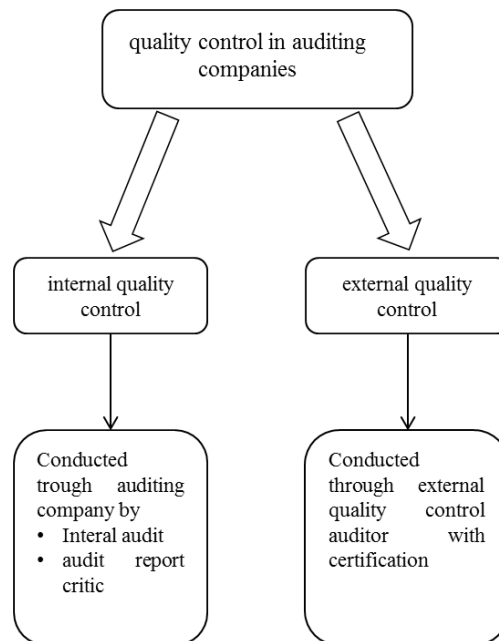


Figure 6: Structure of quality control in auditing companies, conducted by author according to the Chamber of Auditors, 2006

The implementation of a quality control system is provided by law for all auditing companies (in Germany, §55 WPO); the realization of regulations for assuring quality however depends individually on the type and size, the present and future sphere of activity and the risk-structure of the respective company.²⁹⁷ Which regulations will be implemented in particular, is oriented towards the needs of the respective company. The responsibility of the implementation of such a system rests with the company manager. He in turn has got the possibility of assigning single tasks to suitably qualified employees. The preconditions for a proper quality control system are seen in the adequacy and the effectiveness of the implemented regulations.²⁹⁸ Regulations count as adequate, when they “ensure with sufficient certainty,

- that offenses against professional duties are prevented or at least detected promptly and,
- that risks of offenses against professional duties are detected, analyzed and reported to the company management“.²⁹⁹

The quality control system is effective if the company management sees to it that the set regulations, which are familiar to all employees of the company and are used in the daily practical work. Hence, it is necessary, that the quality control system of the company is

²⁹⁷ Niemann, 2005, p. 1581

²⁹⁸ Niemann, 2005, p. 1582

²⁹⁹ Institut der Wirtschaftsprüfer, 2006, Tz 9, 10

documented in written form in the organization or quality control manual.³⁰⁰ The regulation areas of the internal quality control system are set in the statutes for auditors and in the VO 1/2006³⁰¹. According to this, the following components are to be considered when setting up, implementation and supervising a quality control system:

- „quality field,
- detection and assessment of quality-threatening risks,
- regulations for assuring quality,
- communication and documentation of these regulations and
- supervision of the adequacy and effectiveness of these regulations.“³⁰²

The regulations for quality control include three columns, namely the regulations for the general company organization, the regulations for the job handling and the regulations for the review. At that the regulations for the company organization encompass all spheres of the auditor's activities; in contrast to this the regulations of the job handling only count for business audits at which the auditor carries the professional seal.³⁰³ The regulations for the general company organization encompass the sectors of the compliance with general professional standards, order acceptance and continuation, employee development, planning, professional infrastructure (factual information, consulting processes) as well as the handling of complaints and accusations.³⁰⁴ The regulations for the job handling regard to organization of the job handling, the compliance with legal prescriptions for the job handling, the instruction and supervision of the audit team and the audit, audit critique and the conclusion of the order documentation and filing of audit working papers. The adequacy and effectiveness of the internal quality control system is to be supervision company-internal in a suitable way.³⁰⁵ This takes place in the course of regular review, which counts as a main element in the quality control for auditing companies.³⁰⁶ The tasks of the review comprise the company organization as well as the processing of single orders and at that the judgment and

³⁰⁰ Heininger, Bertram, 2003, p. 1053

³⁰¹ The VO 1/2006 correspond with the International Standard on Quality Control 1 „Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements“ (ISQC 1) and the International Standard on Auditing 220 „Quality Control for Audits of Historical Financial Information“ (ISA 220)

³⁰² Institut der Wirtschaftsprüfer, 2006, Tz 14; Niemann, 2005, p. 1582

³⁰³ Pfitzer, 2006, p. 190

³⁰⁴ Schmidt, 2006b, p. 269

³⁰⁵ Schmidt, 2006b, p. 271

³⁰⁶ Schmidt, Pfitzer, Lindgens, 2005, p. 342

development of a quality control system in its whole.³⁰⁷ The internal quality control system outlined above is the subject matter of the external quality control described in the following chapter.

The origin of external quality control in Germany can be described as follows: Germany examined in the study “Requirements for Quality Assurance in Auditing”³⁰⁸ that many national legal and professional provisions governing the auditing profession were in place, containing professional standards and supervisory structures. The European Commission, in its 1996 Green Paper titled „Role, position and liability of the statutory auditor in the European Union“, already assumed, that the implementation of external quality control systems would be necessary on the level of the member states.³⁰⁹ In a further communication from May 1998, "The Statutory Audit in the European Union, the way forward", the approximation of national quality control systems was given a high priority. The EU Commission recommendation of November 15, 2000 on “Quality control for the statutory audit in the European Union: minimum requirements” had the aim of integrating all persons carrying out statutory audits according to EU guidelines in one assured quality system.³¹⁰ The introduction of the Eighth Directive (2006/43/EC) sought to implement a system of externally assured quality across Europe and to harmonize the existing provisions. The system of quality control can generally be divided into:

- internal quality control and
- external quality control

The feature which distinguishes between those two is by whom the quality control is performed. The internal quality control is carried out by the professionals of an auditing company through report critique and internal review, whereas the external quality control is always carried out by an appropriate and certified auditor for quality control.³¹¹ Therefore, in examining the effects of external quality control on small and medium-sized auditing companies, it is necessary to describe the implementation of the legal provisions for the various systems of external quality control as well as the systems themselves and the development of the auditors market in Germany. This chapter presents these systems and sets out with a definition of small- and medium-sized auditing companies.

³⁰⁷ Schmidt, Pfitzer, Lindgens, 2005, p. 342

³⁰⁸ Schmidt, Pfitzer, Lindgens, 2005, p. 321

³⁰⁹ European Commission, (1996), p. 1

³¹⁰ Clauß, 2008, p. 633

³¹¹ Sahner, Schulte-Groß, Clauß, 2001, pp. 6

Micro-, Small and Medium-Sized Auditing Companies

This work focuses exclusively on the specifics of micro-, small and medium-sized auditing companies. Therefore, it is important for the analysis and the interpretation of the research results to define what is meant by micro-, small and medium-sized auditing companies. The term is defined as auditors, who are independent and work in their own practice or their own company.³¹² The auditor's profession is characterized by the fact, that it is not a commercial activity, but a self-employed profession. The auditor is of great public importance and performs a public function. The purpose of the auditor's profession has implications for the structure of the auditing companies. Micro-sized auditing companies are referred to as one auditor and up to 5 employees.³¹³ The majority of auditing companies can be described as medium-sized. However, there is no legal or generally accepted definition for medium-sized auditing companies. Small and medium-sized companies – often abbreviated as SMEs (Small and Medium-Sized Enterprises) – are often referred to as medium-sized, but both terms are defined differently in the literature. Compared to large companies, however, there are qualitative as well as quantitative distinguishing criteria. Essentially, two different definitions for medium-sized companies can be found in the scientific literature. One definition was published by the Institute for Research on Medium-Sized Businesses (Institut der Mittelstandsforschung) in Bonn, Germany, the other by the European Commission. The two definitions differ on the following points: The Institute for Research on Medium-Sized Businesses (IfM) includes all independent businesses, craftsmen's establishments and commercial enterprises in its definition of medium-sized enterprises. According to this definition, a medium-sized enterprise has fewer than 500 employees and does not exceed an annual turnover of 50 Million Euros.³¹⁴ The European Union, on the other hand, relies on the following four criteria:

- Companies with fewer than 250 employees
- Annual turnover of 50 Million Euros or less
- Balance sheet total of 43 Million or less
- Maximum autonomy/independence.

The criterion of independence adds a qualitative, distinguishing feature to the quantitative ones, and is given special emphasis by the EU as being the most important. According to this definition, independence is given, if another company does not have a stake of more than 25%

³¹² Haßlinger, 2011a, p. 6; Brase, 1997, p. 80

³¹³ see § 4 Abs. 1 WPO

³¹⁴ Bundesministerium für Wirtschaft und Technologie, 2007, p. 9

of the capital or voting rights in the company.³¹⁵ Independence is further characterized by the fact that there is a close connection between the proprietor and the managing director. The proprietor, meaning the owner of the business, bears the risk and the full responsibility³¹⁶, and generally will run the business. For this reason, medium-sized companies are often referred to as “owner-managed companies”. Almost 95% of the owners of German companies are also the managing directors of their companies. These qualitative criteria can also be applied to auditing companies. As a general rule, the ownership and management of the auditing company will be in one hand, also due to the provisions governing the auditing profession.³¹⁷ Auditors can either practice their profession in a one-man office, a joint office or in an auditing company. The majority of auditors either work from their own office or company with one auditor (39.8%) or two auditors (47.8%), which adds up to a total of 87.6%.³¹⁸ In the following chapter, the development and the structure of the auditors market will be described in detail. For a quantitative classification of small and medium-sized auditing companies, one has to refer to the number of auditors working from their own office and companies, as the revenue is not declared according to size³¹⁹. For the purpose of this study, the term small and medium-sized auditing company is defined as an office or company with up to 10 auditors. Before presenting the system of external quality control in Germany, it is important to explain how this system is embedded in the system of professional supervision for auditors and what the responsibilities of the various organizations are. All of them – meaning the professional supervisory body, professional disciplinary tribunals and the measures of quality assurance and control – have in common, that they are intended to serve the assurance of the quality of the work and the compliance with the professional auditing standards.³²⁰

The system of external quality control forms part of the professional supervisory system with varying responsibilities, which are distributed between the Chamber of Public Accountants (Wirtschaftsprüferkammer/ WPK), the Commission for Quality Control (Kommission für Qualitätskontrolle) and the Auditor’s Oversight Commission (Abschlussprüferaufsichtskommission/ APAK). The Chamber of Public Accountants is tasked with implementing the system of quality control by the Public Accountant Act (WPO). This system is part of the professional supervisory system and is supposed to ensure, that the

³¹⁵ Verheugen, 2006, p. 11

³¹⁶ Vohl, 2004, p. 44

³¹⁷ Haßlinger, 2011a, p. 18

³¹⁸ WPK-Magazin 4/2013, p. 2

³¹⁹ Köhler; Ratzinger-Sakel, 2012, pp. 6

³²⁰ Naumann, 2012, p. 116

auditor's professional activity is under regular and preventive control. All auditors and legal representatives of auditing companies are legally required to become members of the Chamber of Public Accountants. The Chamber of Public Accountants is a corporate body under public law and serves the purpose of the administration and self-regulation of the profession as well as the representation of interests of auditors.³²¹ But the Chamber also has an advisory, instructive and supervisory function in the implementation and observance of professional duties. It issues the professional statutes, guidelines and register and, according to § 4 WPO, is responsible for professional supervision and quality control. The Chamber of Public Accountants was also responsible for issuing the statutes for quality control, which contain, among others, the requirements as well as the procedure for registering reviewer for quality control (PfQK), as well as potential grounds for exclusion, procedural issues and measures of the Commission for Quality Control.³²² The Commission for Quality Control (KfQK) is an independent body within the Chamber of Public Accountants and, according to §57e WPO, responsible for all issues concerning external quality control. Its members, which are all auditors or certified accountants, are elected by the Chamber's advisory board for three years and have to be registered as quality control reviewers.³²³ Among the most important responsibilities of the Quality Control Commission is issuing or revoking certificates of participation for quality controls which have been carried out, as well as receiving and assessing quality reports and deciding on conditions and sanctions for detected shortcomings.³²⁴ The Quality Control Commission compiles an annual activity report, which presents the results of the quality controls carried out in the respective year and analyzing the detected shortcomings.

Based on the Law for the Further Development of Professional Oversight of Statutory Auditors in the German Audit Amendment Act (Law on the Oversight of Statutory Auditors/ Abschlussprüferaufsichtsgesetz/APAG), which entered into force on January 1st, 2005, the Auditor's Oversight Commission, consisting of members who are not in the auditing profession, was created. The Auditor's Oversight Commission, which is independent and free from directives, is responsible for the public oversight of the Chamber of Public Accountants and the auditors that form its membership. The professional oversight of the Auditor's Oversight Commission extends to all tasks of the Chamber of Public Accountants and

³²¹ Gschrei, 2008, p. 14

³²² Marten; Köhler, 2003, p. 461

³²³ Marten; Köhler, 2003, p. 461

³²⁴ Marten; Köhler, 2003, p. 462

includes extensive rights of access and rights to issue directives to the Chamber.³²⁵ Through the creation of the Auditor's Oversight Commission, the oversight system of the auditing profession was expanded by the element of public oversight. The intention in creating the Auditor's Oversight Commission as an independent public oversight body was to reestablish public trust in statutory audits.³²⁶

The Process of External Quality Control

In the year 2001, the amendment to the German Auditor's Ordinance (WPOÄG) introduced external quality controls for the members of the Chamber of Public Accountants for the first time.³²⁷ Due to the transitional provisions, auditors carrying out statutory audits of publicly listed companies had to submit to a quality control at the latest by December 31st, 2002.³²⁸ All other auditors had to submit to an external quality control for the first time by December 31st, 2005, if they wished to continue carrying out statutory audits. In the following part of the chapter, the individual legal and professional provisions that the German legislators and the profession have issued since the year 2001 to assure the quality and strengthen the independence of statutory auditors will not be presented and discussed in detail. The focus will lie on describing the system of external quality control currently in force in Germany. The goal of introducing external quality control was to strengthen the trust of the public in statutory audits, to improve quality control systems in auditing companies and to facilitate an adjustment to international standards.³²⁹ Furthermore, external quality control should make the quality of audits more transparent and traceable for the public. The external quality control is carried out by a Quality Control Reviewer (PfQK). This person is a fellow professional, meaning another auditor, who is registered with the Chamber of Public Accountants as a Quality Control Reviewer and has to meet specific requirements, such as special experience in the area of quality control, professional standards as well as accounting and auditing standards.³³⁰ In addition, he has to participate regularly in special quality control training. The auditing company that is going to be controlled proposes up to three quality control reviewer of its choice to the Chamber of Public Accountants' Commission for Quality Control in advance. The Commission for Quality Control has the right to object to any of the proposed

³²⁵ Gschrei, 2008, p. 18

³²⁶ Volkmann, Hense, Dieter, 2008, p. 814

³²⁷ Poll, 2003, p. 151

³²⁸ Heininger, Bertram, 2003, p. 1051

³²⁹ Sahner; Schulte-Groß; Clauß, 2001, pp. 6

³³⁰ Poll, 2003, p. 152

quality control reviewers. Reasons for an objection can be possible bias or concerns over a lack of expertise of the quality control reviewer.³³¹ Experience has shown that it makes sense for an auditing company to choose a registered reviewer, whose own company has a similar size and structure to the company he is supposed to inspect, as he will have similar experience regarding leadership and organization.³³²

As an auditor carrying out business-based controls, according to § 2 paragraph 1 WPO, the Quality Control Reviewer is obligated to follow the general professional standards of independence, conscientiousness and discretion. These obligations apply to any auditor and result from § 43 paragraph 1, p. 1, as well as from §§ 20f. of the Professional Code for Auditors and Certified Accountants. The important professional principle of independence is explicitly stated for Quality Control Reviewers in § 57a paragraph 4 WPO. An auditor, who has any economic, financial, or personal ties to the company that is to be inspected, may not be its Quality Control Reviewer. This also applies if there are any other reasons that raise the concern of a bias.³³³ Mutual inspections and circular inspections are forbidden as well. In spite of the existing obligations of independence and the Commission for Quality Control's right of objection, this procedure, which initially was designed as entirely peer-reviewed and introduced in Germany due to its comparability to the US-American procedures of the time, has repeatedly led to criticism³³⁴, as the controlled company can select its own reviewer. Therefore, it became important, that the Quality Control Reviewer and the Commission for Quality Control were able to counter allegations of „self-inspection, adhering to the Crow-Theory“³³⁵ with absolutely reliable and professional work. The system still had some weaknesses, as it was perceived as a mere self-administrative model by the public, even if reality only reflected this image in part.³³⁶ For this reason Marten stated that, besides the extrinsic motivation (the implementation of European provisions) Germany also needed an intrinsic motive, which truly reflected its own interests, to introduce an oversight system, which is internationally recognized and competitive.³³⁷ The peer-review system stands in contrast to the so-called monitoring system, in which the external quality control is carried out

³³¹ Poll, 2003, pp. 157

³³² Poll, 2003, p. 152

³³³ Plendl; Schneiß, 2005, p. 548

³³⁴ Helm; Mark, 2002, pp. 193

³³⁵ Poll, 2003, p. 156

³³⁶ Marten, 2006, p. 1123

³³⁷ Marten, 2006, p. 1123

by public or professional oversight institutions.³³⁸ The criticism of the German system led the German legislator to further develop the system of professional oversight and on January 1st, 2005, a new oversight body was introduced with the Auditors Oversight Commission. Since the introduction of the Auditor's Oversight Commission, the German system has become a hybrid, a peer-review system with monitoring elements. So, following Marten, we can thus speak of a „monitored self-regulation“.³³⁹ The responsibilities of the Auditor's Oversight Commission and the tasks of the Commission for Quality Control can be seen as extended monitoring elements.³⁴⁰ The implementation of the internal quality control system is the responsibility of the respective auditor. In doing so, the auditor has to observe a number of legal and statute requirements, which were published by the Chamber of Public Accountants and the Auditor's Institute (Institut der Wirtschaftsprüfer/ IDW) in their joint statement “Requirements for Quality Assurance in Auditing” (VO 1/2006).³⁴¹ The object of external quality control is the internal quality control system implemented in the auditing company, focusing on limited control engagements. The review itself takes place in the inspected auditing company. The aim of the inspection is to ascertain, if the internal quality control system implemented in the auditing company is appropriate and effective.³⁴² The Quality Control Reviewer examines the organization of the auditing company as well as the execution of the individual auditing mandates. The procedural specifics of the external quality control are laid down in the Auditor's Institute's Inspection Standards PS 140.³⁴³ It is supplemented by the audit notice PH 9140 „Checklist for implementation of quality control“.

2.3.1. Process and Implementation of External Quality Control

The audit subject of the external quality control is determining the adequacy and effectiveness of the established internal quality control system in the auditing company.³⁴⁴ The implementation of an internal quality control system is the auditor's responsibility as he is the company's owner. The respective implemented internal quality control system differs in each

³³⁸ Stefani; Gabor, 2004, p. 407

³³⁹ Marten, 2006, p. 1124

³⁴⁰ Paulitschek, 2009, pp. 97

³⁴¹ Detailed in: Schmidt; Pfitzer, Lindgens, 2005 pp. 341

³⁴² Institut der Wirtschaftsprüfer, 2012, Prüfungsstandard 140, p.4

³⁴³ For details see: Institut der Wirtschaftsprüfer, 2012, Prüfungsstandard 140, p.4

³⁴⁴ Institut der Wirtschaftsprüfer, 2012, Prüfungsstandard 140, Tz. 11,12

company because of the individual sizes and the operating areas.³⁴⁵ The audit of the external quality control includes the organization of the audited company, the engagement review for official seals as well as the internal inspection. The audit of external quality control consists of a system – and a functional testing.³⁴⁶ The targeted objects are the legal and statutory requirements, especially in dependence on the VO 1/2006. The involvement of the organizational practice presents the system testing, which is verified by functional tests, in particular through the engagement review and the internal inspection.³⁴⁷

The sequence of external quality control is as follows: Order placement and acceptance, audit planning, Engagement Review, documentation and reporting.³⁴⁸ After placing the order and order acceptance, the reviewer will first get a general idea of the audited company. Therefore the reviewer conducts a conversation with the company's owner. Additionally he evaluates the company's quality manual, the sealing list, list of employees including their qualifications and responsibilities as well as the client structure.³⁴⁹ The subsequent auditing planning considers factual, personal and temporal conditions.³⁵⁰ As mentioned above, the audit includes the fields of the organizational practice, the engagement review for sealing orders and the internal inspection. The audit of the organizational practice includes five major areas, namely the compliance with the five professional requirements as well as the order acceptance- and termination, employee training and development, planning process of all orders and handling with complaints and criticism.

- During reviewing the five professional requirements (which are: independence, conscientiousness, self-responsibility, confidentiality, worthy professional behavior), the reviewer needs to verify whether the company's quality manual contains respective regulations and if these are fulfilled
- Throughout order acceptance it needs to be considered if there are existing regulations within the manual concerning the order acceptance. In detail it needs to cover the questions regarding the respective tools, are there temporal resources, technical competence, professional fees, order acknowledgement, and the audit independence during every duty.

³⁴⁵ Plendl, Schneiß, 2005, p. 548

³⁴⁶ Heining, Bertram, 2003, p. 1055

³⁴⁷ Heining, K.; Bertram, K., 2003, p. 1055

³⁴⁸ Meyer, S., 2003, p. 140

³⁴⁹ Deussen, R., 2007, p. 40

³⁵⁰ Institut der Wirtschaftsprüfer, 2012, Prüfungsstandard 140, Tz. 29

- Additionally the reviewer must have a close look on employee development and training of the professionals: Is there a training and development plan and does the auditor fulfill his training obligations.
- Planning process of all order: does the planning process comply with temporal, human and technical resources.
- In the last area the reviewer looks at the complaint- and criticism handling approaches and if employees are involved in this process.

The reviewers' objective of the external quality control is to make a statement on the adequacy and effectiveness of the company's organization. The effectiveness will be examined and evaluated by one-time audits.³⁵¹ When it comes to the engagement review, the reviewer has to examine the audit orders for which the company used their seal, according to risk factors. The reviewer needs to set the scope of orders he will examine in more detail. Therefore he has to examine an adequate amount of orders in order to determine with reasonable certainty that implemented procedures and measures work effectively with the company.³⁵² Components of the Engagement Review are:

- Regulations for engagement review
- Organization of engagement review
- Compliance with statutory and professional requirements
- Audit strategy and audit program
- Definition of materiality regulations
- Consideration of specific risk areas (e.g. basic audit, going concern)
- Collection of appropriate and sufficient revision
- Ongoing monitoring of engagement review and inspection of working papers
- Order-related quality control and review report
- Order-related quality control through process-independent persons
- Resolving disagreements
- Completion of contract documentation
- Reporting.³⁵³

³⁵¹ Deussen, 2007, p. 41

³⁵² Institut der Wirtschaftsprüfer, 2012, Prüfungsstandard 140, Tz 58

³⁵³ Institut der Wirtschaftsprüfer, 2013/2014, p. 12; Institut der Wirtschaftsprüfer 2006, Tz 91 – 155; §§ 4, 5, 6 Berufssatzung WP/vBP

Objective of the internal inspection is to give a judgment on whether this allows an effective monitoring of compliance with the procedures and measures for quality control.³⁵⁴ The internal inspection needs to be done at least every three years by the audit company itself.³⁵⁵ The audit of the internal inspection covers following areas:

- Areas of internal inspection (organizational practice and Engagement Review)
- Employee requirements working on internal inspection
- Implementation of internal inspection
- Evaluating results and outcomes
- Reporting and documentation
- Measures for correcting deficiencies in the quality control system.³⁵⁶

After he has carried out his inspection, the Quality Control Reviewer has to document it, compile a report with his opinion (without deficiencies, with deficiencies or objection) and submit this quality control report to the Commission for Quality Control. In the report, the quality control system implemented in the auditing company is described, the type and extent of the inspection activities delineated and the conclusions of the inspection listed. After receiving the inspection report, the Quality Control Commission issues a preliminary certificate of participation. However, it can revoke it or retroactively issue a withheld certificate of participation, if it reaches a different opinion after the final assessment of the inspection report.³⁵⁷

Based on the opinion of the Quality Control Reviewer, the Commission for Quality Control can impose measures on the inspected auditing company or order a special inspection. The harshest result of external quality control is not to grant the certificate of participation or to revoke it, after a positive opinion has been refused. Thus, the inspected auditing company loses the right to perform statutory audits, which equals a prohibition of exercising one's profession for this area.³⁵⁸ Auditing companies, which perform statutory audits for publicly traded companies, have to undergo external quality control every three years, for other companies a cycle of six years has been prescribed. In addition, since the introduction of the amendment of the Professional Regulatory Reform Law (Berufsaufsichtsreformgesetz/ BAREfG) or the seventh amendment of the German Auditors Ordinance (WPO), auditing

³⁵⁴ Institut der Wirtschaftsprüfer, 2006, Tz 84 -155

³⁵⁵ Institut der Wirtschaftsprüfer, 2012, Prüfungsstandard 140, Tz 72

³⁵⁶ Institut der Wirtschaftsprüfer 2006, Tz 156 – 175, ³⁵⁶ Institut der Wirtschaftsprüfer 2013, p. 12

³⁵⁷ §57e Abs. 2 Wirtschaftsprüferordnung

³⁵⁸ Le Vourc'h; Morand, 2011, p. 14

companies, which perform statutory audits for publicly traded companies, have to expect additional professional inspections, which can be carried out on a random basis and without specific cause, the so-called ad-hoc reviews.

2.3.2. Research on External Quality Control

There are numerous research activities concerning auditing quality and quality control in the American area but they do not concern the author's research question. Nevertheless there are no research activities in the European countries, which are dealing with the question which effects the external quality control has on the quality in small and medium sized auditing companies. Most of the research only refers to the big auditing companies, operating worldwide. In the following the author shortly summarizes the few outcomes of already existing American research concerning small and medium sized auditing companies: A study from 2007 conducted that auditing companies having deficiencies with filling a contract are smaller. Furthermore these companies "are growing more rapidly than firms without deficiencies", ³⁵⁹ so they are busier than others. The research also leads to the statement that they have minor and financially less-performing clients. ³⁶⁰

For smaller auditing companies it is more difficult to eliminate deficiencies of the internal quality control system in an appropriate manner. "To ensure quality audits of public companies, such firms need to carefully focus on bolstering their QC systems to promote audit quality and they may need to staff to help to handle the workload".³⁶¹ A research conducted by Gilbertson and Heron addresses the review of the first three years after the enforcement of the External Quality Control. The research exposes that smaller companies working on their full capacities and with riskier clients, have more deficiencies with filling a contract. An increase in audit quality through the review is to be expected when small companies focus on their performance and the risk of the client. ³⁶² Additionally, Daugherty and Tervo researched the different views of small auditing companies concerning the reviewing process. At the beginning of the external quality control small auditing companies report that the reviews lead at the beginning to a negative influence on numerous auditing

³⁵⁹ Hermanson, Houston, Rice, 2007, p. 140

³⁶⁰ Hermanson, Houston, Rice, 2007, p. 143

³⁶¹ Hermanson, Houston, 2008, p. 37

³⁶² Gilbertson, Heron, 2009, p. A17

practices. On the other side medium-sized or larger companies describe more favorable conditions and outcomes. Generally the first reviewer has been experienced as positive, whereas the evaluation of the reviewing process itself was more critically. Daugherty and Tervo's outcome of their study is that, "smaller firms disagree that the PCAOB inspection process increase the overall quality of audits performed and both the smaller and medium firms did not view PCAOB inspections as positively impacting their audit business".³⁶³ To conclude it is determined that there is no research in Europe which deals with the effects of external quality control on the quality of the auditors' performance.

2.4. The Auditor's Market and the Influences of External Quality Control

The auditors market has been influenced by an increasing competition as well as by tendencies of international harmonization, which led to a drastic change in the auditors' market during recent years. The indicator for this intensification of competition is the continuing process of concentration in auditing companies. During the past 20 years, this process of concentration has led to the "Big-8" becoming the "Big-5", on the basis of the „Big-Eight-Companies“³⁶⁴ still in existence in the 80s through different fusions from 1989 to 1998. Triggered by the Enron-collapse, the Arthur Andersen group was split up und merged partly with other auditing companies, so that since then there are only the "Big-4"³⁶⁵, which are continually expanding their market position, so that the EU already is alarmed a system relevance in their green book dated the 13th of October 2010.³⁶⁶ The consequences, that would arise from the disappearance of the "Big-4" are being compared to the experiences made during the last financial market crisis.³⁶⁷ It is evident from recent studies, that there also is a tightening process of concentration taking place amongst medium-sized auditing companies.³⁶⁸ One reason for further mergers is that the increasing internationalization of the clients and the increasing demands made on auditors can be met more easily by bigger unites. In the auditing market research other facts such as cost advantages (economics of scale),

³⁶³ Daugherty, Tervo, 2010, p. 217

³⁶⁴ To the "Big Eight-Companies" belonged Arthur Andersen, Arthur Young, Coopers & Lybrand, Deloitte Haskins & Selles, Ernst & Whitney, Peat Marwick Mitchell, Price Waterhouse and Touche Ross, see Büchele; Gschrei, 2011, p. 60

³⁶⁵ Koecke, 2006, p. 24

³⁶⁶ European Commission 2010

³⁶⁷ European Commission 2010

³⁶⁸ Koecke, 2006, p. 233

advantages of diversification (economics of scope) and financial disadvantages of small and medium-sized companies are seen as reasons for the process of concentration.³⁶⁹ Economics of scope means as far as audits are concerned, that the production of the auditing service becomes cheaper the more auditing services are rendered.³⁷⁰ The reason for the increase of the concentration of providers in the auditing market can be cost advantages due to the company's size.³⁷¹ These cost advantages can be proved by statistical analyses, which make a connection between productivity and the practical turnover. The intensification of competition in the auditors' market can be seen in the increasing competition for medium-sized mandates by second-tier and the „Big-4“ companies. An increasing effort of the „Big-4“ companies to obtain auditing orders of medium-sized mandates, as well as an aggressive pricing policy between small and medium-sized companies can be observed.³⁷² The demands for auditors, especially those of medium-sized companies, who usually supervise other medium-sized companies, have increased as part of advancing globalization, also in medium-sized companies, in recent years. Clients moving successfully in niches need auditors with respective special skills.³⁷³ This again causes the auditing company to build up and keep ready respective specialized advice capacities³⁷⁴, which is getting more and more difficult for small and medium-sized companies not focusing on only one sector. Other increasing demands for small and medium-sized auditing companies are the result of the capital market orientation for financing the growth which goes hand in hand with the internationalization of companies.³⁷⁵ This capital market orientation requires the compliance of certain accounting regulations plus prompt financial reporting. The development pictured above shows that it is getting more difficult, especially for small and medium-sized auditing companies to survive the increasing processes of concentration.³⁷⁶ This is true especially before the backdrop that there is a strategic deficit noticeable in these auditing companies.³⁷⁷

For a better understanding the auditors market in Germany will be explained in more detail. The market for auditors in Germany and all of Europe has changed tremendously since the year 2000. The majority of the regulations developed concern the important area of statutory

³⁶⁹ Koecke, 2006, p. 36

³⁷⁰ Hofmann, 1982, pp. 32

³⁷¹ Lück, 1999, p. 66

³⁷² Fischer, 2004, pp. 95

³⁷³ Fockenbrock, 2007, p. 15

³⁷⁴ Henze, 1999, pp. 10

³⁷⁵ Haßlinger, 2011a, pp. 26

³⁷⁶ Haßlinger, 2011a, p. 270

³⁷⁷ Haßlinger, 2011a, p. 266

audits, which, in the view of the public, are of great importance, not only since the latest crises in the financial sector. To be able to assess the current auditors market, it is indispensable to trace these developments and to analyze their impact. In doing so, special focus will be placed on the development of small and medium-sized auditing companies in contrast to the so-called Big4. They consist of Ernst & Young, PricewaterhouseCooper, Deloitte and KPMG. The different developments in these two groups are of special importance in the analysis of the auditor's market. First, it is worthwhile looking at the current situation on the auditors market: According to the figures of the German Chamber of Public Accountants, as of January 1st, 2012, 14.124 auditors and 3.476 certified accountants are registered. Of these 14.124 auditors, about 7.184 worked in their own company. There were also 2.710 auditing companies and 121 accountancy companies as of that date. Since the year 2000, the number of auditors has risen by about 4.000, while the number of auditing companies only rose by 831.³⁷⁸

These numbers lead to the conclusion that more and more auditors are organized in companies and prefer companies with more than one auditor. If one analyzes the development of auditing companies regarding the number of auditors employed in them, the following picture emerges:

Number of working auditors	Number of Auditing Companies									
	31.12.2012		31.12.2011		31.12.2010		31.12.2009		31.12.2008	
	absolut	in %	absolut	in %	absolut	in %	absolut	in %	Absolut	in %
1	1.100	39,80	1.089	40,20	1.028	39,10	1.002	39,40	992	39,70
2 to 4	1.320	47,80	1.288	47,50	1.266	48,10	1.224	48,20	1.194	47,90
5 to 10	248	9,00	241	8,90	247	9,40	229	9,00	226	9,10
11 to 20	53	1,90	51	1,90	46	1,70	46	1,80	43	1,70
21 to 30	19	0,70	19	0,70	20	0,80	17	0,70	22	0,90
31 to 40	6	0,20	6	0,20	5	0,20	4	0,20	3	0,10
41 to 50	1	0,10	2	0,10	3	0,10	4	0,20	1	0,00
51 to 100	10	0,40	8	0,30	10	0,40	8	0,30	10	0,40
101 to 400	1	0,10	2	0,10	1	0,00	3	0,10	2	0,10
more than 400	4	0,10	4	0,20	4	0,20	3	0,10	3	0,10
	2.762	100,00	2.710	100,00	2.630	100,00	2.540	100,00	2.496	100,00

Table 1: Number of Auditing Companies; time frame from 2008- 2012 (absolute, %) abstracted from WPK magazine, Communications of the Chamber of Public Accountants 4/2013, p. 2

The number of auditing companies rose by 266, from 2.496 companies in 2008 to 2.762 companies on December 31st, 2012. The percentage of small and medium-sized auditing

³⁷⁸WPK Magazin, 2013 p. 2

companies is still the highest. The table above shows, that since the year 2008, the proportion of auditing companies employing five auditors or less has hardly changed, the percentage of 87.6% stayed almost constant from 2008 to 2012. If one adds the percentage of companies employing 5 to 10 auditors to these figures, their share of the total number of registered auditing companies in Germany rises to 96.6%. This means that more than 96% of German auditing companies employ fewer than 11 auditors.³⁷⁹ The percentage of companies with only one auditor remains fairly stable throughout the period examined and lies between 39.7% and 39.8%. This also means that the percentage of large auditing companies (companies employing more than 50 auditors) is lower than 1%. The percentage of companies employing more than 400 auditors lies at only 0.1% of all auditing companies. These numbers stand in stark contrast to those concerning the distribution of mandates and revenue.

First, a look at the professional register of auditors shows, that of the 17.600 auditors and accountants registered on January 1st, 2012, 3.189 were employed by the Big4, a percentage of 18.3% .³⁸⁰ The status of the Big4 becomes even clearer by taking a look at the annual turnover of the auditing companies, meaning all auditors and auditing companies: The Big4 have a share of 83% in the market with 160 large public companies and thus make 4,4 of the total annual turnover of 5,9 billion Euro.³⁸¹ According to a study by the shareholder association Expert Corporate Governance Service (ECGS), the Big4 currently split 97% of the most lucrative accounts audits amongst themselves.³⁸² Europe-wide the market share of the Big4 is estimated to lie at about 70%.³⁸³ The dominance of the Big4 is even more conspicuous in the market of the so-called Prime Standard Companies, meaning companies, which meet the highest standards of transparency, so that they can be included in the DAX, SDAX, MDAX and TecDAX indices. In a study of the market shares of individual auditing companies in the Prime Standard Market between 2001 and 2009, Wild/Scheithauer reach the conclusion, that in this segment there is a high market concentration, which is characterized by a duopolistic or oligopolistic market structure and which has become even more pronounced during the examined period.³⁸⁴ In this Prime Standard segment the concentration of market shares makes it seem as though the entire market were split up between two or three auditing companies: Based on their statutory auditor's fees, the three companies KPMG, PwC

³⁷⁹ WPK Magazin, 2013, p. 3

³⁸⁰ WPK Magazin, 2013, p. 4

³⁸¹ Fockenbrock, 2011, p. 15

³⁸² Fockenbrock, 2011, p. 15

³⁸³ Fockenbrock, 2011, p. 15

³⁸⁴ Wild; Scheithauer, 2012, p. 187

and Ernst & Young reach a share of 91.9%. If one only considers the two auditing companies KPMG and PwC, the statutory auditor's fees for 2009 reach a percentage of 76.02% of all statutory auditor's fees.³⁸⁵ Therefore one can conclude that these two companies clearly dominate this market. In their study Wild/Scheidthauer also reach the conclusion that during the examined period (2002-2009) small and medium-sized auditing companies have lost nearly a third of their mandates in the entire Prime Standard market.³⁸⁶

A further study by A. Köhler, who examined revenues and mandates of auditing companies for the year 2011, based on the numbers in the transparency reports³⁸⁷, shows that the revenues of auditing companies in this area are steadily declining.³⁸⁸ In the year 2010, the number of auditing companies auditing public interest entities, sank by 10 to 115. During the same period, the number of publicly traded companies also declined. Yet the number of mandates in this segment going to the Big4 still remains the largest by far – 449 of 529 for the year 2010 (485 in the previous year) – 84.9%.³⁸⁹ “The analysis of the auditing companies’ transparency reports shows, that fewer auditors are auditing public interest entities and that this competitive segment presents an oligopolistic structure, if measured by the auditing fees“, says Köhler of the current situation.³⁹⁰ These numbers highlight that the Big4 have an important position, not only in the German but also in the international auditor's market. EU-Commissioner Barnier even speaks of the “systemic importance” of their position. They are “too big to fail”, which means that the bankruptcy of such a company would cost more than rescuing it through public funds.³⁹¹ These developments towards the growing size and importance of the Big4 did not take place on their own. Primarily the EU and along with it also the various national legislatures have tried and continue to try to regulate the auditor's market and especially the important market of statutory audits and thus to ensure a higher level of quality. Have these measures supported the expansion of the role of the Big4, or was this development actually slowed down by the measures? The work of auditors was changed extensively by the amendment to the Public Accountant Act (Wirtschaftsprüferordnung/WPO), which came into force on January 1st, 2001.³⁹² The amendment added the §§ 57a to

³⁸⁵ Wild; Scheithauer, 2012, p. 195

³⁸⁶ Wild, Scheithauer, 2012, p. 193

³⁸⁷ Auditors examining capital-marketoriented companies need to submit their transparency report to the Chamber of Auditors until the 31st of March of the following year

³⁸⁸ Köhler; Ratzinger-Sakel, 2012, pp. 6

³⁸⁹ Köhler; Ruhnke, Schmidt, 2011, pp. 773

³⁹⁰ Köhler; Ratzinger-Sakel, 2012, p. 7

³⁹¹ European Commission, 2010

³⁹² Hense; Ulrich, 2008, p. 9

57h to the WPO, which regulate an extensive quality control of auditors. All auditors that carry out statutory annual audits are obligated to take part in quality control. According to these provisions, only those auditors which have participated in a quality control examination and have received a positive certificate of participation are allowed to carry out further statutory audits. This quality control is performed through peer reviews, meaning an examination by external reviewer. A commission for quality control, established by the Chamber of Public Accountants, supervises the quality control examinations. The certificate of participation, granted by the commission after their assessment, is valid for three or six years (§ 57a WPO), after that, the auditor must participate in another quality control examination. The central aim of the legislator, according to Marten, was to insure the quality of statutory audits and to heighten public trust in these audits.³⁹³

A step towards the market situation of today, with the high concentration of the Big4, is not immediately obvious, at least significant effects have not been proven. In the year 2001, the commission for quality control only received two quality control reports, in the year 2002 the number had risen to 142. There was not one control that did not receive a positive verdict, so that all auditors received a certificate of participation and were able to continue to carry out statutory audits. The number of professionals and auditing companies grew at a normal pace.³⁹⁴ Even though seemingly no fundamental changes occurred, the introduction of quality control opened the path for further steps. However, it is important to keep in mind that only those auditing companies, that want to perform statutory audits in the future, are compelled to undergo quality controls in order to receive the certificate of participation. Not all auditing companies take part in them. Therefore, the sheer numbers of certificates does not provide a complete picture of the situation on the auditor's market, as many companies may prefer to avoid the additional burden of costs and workload and not undergo the examination. According to a German network for small and medium-sized auditors, only a quarter of companies that size had a certificate of participation in 2011 and were allowed to perform statutory audits.³⁹⁵ The next big step for auditors can be seen in the amendment of German accounting law (Bilanzrechtsreformgesetz, BilReG), which was published in the Federal Law Gazette on December 4th, 2004. With this amendment, several EU regulations were implemented in national law, among them the regulations 2003/38/EG und 2003/51/EG. It

³⁹³ Marten; Köhler, 2000, pp. 867

³⁹⁴ Wirtschaftsprüferkammer 2012, p. 6

³⁹⁵ Wirtschaftsprüferkammer, 2012, p. 20

introduced international accounting standards to maintain the quality control of statutory audits and strengthen the role of the statutory auditor. Furthermore, the exclusion criteria for statutory auditors were taken out of § 319 HGB and newly incorporated through § 319a HGB. In addition, the amendment of accounting law required large and medium-sized corporations to publish their fees in the annex. A further important reform was that the use of IFRS (International Financial Reporting Standard) became compulsory for consolidated financial statements.³⁹⁶ A look at the auditors market before and after the introduction of the BilReG is of interest: According to data compiled by Wild/Scheithauer, who have provided the relevant statistics in their article „The development of the concentration on the market for statutory audits under consideration of external factors“, 72 auditing companies were active in the market for statutory audits in 2004, in the year 2005 the number had sunk to 63. In addition, small and medium-sized auditing companies lost 7.5 audit engagements to the Big4 in 2005, in 2006 they lost 11.³⁹⁷ This raises the question to what extent the BilReG had an influence on these changes. Wild/Scheithauer suspect that the obligation to publish fees for statutory audit services, as well as the implementation of International Financial Reporting Standards (IFRS) has driven the clients of small and medium-sized auditing companies to switch to a larger company. Small auditing companies are either excluded as statutory auditors due to the criteria of § 319a HGB or the clients lack the confidence that a small auditing company is able to perform an IFRS-audit.³⁹⁸ So, in this phase, the legislative has contributed considerably to a development towards a concentration of the Big4 in the auditor's market, to the disadvantage of small and medium-sized auditing companies.

In December 2004, the legislative passed the Audit Amendment Act (Abschlussprüferaufsichtsgesetz/APAG) which turned the existing quality control commission into the Auditor Oversight Commission (Abschlussprüferaufsichtskommission/APAK) and introduced quality control systems for all auditors. Fundamental effects of this amendment on the auditor's market are not evident.³⁹⁹ An instrumental change of legal provisions was initiated by the EU with its regulation 2006/43/EG.⁴⁰⁰ The German legislative implemented this regulation through the amendment of the law on professional supervision (Berufsaufsichtsreformgesetz/ BAREfG), which was published in the Federal Law Gazette on

³⁹⁶ Haßlinger, 2011a, p. 59

³⁹⁷ Wild; Scheithauer, 2012, p. 189 and p. 194

³⁹⁸ Wild; Scheithauer, 2012, pp. 194

³⁹⁹ Wirtschaftsprüferkammer, 2005, p. 14

⁴⁰⁰ European Commission, 2006

September 3rd, 2007. Besides the introduction of special ad-hoc reviews, the obligation to publish a transparency report is one main characteristic of this amendment. According to the draft of the BARefG, the transparency report is intended to make the company, oversight and quality structures of auditing companies accessible for the public. The transparency report has to include information on the legal form and ownership structure of the auditing company as well as on its internal quality control system.⁴⁰¹ The auditors market reacted in a similar fashion to the new provisions as it had to the introduction of the BilReG in 2004: The number of auditing companies sank by 8 between 2007 and 2008 and in 2009 another 10 companies gave up, which puts the total number of companies working in the market for statutory audits of § 319a-companies at 43. Furthermore, small and medium-sized companies lost eight engagements for the audit of § 319a-companies in the year 2008 alone, in the previous year only two. Of these eight engagements, seven small or medium-sized auditing companies lost their only engagement and thus had to withdraw from the market.⁴⁰²

Wild/Scheithauer assume that the transparency reports help investors to reduce the asymmetry of information regarding the offered audit quality, so that the perception of individual auditing companies in the market has changed. This has the effect that companies choose other auditors for their statutory audits. Compiling a transparency report has led to higher fixed costs for auditors. These costs cannot simply be passed on to the client, if one does not wish to lose the engagement. Due to synergy effects and the high number of audits, these costs do not present a notable increase for large auditing companies. For this reason Wild/Scheithauer suspect that some small and medium-sized auditing companies have given up their engagements more or less voluntarily.⁴⁰³ According to a study conducted by the Audit Practices Board of the United Kingdom on the costs of the national implementation of International Standards on Auditing, the recurring costs are expected to rise by 2% on large single entity audits, 5% on large audits within groups and 10% on small audits.⁴⁰⁴ While these numbers cannot be applied directly to the German market, they provide a good idea of the different cost burdens that the additional requirements put on small, medium-sized and large auditing companies. It can be assumed that the legislative has strongly contributed to a further concentration of the auditors market towards the Big4 for this period. The next step in regulation was the amendment of accounting law modernization act

⁴⁰¹ Pfitzer, 2007, pp. 54

⁴⁰² Wild; Scheithauer, 2012, p. 189 and p. 195

⁴⁰³ Wild; Scheithauer, 2012, p. 195

⁴⁰⁴ Grant, 2010, presentation slides

(Bilanzrechtsmodernisierungsgesetz/ BilMoG), which formed part of the implementation of the EU Regulation 2006/43/EG. According to the draft, the aim of the law was to adapt the accounting rules more closely to the IFRS, but simultaneously to maintain a national set of rules. After the BilMoG entered into force in 2009, the number of auditing companies, compared to the previous year, fell by 10, as mentioned above. It is hardly possible to draw a connection to the implemented changes, as the BilMoG hardly contained amendments that could be seen as fundamental for the size of auditing companies. Therefore, one can hardly make out strong effects besides the above-mentioned ones, which can mostly be traced back to the BaRefG. As these amendments took place over a longer period of time, it is worthwhile to review the development as a whole. Wild/Scheithauer have traced the development between 2001 and 2009 in their study, which is why at this point only the fundamental changes in the auditor's market are analyzed in greater detail: During the same period, the total assets of auditing companies, that do not belong to the Big4, has decreased by 60%. Looking at the change of statutory auditors, 15 engagements have shifted from small and medium-sized companies to the Big4, of which almost a third are in Prime Standard.⁴⁰⁵ The regulations by the EU and the German legislative cannot be presented as wholly responsible for this situation. Internationally active companies that assign their audits to statutory auditors, also play a pivotal role. Small and medium-sized auditing companies often do not have the capacity to adequately audit such a large and international company. Large auditing companies such as the Big4 are internationally active themselves and have a better structure at their disposal. Therefore this can also be a reason why audit engagements are shifted from smaller companies to the Big4. It cannot be ruled out that the Big4 can simply offer clients a service package which is tailored to their needs and that these decide to switch for this reason.⁴⁰⁶ But it has to be stated that to date the legislative bears a significant responsibility for the current concentration of the market of financial and statutory auditors.

Influences of External Quality Control on the Auditor's Market

Since January 1st, 2006, auditors are only allowed to perform statutory audits, if they have passed the external quality control and received a certificate of participation. From January 1st, 2006 auditors are allowed to use the seal only when they have subjected their organization and the affixing of their seal (mainly in final examinations) to a quality control by the

⁴⁰⁵ Wild; Scheithauer, 2012, p. 189 and p. 192

⁴⁰⁶ Coenenberg; Marten, 1993, p. 106

Chamber of Public Accountants, and the independent advisory board for quality control confirms the correctness of this examination. Then the auditor receives a certificate of participation according to § 57a subparagraph 6 certified Public Accountants Order for the successful performance of external quality control (Peer Review). After 2005, this certificate has become mandatory for legal audits. According to statistics of the WPK, not all auditing companies have a certificate of participation.

Auditors with a certificate on quality control	number of auditing companies									
	31.12.2012		31.12.2011		31.12.2010		31.12.2009		31.12.2008	
	absolut	in %	absolut	in %	absolut	in %	absolut	in %	absolut	in %
1	650	59,10	637	58,50	627	61,00	597	59,60	573	57,80
2 to 4	1.020	77,30	983	76,30	1.026	81,00	988	80,70	953	79,80
5 to 10	202	81,50	198	82,20	212	85,80	208	90,80	205	90,70
11 to 20	48	90,60	42	82,40	38	82,60	39	84,80	39	90,70
121 to 30	16	84,20	19	100,00	20	100,00	17	100,00	21	95,50
31 to 40	6	100,00	6	100,00	5	100,00	4	100,00	3	100,00
41 to 50	1	100,00	2	100,00	3	100,00	3	75,00	1	100,00
51 to 100	9	90,00	7	87,50	9	90,00	8	100,00	10	100,00
101 to 400	1	100,00	2	100,00	1	100,00	3	100,00	2	100,00
more than 400	4	100,00	4	100,00	4	100,00	3	100,00	3	100,00
	1.957	70,90	1.900	70,10	1.945	73,80	1.870	73,60	1.810	72,50

Table 2: Auditors with a Certificate of Quality Control, abstracted from WPK magazine, Communications of the Chamber of Public Accountants 4/2013, p. 3

Of the 1.100 auditing companies (see Image 1) in 2012, which only employ one auditor, only 650 have this certificate of participation, which accounts for 59.1%. During the preceding years, the numbers stood at only 57.8% (01.01.2009) and 59.6% (01.01.2010). Of the 1.320 auditing companies employing 2 to 4 auditors, 77.3% had a certificate of participation in 2012, and of the auditing companies employing 5 to 10 auditors, 81.5% had received one. Auditing companies with more than 21 auditors all – save two exceptions – have a certificate of participation. This shows that the larger the auditing company is, the higher the rate of participation in quality control procedures. “As only obtaining a valid certificate of participation entitles an auditing company to perform statutory audits, this is surely also an expression of an economic necessity for the auditing company”, according to the assessment of the Chamber of Public Accountants.⁴⁰⁷ The high percentage of lacking certificates of participation (40.9%) for “One-Man-Auditing Companies” can have different reasons. Either these companies do not carry out statutory audits or the effort (time and costs) of undergoing

⁴⁰⁷ WPK Magazin, 2013, p. 4

an external quality control is too high, so that they preferred to withdraw completely from the field of statutory audits. Even of the auditing companies employing 2 to 4 auditors, more than 22% did not have a valid certificate of participation by 31.12.2012 and can therefore not carry out statutory audits.

2.5. Differences and Similarities in the Quality Control System in Other European Countries and Planned Measures

The European Union member-states were obligated to integrate the 8th EU Directive into national law by June 28th, 2009⁴⁰⁸. A characteristic of directives passed by the EU is that the directive sets a frame and the member-states are in charge of filling the frame⁴⁰⁹. Since the implementation of the 8th EU Directive in the European Union a number of similarities between their quality control systems is to be expected in the countries. In this research the implementation of the Directive in the countries Germany, Austria and Latvia has been considered in more detail. The Directive calls for several levels within a quality control system. Beside the immediate level of control through fellow auditors (which mostly have to meet additional requirements regarding training and professional experience), all three countries have created an independent public oversight body, which mostly consists of non-practitioners (the Auditors Oversight Commission in Germany, the Quality Control Agency in Austria and the Audit Advisory Council in Latvia). They enable an independent oversight of the peer-review systems and fulfill the requirement of a monitoring element.

In Germany and Austria, an external quality control has to be performed every six years, every three years for auditors of public interest entities (PIEs).⁴¹⁰ In Latvia, this interval is even shorter; five years for auditors, three years for auditors of PIEs. Germany and Austria both have the system of a certificate of participation for auditors who want to perform statutory audits. So the implemented systems of external quality control are quite similar in structure in all three countries, an expression of the European Commission's aim to harmonize the auditor's requirement across Europe. However, the structure allows no immediate conclusions as to the actual effect on the quality of audits. Due to the current situation, the European Commission published the Green Paper "Audit Policy: Lessons from the Crisis" on October 13th, 2010. The commission shares the opinion that a solid audit is very

⁴⁰⁸ Maccari-Peukert, 2011, p. 1

⁴⁰⁹ Heiniger, Bertram, 2003, p. 1057

⁴¹⁰ Rebhan, 2012, p. 28

important to regain confidence in the market and to strengthen the European economy. The aim of the Green Paper should be to strengthen public confidence in audited enterprise data. The main objectives of the audit reform process are to

- clarify and define more precisely the role of the auditor;
- reinforce the independence and professional skepticism of the auditor;
- make the top end of the audit market more dynamic;
- improve the supervision of auditors;
- facilitate the cross-border provision of statutory audit services; and
- Reduce unnecessary burdens for SMEs⁴¹¹.

These aims are a reaction to the weaknesses of the audit market detected by the Commission⁴¹². For one, it sees a lack of choice for audit clients, due to the high concentration levels (the “oligopoly” of the Big4). Secondly, the collapse of one of the Big4 is seen as a potential systemic risk. As mentioned above, the insolvency of one of the big auditing companies would be very difficult for the European economy to bear.⁴¹³ In addition, such a collapse would lead to an even greater concentration at the top of the audit market. A third point is the independence of auditors regarding possible conflicts of interest and other independence issues. Finally, in the wake of the most recent financial scandals, the Commission sees the public “credibility and reliability of the audited financial statements of banks, other financial institutions and listed companies” damaged. The Green Paper is supposed to counter these risks and lists some proposal how this could be implemented: For one, joint audits by at least two auditing companies are proposed, as it is already being done in France. Of these at least one of the auditing companies should not belong to the circle of “systemically important” companies. This would create the possibility of smaller auditing companies participating in the audits of larger and more complex companies. The exact design of this “consortium-option” is not specified in the Green Paper, but it already states that in the case of the implementation of this option, the consortiums must receive clear guidelines.

The Green Paper lists the mandatory rotation of auditors as the second alternative to the current system. Besides the auditing companies, the auditors themselves are also supposed to rotate. This is supposed to prevent that partners, who change auditing companies can “take

⁴¹¹ European Commission, 2011, p. 2

⁴¹² European Commission, 2011, p. 3

⁴¹³ Fockenbrock, 2011, p. 15

their clients with them”. According to the Green Paper, such a change could be combined with a renewed tendering. This could have problematic effects however, as only very few publicly traded companies publish a tender for their audits every year. This would nearly halt the desired effect of making the market more dynamic.⁴¹⁴ Commission does not only see a danger to the market in the high concentration, but also addresses the problem of statutory auditors or auditing companies often offering consulting or at least non-audit services. The Green Paper points to the French system, which prohibits auditors from simultaneously performing audit and non-audit services. A similar prohibition is considered for all of Europe, which could lead to the creation of „pure auditing companies“. The intention is to prevent an economic interest in a good performance of the audited company in the statutory audit.⁴¹⁵ The Green Paper is also proposing an emergency plan for the potential collapse of one of the Big4. The Commission wants to develop such a plan together with the EU member states, the auditing companies and other interest groups, so that swift action can be taken in the case of a collapse. On November 30, 2011, the proposals of the Green Paper were specified and the European Commission published a Proposal for a regulation of the quality of audits of public-interest entities and proposal for a directive to enhance the single market for statutory audits. The goal of this “White Paper” is to increase the independence of statutory auditors and to improve the market conditions for statutory auditors. The ideas that were outlined in the Green Paper were further specified here and proposals for their implementation suggested. The additional material for the proposal show, which measures the Commission prefers.⁴¹⁶ However, several of the proposals have drawn some criticism. While from the point of view of the medium-sized auditing companies it is welcomed that the Commission has begun a discussion about the current oligopoly of the few auditing companies (Big4) as well as the role of the auditors and the cultural function of audits, the reaction of the official representatives in the audit profession in Germany is quite ambiguous. Regarding the separation of audit from non-audit services, there are disagreements over whether this measure is necessary. Some say that non-audit services, if of a certain character or too extensive, are more likely to limit the independence of an auditor⁴¹⁷. While individual measures might be necessary, a complete separation of audit and non-audit services is seen as a possibly politically motivated reaction to the most recent financial scandals and public

⁴¹⁴ European Commission, 1996, p. 21

⁴¹⁵ Fockenbrock, 2011, p.15

⁴¹⁶ Häuptli; Leibfried, 2012, p. 9

⁴¹⁷ Zülch, Krauß, Pronobis, 2009, p. 226

perception, which is not supported by research, where the findings mostly state that non-audit services might impair independence in appearance, not in fact⁴¹⁸. Especially for small and medium-sized auditors, the existing provisions to ensure independence are seen as sufficient, and a complete prohibition of non-audit services might present a market intervention, which goes beyond the potential weaknesses⁴¹⁹.

Regarding the rotation of auditors, similar doubts have been voiced. The German Government refused the implementation of an external obligation of rotation because the disadvantages outweigh the advantages. This is the conclusion of several academic studies, which also see the risk of a loss of information through rotation and high costs, which may not be justified by potential benefits.⁴²⁰ In the meantime a draft for a regulation for PIE (public interest Entities) as well as a draft for the amendment of the auditor directives have emerged out of the Green Paper. The implementation into national law will be delayed until 2014 or 2015. The next wave for quality control is yet to come which is not a relief for small- and medium sized audit companies.

The statement made by Volker Peemöller⁴²¹ sums up these facts most comprehensively:

“Legal rules, professional regulations, and reform proposals by commissions aim at the cleverness and the freedom of judgment of the auditor, in order to ensure an appropriate judgment. These efforts **will not be fruitful, if the auditor does not have the commitment to his work to perform it with the highest possible quality.**”

⁴¹⁸ Häuptli; Leibfried, 2012, p. 12

⁴¹⁹ Obermüller; Riemenschneider, 2011, p. 379

⁴²⁰ Stefaniak; Robertson; Houston, 2009, pp. 47

⁴²¹ Peemöller, 2012, p. 37

3. NEW MODEL OF QUALITY DEVELOPMENT AND RESEARCH DEVELOPMENT

After analyzing important aspects of the term quality according to general business management, service quality and quality of audits, it was clarified that no single area of business management offers a uniform definition or approach to the term “quality”. Neither the profession of auditors, nor the legislative which passes new laws and regulations stating “thereby, a higher quality will be reached“, have a uniform view of quality. However, this is absolutely necessary for a uniform and broad understanding of quality. For this reason, the author developed a new model of quality development of auditing companies, named the **AuditCompanies–QualityDevelopment Model (AC-QD model)** within in the context of this dissertation.

To fulfill all the expectations of the different receivers of audit services, all legal and professional requirements as well as one’s own expectations, a model of audit quality has to be developed, that is very broad. As the term also needs to take into account the regulations required by law and by professionals, it must consider aspects of product-based, of manufacturing-based and user-based approaches according to Garvin’s approach (see chapter 1.1.). Because quality of audits has to be more than only an addition of these three categories, the author’s new model of quality management of auditing companies puts quality - according to the research approach of Kellner (see chapter 1.2.) and Feigenbaum (see chapter 1.1.) - in the center of the entire entrepreneurial activity, as a holistic model of quality. The complexity of quality needs a holistic model in which quality must not be regarded as static.⁴²² Quality therefore is to be seen as the basic attitude of the enterprise, a central point in everything the company does. For positioning quality this does not mean to offer “just as much quality as needed“, but to offer “as much quality as is possible“.⁴²³ Such a holistic approach is owed by the profession of auditors, as any auditor in any country has a great responsibility and also a great privilege. Auditors fulfill public services and thus are subject to strict professional regulations. The public, creditors, shareholders, and other interested parties expect that they can rely on the auditors as guarantors of integrity and the credibility of final audits (see chapter 2.1.). Furthermore the ISO quality standards and the concept of Total Quality Management have been consulted by the derivation of the author’s model. However, the

⁴²² Seghezzi, Fahrni, Hermann, 2007, p 37

⁴²³ Seghezzi, Hansen 1993, p. 87

difference between the TQM system and the quality model of the author, is the fact that author's model has been developed especially for micro-, small- and medium-sized auditing companies and their daily work. The activities of an auditor are fundamentally different from those of a commercial company, especially production companies. The auditor has to perform a public duty, the public trusts his judgment. The objective of a commercial company is profit maximization, sales and stock price play a minor role for independent auditors. The IAASB currently established a framework for audit quality which favors the dialogue about audit quality within the profession.

With the implementation of this holistic model in every auditing company, highest quality will be achieved through the fact that the auditor as well as the entire office, perform business by complying with all the legal restrictions and vocational duties. The designed model creates a uniform method of derivation for the quality of each respective company. It is important to create a uniform understanding and a uniform model, how quality is reached and defined with regard to the respective company. Therefore, it is not about finding a uniform quality – which does not exist – but about finding a uniform method of defining and controlling individual quality for auditing companies. Each auditing company has to define its own quality using the method explained below. The way and method how quality is to be understood is uniform, but each auditing company defines for itself its own kind of individual quality. The result is a different and individual quality for every auditing company. The quality definitions and approaches described in the previous chapters show that there is no uniform method of defining and testing individual quality. All definitions and approaches discussed are somewhat fragmentary from their own viewpoint.

The specific requirements and the public duty of auditors need to be the most important aspects bearing in mind when it comes to the development of a specific quality model exclusively for micro- and small auditing companies. Similarly the clients', stakeholders and publics expectations need to be fulfilled by the auditors. The new quality model designed by the author therefore considers object-related quality components as well as components of quality of behavior in order to comply with statutory and professional requirements. Based on the holistic model of quality, the author develops the following **AuditCompanies-QualityDevelopment Model (AC-QD model)**, which enables each audit company to define its own quality standards according to a uniform method. The AC-QD model has been derived from Kellners quality model which is called "Strengthening the Municipal Profile" (see chapter 1.2.). His developmental approach is supposed to raise the developmental quality of municipalities. The author consulted Kellners model and enhanced it to the specific

requirements and functions which must be fulfilled by auditors. Furthermore the AC-QD model has been tailored to the particular needs of micro- and small-sized auditing companies in Germany, meaning companies with one to four auditors, which need a feasible quality model that is neither formalistic nor oversized. Consequently micro-, small- and medium-sized auditing companies in Germany need a quality model, which enables them to define its own quality standards according to a uniform method.

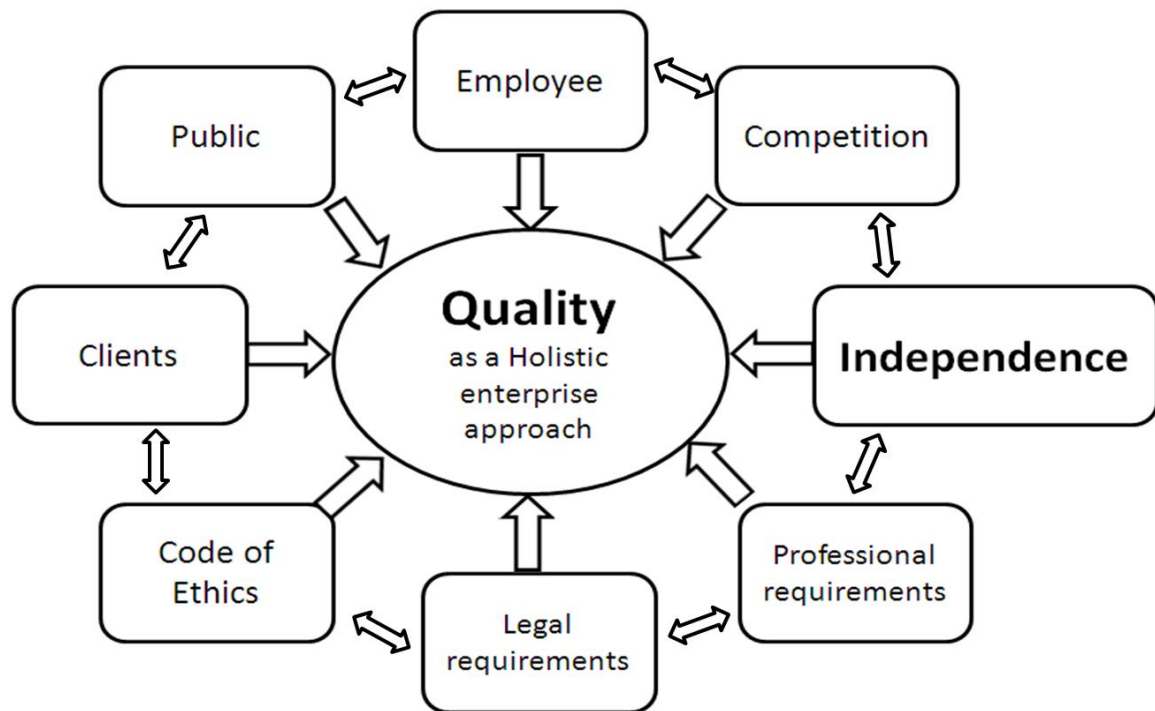


Figure 7: AC-QD model designed by the author, (2012)

3.1. The Individual Components of the AC-QD Model

The different (in total eight) components that influence quality certainly have different emphases, but nevertheless need to be taken into consideration and need to be regarded by each company in order to reach a holistic model of quality.

It is necessary for each and every audit company to adjust every single component to their own company and as a consequence develop their comprehensive quality model. This is important and can only be developed by each individual company for itself, because each company takes care of different clients, works in different regional environments, has other

work areas or specializations, and thereby different competitive environments as well as different quality levels of staff. Because of the characteristics of the accounting profession, similarities arise for all auditing companies. These mainly relate to the legal and professional requirements which need to be carefully attended to. In the newly developed model, these similarities are only being seen as a basis, as an absolute necessity for being allowed to work as an auditor. The pure fulfillment of legal and professional requirements as a single component, does not account for quality in particular, but rather is a prerequisite for working as an auditor. Other important aspects are the Independence and the Code of Ethics which can also be seen as given conditions. These components are also called technical quality, which are required and the foundation of every auditing company. The other components (Public, Clients, Employee, and Competition) are assigned to quality of behavior and are a variable in every company. Independence and the Code of Ethics can be seen as technical quality as well as behavioral quality, as the two components are specific to the auditing profession and at the same time a variable in every company.

Legal and Professional Requirements

The profession of auditors has to fulfill diverse and broad legal and professional duties when it comes to carrying out its duties. These duties are partly anchored both in the respective legal regulations (HGB, WPO) as well as in professional regulations and statements. As the regulations and the Code of Ethics have been presented in detail in chapter 2, the author briefly summarizes these aspects of the model in the following. The closer focus is on the behavioral quality (Competition, Employees, Public and Clients) and on Independence.

As a summary, it can be said that there are broad requirements for admission in all countries in order to be allowed to work as a professional auditor. They require a person beyond reproach, various financial conditions according to §10 WPO, completion of studies and practical working experience in the auditing profession as well as passing a general exam. The practice of an occupation in a professional society is amply regulated. The Regulations for Auditors determine within which legal form the profession is allowed to practice. The basis for the practice of an auditor in an auditing company is the approval by the supreme authorities, which is regulated in detail by the Chamber of Public Accountants. Independent, diligent, discreet and unbiased professionalism are characteristics which are part of the general professional duties according to the § 43 WPO (cf. chapter 2). Furthermore regulations for final audits are defined by the HGB, and the institutional professional supervision, established by the Chamber of Public Accountants in Berlin. It has to be differentiated between the supervision of auditors and supervision by laws, as they focus on

the accounts. If any indications of neglect of professional duties are revealed by this, they are to be reported to the auditor's supervisors for further investigation. As a reaction to the financial crisis, the EU Commission has presented an EU-green paper for final audits ("Further action in the sector of final audits: Teachings from the crisis"⁴²⁴) on the 13th of October 2010, which discusses various reform proposals for the profession. In the center of the current discussion is the role of the auditor in public and his independence, strengthening measures like the mandatory external rotation, the separation of auditing and consulting, and joint audits are considered (see chapter 2.5.). All liberal professions have to comply with certain regulations for their respective practices, which are based on the professional rules of ethics. For auditors in Germany these are the Public Accountant Act (WPO) and the regulations and standards specified by the vocational statutes and statements of the Institute. Independence, conscientiousness, discretion, personal responsibility, and professional dignity are, among others, influences on the auditors in public.

Code of Ethics

Fulfilling all legal and professional requirements is only one part of the definition. On the other hand it is important to take the Code of Ethics into account. The Code of Ethics applies to all professionals who are members of the organization, "International Federation of Accountants". Among others, the Code of Ethics serves as guidance for implementing high-quality international standards. Furthermore it contains professional obligations such as integrity, objectivity, functional responsibility and diligence. The Code of Ethics describes that a professional accountant's responsibility is more than to satisfy the needs of his clients because he acts in the public interest, and therefore has to comply with the Code of Ethics (cf. chapter 2.1. and Appendix 2).

Independence

As it becomes clear in the short explanation above, certain tenets, such as confidence and independence, are to be found in all three divisions as mandatory elements for the auditor. This shows, of course, the great importance the adherence of these tenets has for quality professionalism. Still, the adherence to these legal and professional standards is only to be found among the foundations of this new holistic model of quality, the so-called principles. Quality needs to be more than simply fulfilling these given laws and principles.

⁴²⁴ European Commission 2010, p. 13

This holistic model of quality can only to be achieved by the auditor if he performs his duties with complete independence and without bias and if he does not allow his judgment to be influenced. The independence of the auditor is the cardinal quality of honesty in the holistic model of the author. Only a completely independent auditor is able to guarantee that his judgment is unbiased and free of any external influences. Independence is – as mentioned before – required by all three elements of the principles, but it is part of the professional duties that the auditor has to fulfill. However, independence means more than the fulfillment of a professional duty, it is of utmost importance and the chief aspect of the whole model.

Regarding the different legal and professional regulations of independence, it can be observed that independence is theoretically widely regulated, e.g. through the limitation of shares and voting power an auditor has in a company that he is to assess; through the agreement on a limit to the remuneration; expulsion in case of non-compliance etc. Nevertheless, in practice there are problems of demarcation occurring again and again due to unclear legal terms, such as bias. In the reference, the auditor's independence is divided into "independence in fact or independence of mind" and "independence in appearance". If an auditor is independent "in fact or of mind", he or she has the ability to make independent audit decisions, even if there is a perception of lack of independence or if the auditor is placed in a potentially comprising position.⁴²⁵

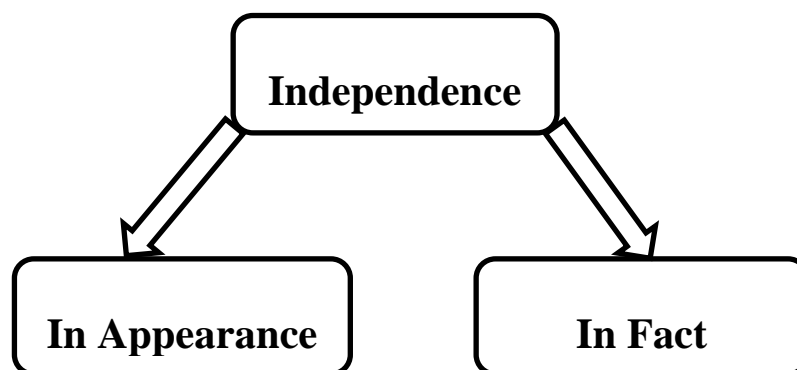


Figure 8: Independence of an Auditor designed by the author, (2012)

Nevertheless it is possible that even when the auditor is "in fact" independent, that there are some facts that may make the public believe, that the auditor does not "appear" to be independent. It could be, that users of financial statements believe, that they cannot rely on

⁴²⁵ McGrath; Siegel; Dunfee; Glazer; Jaenicke, 2001, p. 39

annual audits of financial statements.⁴²⁶ Therefore the perception of the public and of users of financial statements it is also an important consideration in the discussion of an auditor's independence. It is necessary, that a reasonable third party recognizes that there are no conflicting interests that might be prejudicial to the auditor's independence.⁴²⁷

Clients

For achieving this holistic model of quality, the highest possible quality needs to be the mission of each and every office. That means, the mission is to reach the highest quality in all sectors and levels of the office. Therefore it is of utmost importance that each office defines its quality and decides for itself, their unique selling point. The determination of what quality is for each individual office is necessary, as it differs for each office. Each office has different clients with different expectations and needs. As the office knows its clients, it will be able to provide quality in harmony with its clients and therefore will be unique in fulfilling all expectations. What's more, the recipients and addressees of the services will differ in the respective office. For example, if an audit company assesses a company oriented toward the capital market, the recipient of the audit will not only be the company itself, but also a multitude of shareholders. In contrast to that, small companies mainly assess small and medium-sized companies, where the shareholder and the manager are the same person. Therefore, the expectations will differ due to the different circles of recipients. Additionally, especially in small auditing companies, due to the individual and personal performance, the client perspective in auditing companies has an even more important role than the customer perspective in other companies. Only the office is able to determine its own quality for the respective recipient.

Employees (Professionals)

How important professionals are in terms of human capital for auditing companies was discussed in detail in chapter 2.2. The quality of auditing services depends to a great extent on the professionals and their skills. Consequently, it has to be a necessity for any auditing company to aim for a specific promotion and development of their employees. However, for small- and medium-sized auditing companies it is getting more and more difficult to acquire suitable young professionals as the "war for talents" already reached the auditing profession. The large and big companies accomplish to win a majority of the talented graduates for

⁴²⁶ Lowe; Geiger; Pany, 2001, p. 90

⁴²⁷ Hahne, 2011, p. 270

themselves due to clearly structured career moves and training opportunities. Therefore the small- and medium-sized auditing companies are asked to distinguish themselves from the bigger ones and to get more attractive for new employees and professionals. Additionally soft skills are becoming increasingly important (communication skills, cooperation skills, organizational skills, disciplined work ability and negotiation skills) and this requires the management to motivate their employees through incentives such as partnerships but also praise, freedom of action and information.

The employees are of importance for implementing a broad quality model in two ways: On the one hand, they need to be included in the implementation and realization of a model if this model is to be successful. Secondly the employees play a vital role in an audit company when it comes to carrying out final audits and hence determine the quality of the work and the company. Well-trained, skilled employees are one of the basic prerequisites for flawless work and hence an important component in the new quality model. Only well-trained employees are in the position to find errors in annual final audits and to reveal them. Qualified job handling requires securing a high level of qualification of the employees. Therefore, it is part of the professional duties of the auditor to inform his employees when employing them, about the respective legal and professional regulations, to inform them about rules of independence, to obligate them to confidentiality and to acquaint them with the company's quality control system. Furthermore, each employee has to sign a declaration of independence annually and before each auditing assignment. The development of employees is an important aspect in any auditing company. The professional code (§6 BS WP/vBP) mandates that sufficient practical and theoretical training of the trainees and the further education of specialized employees has to be organized and that specialized information needs to be provided. Next to the education and training, the appraisal of the specialized employees at reasonable intervals is part of a company's duties. In service companies, in particular in auditing companies, the employees have a significant importance as they make a contribution to the value-added chain. Beside the auditor, the employees are the interface with the clients and they respectively represent the office and its services. Due to this fact, it is necessary that the employees are involved in every process in order to identify themselves with their work and accordingly feel responsible for the office. Employees greatly influence the quality of services and they are of significant importance for the clients. They have an essential impact on the quality within the office, as they establish the fact that the concept of quality is of top priority in all activities. At the same time employees can make all necessary changes through their practice. Therefore, the inclusion of employees is essential to the quality in each company and for implementing and

using the author's quality model. Employees trained and educated in the audit profession are desirable for both clients and competitors, because of their universal education and experience. It is therefore particularly important for small and medium-size companies to create a motivating working environment which recognizes and supports the individual needs and skills of every employee. By the resulting attractiveness of the company it is possible to set themselves apart from competitors and remain attractive for employees and future applicants.

Competition

In general it can be said that small and medium-sized companies do not have a defined business strategy, i.e. how and in what way they want to expand and set themselves apart from competitors. Although it is very important for every company to develop a growth strategy, especially in times of increasing regulations and requirements (see chapter 2.1.) as well as increasing competitive pressure (chapter 2.5.). First of all the auditor needs to clarify how the company should be positioned in the market in order to be appreciated and noticed by others. It needs to be determined whether, among other, "traditional activities" such as auditing, financial accounting and taxation are to be offered as a complete service, or if the company focuses on specific fields or only on a niche product. When deciding on "traditional activities", the company risks setting itself on a level with other companies and competitors. Moreover (the classic) financial statement and tax advice are also offered by pure accounting companies, so that they have to deal with additional market participants. On the other hand a company's specific focus on a few services (differentiation strategy) or niche products (niche strategy) leads fast to a certain dependence. The specialization and/or development of new services first led to increase costs and in addition it is more difficult to standardize new services than traditional accounting and consulting services. The company needs to establish its niche product on the market, so as a consequence higher marketing costs have to be considered as well.

When deciding on a **differentiation strategy**, it must be the aim to arrange the products in such a way that they are seen by the clients and potential customers as so outstanding that they are willing to pay the price asked. The company's differentiation can also be a particular service orientation ("top quality through best service"), or the highest possible availability of the office holder. An essential characteristic of a differentiation strategy is that the company is in fact recognizable to the clients standing out from other providers. The company following a **niche strategy** ("strategy of focusing on priorities"), focuses on one or a few services or industries, and serves the customers' needs with custom-made special products. The

requirement for working with niche products is a company's best way to position itself and define the exact target group and the detailed knowledge of the needs of this target group. Likewise, especially for companies with niche products, it is necessary that they inform themselves about changes and information in the most efficient way (such as new laws that affect the market of the target group) in order to provide possibilities for fast solutions. A niche strategy may lead the company to a successful, unique position, especially when it comes to business segments which might be uninteresting for bigger companies. Niche products are often not the main focuses of big companies as the incorporating those segments is associated with high costs. Regardless of which strategy the company decides on, it is important that this strategy is in compliance with their holistic quality standard as well as their mission statement in order to avoid any conflicts.

The Public

The public and customers have high quality expectations of auditors because they trust in their judgment. Auditors applying auditing regulations in public, and especially with clients, banks, and law courts are recognized as experts in the economy. One reason for this confidence is not only the proven qualifications of the auditor himself but also the fact that the auditor has to apply strict legal and professional regulations (see chapter 2.1.). Thus, there exists, besides the independent, conscientious, and discrete practice of the profession, the obligation of ongoing training. Furthermore public monitoring ensures public confidence as well. For example auditors need to undergo an external quality control every 3 or 6 years, which ends with a corresponding audit report. A great number of audit companies denied undergoing these external quality controls, with the result that they are no longer authorized to conduct audits using the professional auditing seal. On 31 December 2012, only 59.1% of companies with one accountant, and 77.3% of companies with 2 to 4 auditors submitted to the procedure of an external quality control. Additionally, a monitoring process is guaranteed by various external agencies, such as BaFin or the Chamber of Public Accountants (see chapter 2.5.).

Even so, auditors have suffered a loss of trust through diverse accounting scandals and the public doubts their independence and the quality of the audit performed by auditors. In order to reestablish this trust, it is important that each company creates all the conditions necessary to ensure a high-quality audit. In this way errors are prevented already proactively. For this, again, it is important that each company considers for itself, in how far the services performed concern the public in addition to the actual client. This in turn depends on the actual services offered by the company. Even during the audit of a medium-size, owner-managed company,

employee interest and the interests of the lenders have to be taken into account, as well as the interest of the owner. Moreover, for special expert opinions, a variety of the interests of the investor can be affected because they rely on the precision of the auditors' judgment.

In summary, every audit company needs to meet public expectations even if they are small and only offer niche-product services. These expectations differ, of course, according to the nature of services provided. Publicity listed companies receive more public attention than companies who serve the medium-size sector. Nevertheless, even the smallest audit company has to deal with the component of the new AC-QD model and decide for its own how to meet the expectations of the company-related public. The author gives a summary of the eight components in Appendix 2 and presents an application of the AC-QD model in Appendix 3.

3.2. Comparison with Theoretical Quality Approaches and TQM

Below, the 8 components of the author's new model are going to be examined according to which extent they have already been considered or included in the quality models and approaches analyzed and presented in chapter 1. First of all, an investigation was made of which of the individual components of the AC-QD model are product-oriented and which can be allocated to the quality of behavior (cf. chapter 1). This had to be done first, as the components "professional requirements", "legal requirements", "Code of Ethics," as well as "Independence" are specific to the auditing profession, and do not exist in general business management and in the service sector in this particular way. This results in the following assignment:

<u>Technical Quality</u>	<u>Quality of behavior</u>
- Professional Requirements	- Public
- Legal requirements	- Clients
- Independence	- Employee
- Code of Ethics	- Competition
	- Code of Ethics
	- Independence

For a better and clearer presentation, the results of the examination are shown in the table in Appendix 1. The table shows both, all analyzed approaches from chapter one as well as the individual components of the author's new model. When it comes to the analyzed quality

approaches in general business management and the service sector which offer a product-oriented approach, the components “professional and legal requirements” can be affirmed. The table in Appendix 1 indicates which components have already been found in the approaches analyzed and in earlier research. “Yes” and “No” specifies whether or not the single component is covered or included in earlier approaches. The table clearly indicates that the quality approaches and models analyzed overall include the 8 components, showing that all 8 components have an influence on the quality and that therefore these components have to be considered.

The ISO quality standards meet to a high extent the AC-QD model developed. Therefore it has to be mentioned that the TQM agrees with the ISO standards. The difference between the TQM system and the quality model of the author, is the fact that author’s model has been developed especially for micro-, small- and medium sized auditing companies and their daily work. The activities of an auditor are fundamentally different from those of a commercial company (see chapter 2), especially production companies. Additionally it has to be said that the implementation and application of a TQM system requires high costs and resources. The single-auditor as well as micro-sized auditing companies with only one auditor employed neither have the capability to spend those costs nor have the resources to implement it. The auditor market in Germany is affected by lonely fighters and micro-sized auditing companies. At the end of 2012 39.8% of all auditing companies can be classified as micro-companies as they employed only one auditor, which accounts for more than one third. Taking into account the number of auditing companies employing 2 to 4 auditors, micro and small-sized auditing represent 87.60% of all auditing companies in Germany (see table 1). The characteristic for micro- and small-sized auditing companies is that the owner of the company is at the same time the responsible auditor and leads his employees as well as he decides on strategic development. The most important characteristic is that he is present at every single audit assignment, he leads the auditing team or more often he does the audit on his own. Consequently those micro and small-sized auditing companies need a quality model customized on their needs, which means that it should not be formalistic or bureaucratic nor oversized but rather effective in terms of fitting to the specific needs. The auditor has to perform a public duty, the public trusts his judgment. The objective of a commercial company is profit maximization, whereas sales and stock price play a minor role for independent auditors. And this precisely is the difference between the TQM system and the author’s model.

Specifically, six out of eight components of the AC-QD model meet the ISO standards, and accordingly the TQM as well. However, it cannot comply with the job-related components, Code of Ethics and Independence. **Nevertheless, none of the existing and models analyzed from chapter one comprise the 8 components and as a whole.** Subsequently, the similarities and differences of TQM and the AC-QD model developed by the author are presented. The ISO is no quality management system but rather a specification of documentation which leads to certification. The ISO standards only provide guidelines for documentation; therefore the author will not give a comparative presentation.

Common for both models, the TQM and the AC-QD model, is that you are dealing with a comprehensive model that implicates a new corporate direction within the company. TQM is seen as a guiding philosophy which involves the entire company. Likewise the AC-QD model does not only incorporate the complete company, but also other components which arise from the peculiarity of the profession of auditors and its involving duties. Both models are quoted as a guidance method that is based on the participation of all members of an organization. The leadership must be aligned so that all employees actually have the opportunity to participate and to identify themselves with the concept of quality. Thus, a high employee orientation is common to both models. Nevertheless, employee orientation has a deeper meaning within the AC-QD model which has its origin in the mission, functions and tasks of the auditing profession. Auditing offices belong to the so-called professional service firms (PSF) (see in detail chapter 2.1. and 2.2.). As such professional service firms they differ significantly from other companies, especially from production companies, but also from other service companies. The employees are most important and represent a necessary "asset" of a professional service firm. The auditing companies are even strong dependent on their employees, because the service delivery is made through the hands and minds of employees (Professionals).⁴²⁸ Established expertise, individual experience, specialized knowledge of the clients individual requirements and characteristics for its industry and additionally the ability to produce and determine complex structures and processes are important components which are necessary for the provision of services. The tasks and challenges that arise in auditing companies are heavily based on knowledge. Because of this and the fact that constant changes in the legal field occur in the profession the employees require continuous education and training. This is not only a willingness, but a professional legal obligation that must be met

⁴²⁸ Greenwood, Li, Prakash, Deephouse, 2005, p. 663

not only by the auditor himself but also by his employees. Due to the fact that the employees have a very close contact to the clients, the subjective perception the client gets of the relevant employee is of particular importance. The contact and relationship with the client is of specific significance and this can be scoped with aforementioned professional skills and competences of every single employee. The most significant difference with respect to the employee orientation between both models is that an auditing company is more dependent on their professionals (employees) as it is given in other companies.⁴²⁹ Additionally, the professionals largely determine the clients perceived quality of the performances and therefore they affect the reputation of a firm much more than in other companies.⁴³⁰ The TQM is characterized by a very strong customer focus. Meeting customer needs is a top priority regardless whether a quality management system has been implemented. The customer plays the central role.⁴³¹ At TQM the customer defines quality, not the company itself.⁴³² In contrast the profession of auditors blanks out the customer perspective entirely, the IDW argues for “objectified quality”.⁴³³ They hold the opinion that “[...] the users’ typified expectations of audit opinions are concretized in the existing legal and professional requirements for auditing quality [...]”.⁴³⁴ The results of the conducted expert interviews delivered a similar understanding of quality (see chapter 4.2.). The majority of the interviewed auditors define quality as purely object-related (in compliance with legal and professional obligations). When applying the AC-QD model, the customer or so called clients do not determine the quality, but quality is the sum of the fulfillment of all eight components which then leads to “accurate audit services provided independently and in compliance with all legal and professional requirements and meeting the expectations of both the recipient and the public“ (see chapter 3.3.).

Due to the daily scope of work an auditor has to fulfill, meeting customer needs and expectations cannot be a top priority. But in contrast to the IDW and the interviewed experts, the author holds the opinion that customer expectations cannot be expressed in standardized requests and that they have to be considered. In addition to the consideration of technical skills and abilities, the contact to clients bears a meaning in the AC-QD model, but not the central role. The aim of the auditor activities is to ensure the public’s and stakeholder’s

⁴²⁹ Fischer, 2005, p. 878

⁴³⁰ Lowendahl, 2005, p.45

⁴³¹ Rothlauf 2012, pp 97

⁴³² Hummel, Malorny, 2002 , p. 42

⁴³³ Institut der Wirtschaftsprüfer, 2007, p. 1220

⁴³⁴ Institut der Wirtschaftsprüfer, 2007, p. 1220

confidence in the professional judgment of an auditor. The TQM focuses and emphasizes on large companies and manufacturing companies in particular. However, the AC-QD model was developed exclusively for micro-, small- and medium sized auditing companies in order to better manage the flood of regulation and may represent as a substitute for an external quality control procedure. Furthermore TQM is characterized by high administrative terms as well as process rules and checklists, which can be classified as oversized for small businesses. For micro-, small businesses TQM brings significant additional expenses in combination with inefficient extra work load.⁴³⁵ The AC-QD model has just been developed especially for the needs of micro-, small- and medium sized auditing companies, and aims to emphasize that each company develops each component of the model by itself, constantly adapting to changing needs and legal requirements. The AC-QD model avoids the bureaucratic overhead and in the long-run it shall replace the external quality control for micro- and small-sized auditing companies in Germany. The ultimate goal that should be achieved with TQM is called out by Zollondz as follows: “good business results measured for example on financial variables such as earnings, sales and stock price.”⁴³⁶ This consideration of TQM contradicts to the primary focus on customer needs, as they often are contrary to corporate interest. The question arises if customer demands shall be fulfilled even if a company suffers disadvantages, for example a loss? The AC-QD Model is aligned in contrast to that. The goal of profit maximization is inconsistent with the public task of the annual-audit. Auditors do not carry on a trade, but fulfill a profession. He admits his promise to the interested public, the public trusts his judgment and his audit opinion. Additionally the public trusts in the auditor’s duty to report and fulfill his warning function.

The important differences between the TQM and the AC-QD model result out of the specific duties and functions which have to be fulfilled by auditors (see chapter 2.1.) Auditors administer an important safety feature for the economy and create trust for capital markets, shareholders, creditors and other interested public. Auditors carry out statutory audits that can only be performed by auditors according to law. While performing these activities auditors are impartial, entitled and obligated to lead the professional seal. Consequently these functions lead to the fact that a quality-model for auditing companies has to consist of not only one – but multiple components (in TQM referred as pillars) which all result from the specific duties and functions of an auditor. At the same time the design of the AC-QD model

⁴³⁵ Oess, 1994, pp. 86; Lux, 1996, pp. 48

⁴³⁶ Zollondz, 2011, p. 326

is not oversized, but allows micro-, small- and medium sized auditing companies to develop and form their own components according to their individual company. Even the framework of the IAASB which has been developed recently (see chapter 1.3.1.) does not come up with an actual definition. They rather created a framework which focuses on big auditing companies conducting audits. The objective of this concept was to initiate a dialogue on audit quality but for auditors using this framework it will be difficult to generate appreciable improvements in terms of quality.

3.3. Summary and Novelty of the AC-QD Model

The individual components of the author's new AuditCompany-QualityDevelopment Model (AC-QD model) have been presented. For this holistic approach to quality, it is important that each audit company considers **every** component on its own and defines it individually. In this way, every audit company has the possibility to define its own quality by means of a uniform model. As leader, the auditor specifies the vision, mission statement and overall corporate strategy of the company. The leader decides how to position the company on the auditor market and how it should be developed in the future. The whole office will back the decision only if they decide, define, and find their own holistic idea of quality. This quality needs to be "lived" every day, in all sectors described, on all levels and by every employee. The inclusion of the whole office – that means of all employees – is a vital prerequisite for the fulfillment of the mission of "extensive quality". Quality cannot just be ordered by the employer, but needs to be followed and set as an example by him. It is the task of an auditor as the leader to develop the 8 components for his own company in due consideration of the employees as professionals. Subsequently the auditor has the management task to control the implementation of his own defined components. To sum it up, the holistic model developed by each office itself needs to consider all aforementioned components, and the office customizes it to the current conditions. Among all factors, independence is the main factor of all components. Independence is seen as the chief principle and thereby makes sure that the expected and the obtained quality correspond. Real quality doesn't arise from quality control but will arise when it becomes the commitment of the whole auditing company, exemplified by the auditor and each employee. Quality has to be the unique selling point (USP) of the auditing company; every task in the company has to be aimed at fulfilling the quality requirements it sets for itself. At the same time, the auditor has to keep his independence, and considering his professional duties, create values in his work, which will fulfill the

expectations of the shareholders, of the public, and of the company audited. The auditor has the responsibility but he has to include his employees in the whole process.

The **novelty** in this model is that there is no model extant that includes and combines all eight of the components presented. Furthermore the new AC-QD model with its eight components offers a uniform method for developing an individual quality for each company (when all eight components are taken into account). The uniqueness of this model is the importance of the interaction of all elements and conditions. Only when **all eight components** are taken into account by the auditor, is he able to achieve his own quality model following a holistic approach. At the same time it is important to create a uniform understanding and a uniform framework, how quality is derived and defined with regard to the respective company. Therefore, it is not about finding a uniform quality – which does not-exist – but about finding a uniform method of defining and controlling individual quality⁴³⁷. Each company has to define its own quality, using the AC-QD model explained above. The way and method, how quality is to be understood, is uniform, but each company defines for itself its individual, unique quality. This results in a differentiated and individual quality for each and every company. By this way every company will get as much quality as possible. Furthermore, it is important to clarify that it is not a static model; quality is not a fixed fact but an evolving process. The individual components must always be adapted to the current circumstances and requirements of the office. Only then a holistic quality is provided. Only the consideration and the interaction of all eight components meet the requirements of comprehensive quality. It is also important that quality is a dynamic process. Nevertheless, all these eight components are subject to constant change: laws and relevant legal requirements are constantly changing, employees and clients change, etc.. The company, which adopts the AC-QD model, always has to redefine and determine "their own eight components" exactly for their individual purposes. Quality of auditing services is more than "to do our jobs right"⁴³⁸ Quality in auditing companies is achieved when each and every one develops the 8 components constantly, adapts and renews them according to changes, and thus develops their own quality model.

In summary, the following unique **definition of quality** can be derived from the chapter above:

⁴³⁷ Hahne, 2013, p. 271

⁴³⁸ Pfitzer, 2006, p. 189

Auditing Quality is flawless work, which is performed independently and in consideration of all legal, professional and ethical requirements, exposing mistakes, reporting them and fulfilling publics' and mandates' expectations.

Consequently, the individual quality of each single auditing company is obtained when the eight components of the AC-QD model are developed and applied in a constantly evolving process. The results are: accurate audit services provided independently and in compliance with all legal and professional requirements and meeting the expectations of both the recipient and the public.

3.4. Main Tests for Research and Research Questions for Quality

This chapter describes how the tests were developed, how they were utilized and what the goals were that the researcher aimed for. The existing literature has been thoroughly researched, analyzed, and identified by the researcher. Furthermore, the different aspects, methods and approaches in the literature were analyzed and summarized. It is nearly impossible to give an overview of the whole scope of the literature. The main body of literature was reviewed systematically and theory-oriented. The aim of the procedure was to draw new findings. As described in Chapter one, there is no generally valid definition of quality, nor is there a common definition or understanding of quality within the fields of business management, services or audits.

With the introduction of external quality control the auditing profession is supposed to be supervised, to ensure quality through an inspection of the internal quality control systems established in the auditing companies.⁴³⁹ One goal of the introduction of quality control is to raise the quality of audits⁴⁴⁰, even though there is no common definition of quality. As small and medium-sized auditing companies are especially affected by the number and scope of the constant new legal and professional restrictions, this research project will focus exclusively on their concerns. Four research questions will be analyzed, which, in the following will be presented in detail:

1. Is there a uniform understanding of quality in the profession of auditors?
2. Has the introduction of external quality control increased the quality of audits?

⁴³⁹ Maccari-Peukert, 2011, p. 96

⁴⁴⁰ Marten, 2001, p. 24

3. Does the size of an auditing company have an effect on the quality of audits?
4. Does external quality control have an effect on the continuance of small and medium-sized auditing companies?

Understanding of quality

As examined in detail in Chapter 1.3 (Quality Research in Audits) neither in the direct nor in the indirect quality research of auditing a holistic approach of the understanding of quality in audits can be found, or how it should be defined. Even the various examined definitions, disposed by several quality researchers, do not offer a common understanding of quality. Regardless of this, new laws, communiqués, and standards are decreed just to raise the quality in financial audit, as if it is clear for every auditor what is meant by quality. This fact leads to the research question: Is there a standardized understanding of quality in the profession of auditors?

The **Test T₀₁** derived from this research question is the following:

Test T₀₁: There is no uniform and fits-it all approach of quality understanding in auditing companies.

Analogous to the zero Test, the **Alternative Test T₁₁** is defined as:

T₁₁: There is a uniform and fits-it all approach of quality understanding in auditing companies.

External quality control and the effects on quality

Based on the new model of Quality Management developed in Chapter 3, it has already become clear, that quality cannot be assured or increased only through legal measures. This leads to the second research question. The aim of the empirical research is to examine the question: Has the introduction of external quality control increased the quality of audits?

The **Test T₀₂** derived from this research question is the following:

Test T₀₂: The external quality control did not improve the quality in audits and auditing companies.

This means in detail for the research work: Quality in audits cannot be attained through legislative measures or regulative interventions by the profession, if the auditors are not willing to “live” quality consciousness every day in their auditing companies.

Analogous to the zero Test, the **Alternative Test T₁₂** is defined as:

T₁₂: The external quality control did improve the quality in audits and auditing companies.

Should the results of the empirical research lead to the rejection of the alternative test, then the correctness of the test T_{02} can be presumed, meaning that external quality control has not increased quality.

Quality and the size of the auditing company

There are extensive theoretical approaches and empirical studies examining the influence of various factors, such as the size⁴⁴¹ and/or the specialization⁴⁴², the duration of the mandate and accounting policy and a possible competitive pressure on the quality of audits. They examine, to what extent there is a correlation between the respective factor and the quality of audits. Some of these scientific studies⁴⁴³ show, that in large auditing companies – simply due to their size – the quality is better than in small auditing companies, namely the models of DeAngelo and Ewert. Other studies examine the correlation between the quality of audits and the size and specialization of the auditing companies. They also attempt to prove that large and specialized auditing companies have a higher quality of audits than small or non-specialized auditing companies.⁴⁴⁴ The empirical studies examined by Jany, however, were not able to show such a correlation in all countries,⁴⁴⁵ Studies for the USA after the introduction of the Private Litigation Reform Act and for China showed a correlation between liability provisions and the varying quality of audits between small and large auditing companies⁴⁴⁶. A study which was carried out in Europe, on the other hand, was not able to find such a correlation. Other studies by Choi et al. and Francis/Wang came to contrary conclusions. They examined the influence of liability regulations on the difference in quality between large and small auditing companies and compared it internationally.⁴⁴⁷

The alleged difference in quality between small and large auditing companies has often been the object of theoretical and empirical studies in the past. The theoretical studies and models of DeAngelo and Ewert (cf. Chapter 1.3.2.) come to the conclusion, that the large auditing companies have a greater incentive to produce a higher quality of audits than small auditing companies⁴⁴⁸, and that the motivation to produce a higher quality of audits directly depends

⁴⁴¹ DeAngelo, 1981b, p. 183

⁴⁴² Jany, 2011, p. 201, examined whether the design of liability rules has an impact on quality differences between large and small and specialized and non-specialized firms.

⁴⁴³ Francis, Yu, 2007 pp. 1521

⁴⁴⁴ Jany, 2011, p. 153

⁴⁴⁵ Jany, 2011, pp. 89 and 151

⁴⁴⁶ Jany, 2011, p. 149

⁴⁴⁷ Francis, Wang, 2008, 162

⁴⁴⁸ DeAngelo 1981b, p. 183

upon the amount and the probability of the clients that could potentially be lost as well as the loss of clients itself.⁴⁴⁹ In the analysis of 39 examined studies on the actual quality of audits, however, Jany⁴⁵⁰ came to the conclusion the results can differ quite a bit, even if their tendency confirms the theoretical models. Twenty-three of the studies examined by him come to the conclusion that the quality of audits is higher in large auditing companies than in small ones, fifteen do not reach a consistent conclusion and only one study shows a higher quality of audits for small auditing company. Among the studies examined by Jany, only the studies of companies in the USA showed a higher quality of audits in large auditing companies, the studies focusing on companies in Europe either reached mixed conclusions or showed nearly insignificant differences in quality.⁴⁵¹ The results of the three studies mentioned previously, which seem to be of the greatest interest for the current research project, will be briefly presented in the following: In their 2004 study “Audit Quality and the Pricing of Discretionary Accruals” on the Belgian auditors market, Bauwhede/Willekens come to the conclusion, that there are no differences in quality between large and small auditing companies.⁴⁵² A similar result was presented by the 2004 study by Jeong/Rho, „Big Six auditors and audit quality: The Korean evidence“, which examined if there are differences in the quality of audits between large and small auditing companies due to better methods, qualified employees and greater motivation in South Korea. The results of the study showed that there was no difference in the quality of audits between large and small auditing companies, concerning existing client relationships as well as changes of auditors.⁴⁵³ A third study of interest for this work was carried out by Maijoor und Vanstraelen in 2006 and examined if there are country-specific particularities in Germany, France and Great Britain, which influence the quality of audits. The researchers were not able to find significant differences in the quality of audits between large and small auditing companies in Germany and France, but they did find differences in Great Britain.⁴⁵⁴ This leads to the second research question, which stands in contrast to a part of the literature on audit quality, that states that only big companies are able to execute audits well⁴⁵⁵, if small and medium-sized companies and chancelleries don’t guarantee a higher level of quality anyway. Can the size of an auditing company influence the quality of audits?

⁴⁴⁹ DeAngelo, 1981b, p. 183; Ewert, 1993, p. 716

⁴⁵⁰ Jany, 2011, p. 91

⁴⁵¹ Jany, 2011, p. 91

⁴⁵² Bauwhede; Willekends, 2004, p. 53

⁴⁵³ Jeong; Rho, 2004, p. 175

⁴⁵⁴ Maijoor; Vanstraelen, 2006, p. 38

⁴⁵⁵ Marten, 1999, p. 115

This leads to the **Zero Test T0₃**:

T0₃: The size of the auditing company has no influence on the quality of audits.

And derived from it, the **Alternative Test T1₃**:

The size of the auditing company has an influence on the quality of audits.

The Influence of External Quality Control on the Continuance of Small and Medium-Sized Auditing Companies

Since the year 2000, a number of new legal and professional regulations have been introduced, which have disproportionately burdened small and medium-sized auditing companies in their function as statutory auditors (for more details, see Chapter 2.4.), as they are more strongly affected by the manifold normative changes than the large auditing companies.⁴⁵⁶ During the same period, the concentration on the auditor's market has become more pronounced; the auditing of publicly traded companies in Germany is distributed among only four auditing companies.⁴⁵⁷ Therefore, in the light of further legal regulations to come, another research question arises: Do the regulative measures, especially in form of external quality control, have an effect on the continuance of small and medium-sized auditing companies?

This leads to the following **Zero Test T0₄**:

The external quality control has negatively influenced the continuance of small and medium-sized auditing companies.

This means, that the effects of the introduction of external quality control and the requirement of a certificate of participation as a condition of being able to perform statutory audits, depends on the size of the auditing company, meaning, that the effects diminish, the larger the company is, and are therefore more readily accepted by the auditors. The normative changes have led to an increase in the workload and other expenditures for small and medium-sized auditing companies it has already been discussed.⁴⁵⁸ If Test T0₄ is verified, this implies that further legal and professional restrictions will lead to a further reduction of small auditing companies that carry out statutory audits.

The **Alternative Test T1₄** would be:

The external quality control has positively influenced the continuance of small and medium-sized auditing companies.

⁴⁵⁶ Farr; Niemann, 2006 p. 1298, Tiedge, 2008, p. 28

⁴⁵⁷ Stefani; Gabor, 2004, pp. 407

⁴⁵⁸ Haßlinger, 2011a, p. 73

3.5. Research Methods and Research Design for Quality

This chapter covers the methodology of the thesis and begins with an explanation of secondary and primary research. The following part justifies the research design and methods used in order to obtain primary data. In addition, the design and distribution of the questionnaires is presented. The sample size has been drawn from experts in the fields of auditing from small to medium-sized companies.

The aim of the study is a critical assessment of external quality control, which is prescribed by law, and its effects on quality in and on small and medium-sized auditing companies. This topic is of paramount importance for such auditing companies. The empirical analysis shall examine some statements about the ability of external quality control as an instrument to raise the quality of smaller auditing companies or audits in general or whether it is an overregulation for the profession, especially with a disproportionate burden for small and medium-sized auditing companies, so that the actual organization of the system endangers the smaller companies.

The 3 Perspective View of this Dissertation

The dissertation considers 3 perspectives in total. The first perspective represents the theoretical background of quality research and auditing. It examines quality research approaches in general business management (see chapter 1.1.), research approaches from service (see chapter 1.2.) and it prioritizes research approaches in auditing (see chapter 1.3.). The auditing is based on preset legal requirements for the establishment of an internal quality control system. The profession of auditors analyzes the implementation of such a quality control system and its impact on the profession (see chapter 2.). The second perspective is the evolution of a new model of quality development in auditing companies. Nevertheless it is not sufficient to develop new model and evaluate it according to the impacts of legal requirements on the quality and the profession. These legal requirements need to increase the quality and need to be feasible for the profession. Moreover, the new model needs to lead to a common understanding of quality in the profession, with the consequence that every company can define its individual quality (see chapter 3.1.). Therefore the third perspective is/represents the auditors' opinion about the quality of the profession in general, his office in particular, as well as the implementation of external quality control and its impact on the quality. In total 46 expert interviews in 4 different groups of accredited professionals have been conducted. These experts were asked about their understanding of quality, the importance of the implementation of the 8 components on external quality control system and the influence of

external quality control on the quality and on their company. The data collection method and qualitative analysis method are described in detail below. The questionnaire for the expert interviews is shown in the **Appendix 4**.

Quantitative and qualitative Research Methods

Quantitative and qualitative approaches are mainly distinguished by their scientific viewpoint, the understanding of methods and the use of hypotheses and theories. There is a major difference between quantitative and qualitative methods. The quantitative methods have as their aim the verification of hypotheses, while the qualitative research is about explaining terms and theories. With the aid of quantitative methods theory-driven data about the social reality is to be gathered. This data has to fulfill the criteria of reliability, validity, representatively and intersubjective verifiability⁴⁵⁹. The aim of quantitative research is to examine the theories and hypotheses presented with the data collected. There are a multitude of quantitative data collection methods, such as qualitative content analysis, surveys and interviews or observation.⁴⁶⁰ The central assumption of the qualitative approach is, that “social actors assign meaning to objects and do not rigidly adhere to norms and rules, but rather interpret social situations and procedurally construct their social reality”⁴⁶¹. Thus, interpretation lies at the center of this research method. Within qualitative research, there are a number of principles (openness, process-based character of the research, reflexivity of research, explication of the approach, research equals communication, and problem orientation), which can be seen as the common basis of various approaches in qualitative research. A multitude of qualitative research approaches, such as qualitative questioning, qualitative observation, and qualitative content analysis are differentiated. This dissertation uses a qualitative research approach, in order to regard the point of view of various groups of the profession as a third perspective. The implementation of external quality control and its impact on the quality of auditor services as well as on a company’s portfolio can be researched reasonable by expert interviews in combination with a qualitative evaluation method. The implementation of quality control requirements, the difficulties in implementing such a system, the impacts and the current problems of small-and medium-sized auditing companies are efficiently carved out by a qualitative research method. In particular the topics of the actual understanding of quality, the implementation and its impact as well as the actual

⁴⁵⁹ Atteslander, 2010, p. 76

⁴⁶⁰ Bryman, 2012, p. 35

⁴⁶¹ Bryman, 2012, pp. 35

problems of the profession can be comprehended more easily by conducting a conversation than in a quantitative method using a standardized questionnaire. Moreover, through expert interviews the interviewees experience with external quality control can be detected. The interviewees are not seen as an individual person but in this study they rather function as experts in a particular field⁴⁶², so to speak, as a “representative of a group”⁴⁶³. This dissertation uses the guideline-based expert interview as qualitative method of data collection⁴⁶⁴. Distinctions are made between different types of interviews. The guideline-based interview is a non-standardized interview type. A questionnaire with open questions serves as a basis for discussion⁴⁶⁵. The respondents of expert interviews are typically people having an expertise in a specific field which is relevant for the investigation. Guideline-based interviews aim to ask for the experts’ knowledge.⁴⁶⁶ Through the conducted expert interviews in context with this dissertation, relevant data for the research questions have been conducted. The data has been analyzed with a qualitative analysis as a method of empirical qualitative research⁴⁶⁷. Through this research approach the difficulties in implementing a quality control system, the recent problems of the auditing profession and the detection of the current understanding of quality can be developed more efficiently than on a quantitative approach. A survey by a mailed questionnaire would not be able to seek the opinion and knowledge of the experts. The Communication during the interviews is very important, and therefore a clear advantage of the expert interviews. A quantitative research method using a mailed questionnaire cannot ensure that, as the communication process is missing⁴⁶⁸. As a consequence a questionnaire cannot anticipate the kind of knowledge and does not include the appropriate questions. Furthermore, the topic quality and quality control is very specific and does not concern the whole profession as some auditors do not have a valid certificate of attendance for the quality control measures (see chapter 2.4.). Therefore only auditors who participated at least once in the quality control measure have been interviewed. The interviewees served as experts with an expertise in the specific field of quality. Finally, the quality reviewers represent the second group of experts. They have a special knowledge in the particular field of quality control which goes well beyond the common knowledge and has been acquired through many years of training and specialization.

⁴⁶² Mayer, 2008, p. 38

⁴⁶³ Flick, 2012, p. 214

⁴⁶⁴ Flick, 2012, pp. 214

⁴⁶⁵ Mayer, 2008, p. 37

⁴⁶⁶ Gläser, Laudel, 2010, p. 11

⁴⁶⁷ Mayring, 2010, p. 2

⁴⁶⁸ Gläser, Laudel, 2010, p. 40

3.6. Quality Criteria for Research and Empirical Research Methods

In empirical research, the question of the quality of the measuring process arises, which has a crucial effect on the success of the analysis and the significance of the results.⁴⁶⁹ Quality factors serve as targets and to verify the research method employed. The following quality factors are distinguished: the validity, reliability of gaining scientific information, and objectivity.⁴⁷⁰

The **validity** relates to the validity and material accuracy of a measuring instrument. As part of the validity examination, the question is asked, if what is supposed to be measured is actually being measured.⁴⁷¹ For this empirical study, the validity has been confirmed by filtering relevant features from previous studies and by controlling the questionnaire in a pretest. However, it should be mentioned that a slightly negative effect on validity cannot be completely ruled out, e.g. if the questionnaire is not filled out by the auditor personally, but by his assistant, and therefore the answers might not coincide exactly with those of the auditor. But this can mostly be ruled out, as the majority of interviews (87 %) were conducted personally with the respective professional. The second quality factor, **reliability**, states that the assignment of values has to take place systematically, it relates to the “stability and accuracy of the measurements as well as the constancy of the measuring conditions”.⁴⁷² To this end, standardized questionnaires were used in this study. They underwent a pretest first and the same standardized questionnaire with the same questions was used in all three countries. The expert interviews were conducted as structured interviews with the help of a structured questionnaire. Every expert was included as a representative of a group. **Objectivity**, as the third quality factor, means that the measurement results are independent of the researcher, in other words, the measurement has to be independent of the interviewer and the evaluator.⁴⁷³ Independence is given, if several experiments reach the same results.⁴⁷⁴ The expert interviews were also conducted with the aim of objectifying the presumed connections. The standardized questionnaire used in the interview underwent a pretest, so that the information could not be misunderstood by the interview partners. The research questions and tests were analyzed scientifically and proven with several expert interviews with **four**

⁴⁶⁹ Albers, 2009, p. 485

⁴⁷⁰ Mayer, 2008, p. 55

⁴⁷¹ Atteslander, 2010, p. 296

⁴⁷² Friedrichs, 1990 p. 102

⁴⁷³ Mayer, 2008, p. 89

⁴⁷⁴ Atteslander, 2010, p. 296

different expert groups. With these interviews the idea was to show, whether there is a uniform and holistic understanding of quality in the profession and in their daily work. It was to examine whether the external quality control was and is able to increase quality of audits and auditing companies and if it has had an influence on the auditors market in the recent years. It also was to show whether there is a difference in the quality in small and medium-sized auditing companies and in large ones, and whether the earlier fixed tests could be proved. The four groups include representatives of the auditors themselves, reviewers of quality control, a representative of the auditing profess and a representative of auditing consultation.

As the purpose of the data collection was to collect concrete statements, the expert interviews were designed as semi-structured interviews, as this was the most economical way⁴⁷⁵. It is typical for structured interviews that they are based on open questions. To these the respondents can answer without any restrictions or pre-given answers. A consistent use of the guideline will improve the data comparison and the data is structured by the questions⁴⁷⁶. A most important reason to conduct structured interviews is that they fulfill the demands of qualitative research⁴⁷⁷. Expert interviews are a specific form of applying semi-structured interviews. “If expert interviews are used, mostly staff members of an organization with a specific experience and knowledge are the target groups.”⁴⁷⁸ In this case auditors, auditors` reviewers, professional consultation and professional representatives were questioned who have professional experience and an inside view of the market structure. This dissertation uses a qualitative research approach. The composition of experts has been chosen according to company size in order to correspond to the company sizes of the auditing profession. Therefore the research results are adaptable throughout the auditing profession without claiming to be representative.

Sampling Size

The author conducted the research as follows. Experts in the field of auditing were researched in Germany. For the selection of **auditors** the experts had to be self-employed in their own company. Furthermore it was important that all experts had a valid certificate of participation for quality control according to § 57a WPO in order to guarantee sufficient experience in the process of quality control. Next, among the experts should be auditors who participated once,

⁴⁷⁵ Flick, 1999, p. 114

⁴⁷⁶ Mayer, 2008, p. 37

⁴⁷⁷ Reithel, 2008, p.11

⁴⁷⁸ Flick, 1999, p. 166

twice and even thrice in the process of external quality control. Therefore it could also be investigated whether experts who have already participated more often, show different responses. In addition, the selected auditing companies should represent in their entirety the structure of the profession; meaning the amount of small, medium and big interviewed auditing companies should correspond to the distribution of small, medium and big companies within the profession. The author explicitly excluded the “Big-4” companies as this research concentrates on small- and medium sized auditing companies. For selecting the sampling size of the experts the author used the membership-list of the organization wp-net. Wp-net is an association of auditors exclusively for small- and medium-sized auditing companies in Germany. At the same time wp-net participates actively in the professional tasks and represent 16 members in the advisory board (45 members) of the Chamber of Public Accountants. Therefore wp-net can be classified as professional institution, with members which have high commitments to the profession of auditing. During the time of selecting the experts wp-net listed 932 members. Out of this list every 10th member has been chosen but not every 10th fulfilled the given research requirements (of being self-employed in their own company, valid participation etc.) or were not willing to participate. In the end, 34 experts have been interviewed in this group, group 1.

When selecting the auditor quality reviewer for the sample, the author took all aforementioned criteria into account and additionally they had to fulfill the requirement of actually performing external quality controls and not only being registered as such. In total 120 auditors are registered as auditors for external quality control at the Chamber of Public Accountants, but only 58 work actively in the field of external quality control. This condition was important because an active auditor for quality control is experienced in quality processes and in the field of external quality control from his own company as well as from his work as auditor. He assesses the external quality control thus from the perspective of the auditee and the auditor. The author interviewed 10 out of the 58 Auditor Quality Reviewer for this research. For the category of professional education Dirk Hildebrandt has been selected because he is an auditor in his own company and he owns one of the leading training providers for accountants and auditors in Germany. Over a period of 20 years, Hildebrandt has conducted training courses for more than 10.000 auditors. In 2005 he founded the “Primus Academy” and is the owner and main lecturer of the Academy. The Academy is recognized by the Chamber of Public Accountants as professional seminar provider. In total, Hildebrandt performs his seminars yearly in 15 cities in Germany, exclusively for auditors. These seminars are held quarterly and semi-annually, and with the participation auditors fulfill their

obligation of constant training according to § 43 paragraph 2 WPO. For selecting a representative of the auditing profession it has to be said that all auditors in Germany have the duty of being a member of the Chamber of Public Accountants. Consequently the Chamber of Auditors represents the entire profession. In addition, there is an association for small- and medium-sized auditing companies, called “wp-net eV”. Since its founding in 2005 by Mr. Gschrei, the association is committed to improving general conditions for its approximately 1.000 members as well as for those working in small- and medium-sized auditing companies. Gschrei founded this association and until 2011 he was the only member of its executive board. In the period from September 2011 to March 2012 he was the president of the Chamber of Public Accountants, which is the highest committee in the profession. He is currently again a member of the executive board of wp-net. He is also a lecturer for the continuous training of auditors for external quality control. The Chamber of Public Accountants and wp-net e.V.⁴⁷⁹ have a list of qualified members. As mentioned above, from these two lists members were chosen, with the exception of the BIG 4 Companies, as these were excluded due to the research question. The respondents were called in advanced and asked if they were willing to participate in an expert interview – personally or via telephone. When they agreed, they received a self-completion questionnaire via e-mail in order to prepare for the personal or telephone-led interview. Some of the conducted auditors were not willing to participate in a personal or telephone-led interview, but agreed to return the filled-out questionnaire. The respondents have been contacted via phone in advance in order to clarify the background of this research project and additionally they got a guideline to the questionnaire. The auditor interview partners all have a valid certificate of participation for the system of quality control. They thus have a broad knowledge of the respective system, are active in their own companies and can therefore be qualified as „experts“. Additionally, in-depth interviews were made with auditor quality reviewers, and also with a representative of the auditing profession besides his function as auditor, and with a representative of professional education. The experts were thus separated into four interest groups, so that different perspectives were taken into consideration:

- auditors with their own company of different sizes
- quality control reviewers
- a representative of the auditing profession
- a representative of professional education.

⁴⁷⁹ Wp-net e.V. Verband für die mittelständische Wirtschaftsprüfung

The qualitative expert interviews contain many uncorrelated answer variables; therefore the given answers are listed in a catalogue and the given interdependence are researched from of the answers that are given.

Questionnaire Design

The questionnaire used is a semi-structured questionnaire and consists of open and closed questions. The questionnaire contains the same questions for every respondent, in the same order. Open questions were used when asking about the implemented quality measures within the company and personal opinions about quality, quality control and the effects it had, in order to gain additional information. Another reason for doing this was because many different possibilities exist when implementing quality measures in order to receive a precise result. The researcher wanted to make sure that the respondents use their own words and were not restricted by any given answers. The closed questions in the questionnaire have standardized answer possibilities. They can be answered more quickly and have a higher degree of structure. Therefore those questions can be organized and analyzed easily.⁴⁸⁰ The entire questionnaire is made up of 17 questions and can be divided into two parts, which will be explained in more detail. Furthermore it was important to know what changes have taken place in the auditing market and if quality control has changed the quality in the company or if it had structural effects. The questionnaire begins with the general questions and continues with more specific questions on quality control. In the first part (General Data, Question Complex 1), the questionnaire designed contained questions on quantitative data, such as the size of the company, the number of employees, the age of the professional, as well as questions on the amount of final audits and the participation in the quality control. In total, ten quantitative characteristics were asked. In the following, 16 open and qualitative questions were asked that solely concern the item of research “quality“ and the external quality control. One open question (question 3) asks the experts to rank their responses on a scale from one to six. A pretest was run for the standardized questionnaire at the beginning of 2012 to assess the comprehensibility, unambiguousness and completeness of the questions, as well as the duration of the interview.⁴⁸¹ During a professional training event, which was only attended by auditors from small and medium-sized companies, eight randomly chosen auditors were interviewed. With these eight pretest-results, unclear wording of questions as well as methodological disadvantages could be eliminated.

⁴⁸⁰ Brown, Churchill, Suter, 2010, p. 65

⁴⁸¹ Mayer, 2008, p. 98

Expert Interviews and Partly Standardized Telephone Interviews

The main study was conducted with the help of partly standardized personal and telephone interviews. A personal conversation was not possible in eight cases; however, these eight interviewees were willing to send back the filled-in prepared questionnaire. Making personal or telephone interviews was chosen, as it offers a quick and direct way of contact that shortens the survey period and makes it possible for the interviewer to explain things immediately if any questions arise.⁴⁸² What's more, the possibility of answers is greatly heightened through to personal contact and the personal requesting.⁴⁸³

Based on the explained pretest, a total of 28 expert interviews und 6 questionnaires from the first group (auditors) were conducted in the 2nd and 3rd quarters of 2012, which makes a total of 34 auditors who were questioned through these interviews or questionnaires. The expert interviews are divided into 34 interviews. The research project was met by broad and positive interest by the auditing profession in Germany, especially as there are hardly any studies of small and medium-sized auditing companies. The overall willingness to participate can be viewed positively, however, and can be ascribed to the fact that the participants were contacted personally as well as the fact that they were contacted by a colleague, who also owns a small auditing company. The expert interviews as well as the questioning via questionnaire were conducted as follows: During the first contact on the phone, specific appointments were made with the interview partners, after informing them about the subject and duration of the interview. The interview partners were sent the questionnaire via e-mail before the interview. To make an appointment, several phone calls were often necessary; only in a few cases an ad-hoc interview was possible. The interviews took between 20 and 35 minutes, one expert interview 90 minutes, another 60 minutes. During the conducted expert interviews, the answers to open questions were recorded, or, if this was not possible, written down in the questionnaire. Afterwards, the audio-files were transformed into Word-files. A part of the collection and analysis was conducted anonymously. In the second group were auditors in their function as quality control reviewers. A total of 10 expert interviews were made. These interviews were all made in person with the respective reviewer on the telephone. The basis of this was the same questionnaire as the one described above for the auditors. The duration of the interviews varied from 30 to 40 minutes. With the representatives of the third and fourth groups – a representative of the auditing profession as

⁴⁸² Bryman, 2012, pp. 37

⁴⁸³ De Leeuw; Hox; Dillman, 2008, p.145

well as of the professional education – long personal expert interviews (60 to 90 minutes) were made.

This results in the following numbers and groups of conducted interviews or questionnaires:

Expert interviews and Questionnaire return

Group	Personally Conducted	Questionnaires returned	Sum
Auditors	28	6	34
Reviewer	10	0	10
Professional Education	1	0	1
Professional Representative	1	0	1
Total	40	6	46

Table 3: Groups of respondents

Furthermore, six expert interviews were conducted in Austria and two in Latvia. It was originally planned as part of this thesis, to consult more experts from the two countries in order to identify similarities and differences across the three countries in Europe and to analyze them accordingly. But in Austria, the willingness to participate in expert interviews or to fill out a questionnaire was not pronounced. Conducting interviews in Latvia initially proved difficult – also from a language point. Because there was hardly any reaction to the questionnaire sent out by the Latvian Association of Certified Auditors (LASA) it was only possible to conduct a phone interview and obtain a completed questionnaire. Therefore, the above mentioned eight interviews (Austria 6, Latvia 2) were not included in the empirical analysis and in the subsequent presentation of the results. Only the „Summary of the Results of the Empirical Study of the Effects of External Quality Control on Quality“ (Chapter 4.3.) includes shortly the outcomes of these conducted interviews and questionnaires and is called „the Differences and Similarities between the Results in Austria, Germany and Latvia“. However, this illustration is explicitly not representative.

The software SPSS (Statistical Package for the Social Sciences) was used to evaluate and analyze the data. For the first group, a total of 34 completed questionnaires or an audio file with a total of 34 answers was included. The basis for the calculations, beside the absolute, relative, and cumulative frequency distributions, were the relevant statistical measure of the arithmetic average, which is relevant for the presentation of results and the standard deviation as a measure of variation. Furthermore, the answers were analyzed concerning their statistical significance. This was done through significance tests, which were supposed to determine, if the answers of the persons questioned could be generalized. On the other hand, a correlation

coefficient was calculated, to measure the correlation of reference-creating statements. One should note, however, that due to the limited sample size, the values calculated are sometimes not strong enough. But statements (at least showing a tendency) can be made based on non-significant values, which can lead to important results, especially in the context of the plausibility check. The same evaluations were made with the help of SPSS in the second group (quality control reviewers). After this, with the help of Microsoft Excel, it was compared, in how far the responses differed in the first and the second groups. The answers of the third and fourth groups were assigned to the first group for evaluation with SPSS, and in addition were evaluated for their quality.

Additionally the open questions have been analyzed according to a qualitative content analysis. For this qualitative analysis a representative quantity is not necessary. The conducted expert interviews (34/10/1/1) provide sufficient data for this used method. The qualitative content analysis is an empirical research approach, which allows methodically evaluating a wider range of text materials. This data analysis takes place according to clear rules and allows final conclusions.⁴⁸⁴ The number of conducted interviews is not representative for the undertaken statistical analysis (SPSS). Therefore, the results of the descriptive analysis of the questions need to be put into perspective. It is not the aim of this research to prove facts statistically. The experts' opinions are presented and the developments of quality understanding as well as the practical implementation of the quality system are described. In context of this dissertation, the open questions are more important and the qualitative approach of the interviews promises to provide important knowledge for the research goal. However, it is still useful to use the expert interviews and to quantify their given opinions in a certain way. The results of the descriptive analysis may not be seen as representative, but they highlight the opinions and tendencies in the profession through the descriptive analysis. The results of the open and close questions are presented in the following chapter.

⁴⁸⁴ Mayring, 2010, p. 2

4. RESULTS OF RESEARCH OF QUALITY AND EXTERNAL QUALITY CONTROL

In this chapter, the results of the research questions are presented. The research project began in the 4th quarter of 2009 with an extensive study of the literature on the subject and an analysis of the studies conducted previously on this issue complex. This work stretched into mid-2012, always keeping up on current research. During this time the questionnaire was developed in November/December of 2011 for empirical examination. In February of 2012, the pretests were conducted and afterwards the expert interviews and interviews (see the detailed description of the process of the research project, Chapter 3.5).

The aim of the research is, to examine, whether or not there is a uniform understanding of quality in the profession of auditors, if the external quality control has increased the quality in auditing companies and if it has had an effect on the continuance of small and medium-sized auditing companies.

To be able to identify a cause-and-effect linkage, it is necessary to first analyze the results of the questionings individually. In a subsequent summary, condensed answers on the intensity and the character of the effects can be formed.

4.1. Quantitative Evaluation

On the basis of the completed questionnaires, the records underwent a quantitative analysis. For this, questions 1.1. to 1.10. were evaluated quantitatively and analyzed with regard to their empirical value. Contingency tables and Chi-Square-Tests were in line as methods of evaluation. Due to the partly small entries, a modified Chi-Square-Test, Fisher's Exact Test, was applied, as the requirements for the Chi-Test were handled incorrectly. The following evaluations were conducted with the help of the SPSS-Software:

- The frequencies (for the categorical variables, plus percentile ranks and relative percentile ranks) of entries and averages (for the metrical variables, plus standard deviations) were calculated.
- This information was issued for the whole group and for the four different expert groups.
- The information about the frequencies in Quality was issued for all other questions (2-17) in order to receive further quantitative data that was put in relation.

Firstly, the implementation of significance tests was planned; this was however renounced, as the sample was too small (in the group of the professionals applies $n=2$) to obtain a meaningful statement. Furthermore, questions 2 to 17 are exclusively qualitative and therefore not suitable for conducting significance tests. There is, however, no mandatory need of this for proving the tests, as they are to be evaluated qualitatively anyway. The following illustration shows the frequency distribution and the amount of the interviewees both in absolute terms and as percentage. Additionally, it shows cumulated percentage value and distinguishes between the four groups of auditors, reviewers, representatives of the auditing profession and representative of the auditing education. It was possible to conduct 46 expert interviews in total; 10 reviewers, 34 auditors, 1 representative of the auditing profession and 1 representative of the auditing education.

4 Groups		Frequency	Percent	Valid percent	Accumulated percentage
Group	Reviewer	10	21.7	21.7	21.7
	Auditors	34	73.9	73.9	95.6
	Professional Education	1	2.2	2.2	97.8
	Professional Representative	1	2.2	2.2	100.0
	Total	46	100.0	100.0	100.0

Table 4: Spread of the Sample

The main outcomes arising from question 1.1. to 1.10. given by the auditors are shown below. The first question concerned the size of the company of the respective interviewee. The following answering options were possible:

- Single practice or small audit company (1 auditor)?
- Medium-sized company (up to 5 auditors)?
- Big company (more than 5 auditors, but not in the Big4)?

The result was the following distribution among the interviewees:

1.1. I am Auditor in a

		Frequency	Percent	Valid percent	Accumulated percentage
Valid	Small company	30	88.2	88.2	88.2
	Medium-sized company	3	8.8	8.8	97.0
	Big company	1	3.0	3.0	100.0
	Total	34	100.0	100.0	

Table 5: Distribution of the auditors

88.2% of the interviewees own a small company, 8.8% belong to a medium-sized company and only one auditor works in a big company. Two companies, including the big one, were part of a network. The distribution reflects the ratio that arises in total among the profession of auditors; cf. Chapter 2.4.: 87.6 % of all auditors work in a small company (see table 1). The number of employees strongly varies. Six companies have no employees; conducted the audits therefore with only one person, seven companies have up to 15 employees and the other companies have 50, 70 and 400 employees each. Ten companies did not indicate a number at all.

The interviewed auditors have an average professional experience of 15 years and are in general active in their own company for a respectively long period. The number of the annual financial audit (both statutory and voluntary) in the respective companies becomes apparent from the following table:

Question 1.10. How many statutory audit clients and how many voluntary audits have you got on average per year?

		Frequency	Percent	Valid percent	Accumulated percentage
Valid	One to three	4	11.8	11.8	11.8
	Four to six	3	8.8	8.8	20.6
	Seven to nine	12	35.3	35.3	55.9
	10+x	15	44.1	44.1	100.0
	Total	34	100.0	100.0	

Table 6: Number of audits per year

A conclusion about the size of the company can be drawn from of audits conducted. It is apparent from the foregoing evaluation, that not only small companies were interviewed, but that all company sizes – except of the Big4 – have been covered. It is also important to record the amount of the annual financial audits in order to assess in how far the

interviewed company is sufficient to judge the effects of external quality control. The statistic shows, that there was a relatively consistent distribution of audits. At the same time, however, almost half of the interviewed auditors (viz 44.1 %) conduct more than 10 annual financial audits (viz 10+x).

Participation in External Quality Control Procedures

Another import quantitative question for this research work was how often the interviewed company had already taken part in the external quality control procedure. The following results were produced:

Question: 1.5. I / my / our audit company has already got a certificate of attendance of participation in the external quality control system

		Frequency	Percent	Valid percent	Accumulated percentage
Valid	QA once	5	14.7	14.7	14.7
	QA twice	28	82.4	82.4	97.1
	QA thrice	1	2.9	2.9	100.0
	Total	34	100.0	100.0	

Table 7: Number of participation in external quality control

The majority of the interviewed companies (82.4 %) had already taken part in the external quality procedure twice. One company (the largest one) had already taken part three times. This result is important to determine if the interviewees have any experience with the introduction and implementation of the external quality control procedure in their own company or if they only answer according to hearsay and opinions of others. All interviewed auditors were therefore able to rely on their own experiences with the external quality control. Furthermore, the answer to this question was necessary, as it was examined in the further course of the evaluation of the questions, in how far the responses differ concerning the research questions on quality for interviewees who had taken part in the external quality control once, twice or three times. This shows how the different groups define quality or see another influence of the external quality control on quality.

4.2. Qualitative Evaluation

Questions 2 to 17 concern the topic of quality and quality in audits. Question 2 asked for a personal definition of the term by the auditor. Question 3 asked for the importance of the given components in terms of quality (**the authors New Quality Model**); question 4 concerned the measures that the company had taken in order to ensure quality. Question 5

focused on the issue, whether or not the external quality control has had an influence on the implementation of these measures. The question if the external control has increased quality in companies and /or quality in audits was raised in question 6. The professionals had the chance to express themselves about the influence of a high formalization on the audit quality and a possibly changed quality control in questions 11 and 13.

Questions 7 and 8 aimed at the importance and the influence of the auditor's independence on the quality of his work. Through question 10 it was to be analyzed, in how far the interviewees saw a connection between the size of an audit company and its quality. The opinion on current measures that are presently discussed in the EU and within the profession in order to increase quality, is assessed with the help of questions 12 (fee scale) and 17 (separation, examination and consulting). The interviewees could express their own opinion on the chances of small and medium-sized companies – in focus of further regulative interventions and the future occupational image – in questions 15 and 16. The assessment of the foregoing questions showed the following results:

Understanding of Quality

For the test of Test T0₁

“There is no uniform and fits-it all approach of quality in auditing companies”

the understanding of quality in the profession was examined with the first open qualitative question (question 2). The participants were asked how the auditor defines quality for his company in general and specifically for statutory audits. This question examined the background of the different existing approaches of the term “quality” and quality in audits (see chapter one). Additionally, the question was asked, how comprehensive the quality perception of the companies interviewed is and if there is a company that sees quality as a holistic corporate approach –as the author does.

After the presentation of the different approaches of quality in chapter one and the fact that there is no uniform definition of quality, the answers to the questions mentioned above are not surprising. Each of the auditors interviewed defines quality in his company and in audits differently. The following illustration shows the evaluation of question two. It shows the expert's opinion on what quality is and the frequency of responses.

Question 2: How do you define Quality in general for your chancellor, and especially for financial audits?

number in total	34		10		1		1	
Group	Auditors		Reviewer		Professional		Education	
number /percentage	no.	%	no.	%	no.	%	no.	%
Named:								
Further education	14	41.2	4	40	1	100	1	100
Compliance with professional requirements	17	50.0	6	60	1	100	1	100
QS Handbook	9	26.4	33	30	1	100	1	100
Fulfillment of legal requirements	20	58.8	6	60	1	100	1	100
Professional requirements	8	23.5	2	20	0	0	1	100
Peer review	6	17.6	2	20	0	0	1	100
Customer satisfaction	8	23.5	3	30	0	0	0	0
Four-eye-principle	13	38.2	3	30	1	100	0	0
Professional duty	10	29.4	1	10	1	100	1	100
Independence	3	8.8	8	80	1	100	1	100

Table 8: Definition of quality

In general the answers to "how to define quality" limit each one to a single characteristic, such as fulfillment of legal requirements, which was quoted by 58.8% of the interviewees, or compliance with professional obligations (quoted by 50 %), and ongoing education of the professional and his employees (quoted by 41.2%), as well as the professional requirement (23.5%), accurate work, documentation and the four-eyes principle (quoted by 38.2%). As this was an open question, mentioning different quality characteristics was possible. It is worth mentioning that the majority of the auditors interviewed define quality as purely object-related (compliance with legal and professional obligations) for them. When naming single quality characteristics, almost exclusively characteristics were mentioned that concern the company and its performance (apprenticeship and advanced education) but not the demands and expectations of the clients. Also the quality control reviewers determine quality mainly as object-related. Thus, the fulfillment of legal requirements and standards is rated as quality by 60%, also the compliance with professional standards (60%). Only 30% of the quality control reviewers bear in mind their customers' satisfaction. Because of the importance of independence for the quality of the auditor's work, the opinion on this was examined explicitly in Question 6. The importance of the independence was rated – as expected – with "very high" (94. 1%), nevertheless, it was not often mentioned in Question 1 (only 3 Auditors or 8.8%), which asked for the interviewees own definition of quality. Hildebrandt then sees a threat to the independence,

respectively an “independence not always existing “ in the judgments of the auditors.⁴⁸⁵ For Mr. Gschrei, independence means not only detecting deficiencies, but also reporting them in an impartial way.⁴⁸⁶

Result 1:

The evaluation of the first open question shows, that there is no uniform definition and no uniform understanding of quality among auditors. This is similar to what can be found in the references mentioned before (see Chapter 1). The majority of the interviewed auditors define quality as purely object-related (compliance with professional obligations, and fulfillment of legal requirements) for them. It is noticeable that characteristics as apprenticeship and advanced education were named more often than the demands of clients. Only eight auditors took into account their clients when thinking about quality. The satisfaction of clients was mentioned: “Our clients need to be convinced by the quality of our work and the usefulness it has for them”⁴⁸⁷ or “The clients should have a surplus value form the service.”⁴⁸⁸ In return, the object-related view of these companies was missing in their answer.

So, the first test T0₁ is to be stated, **there is no uniform and fits all approach of quality in the profession of auditors.**

The overall conclusion is that none of the auditors interviewed – similar to the quality control reviewers - have such a broad understanding of quality that they consider quality as a holistic business approach in the center of their everyday work. In all responses only single aspects or characteristics were mentioned and described, when trying to define quality. A universal quality approach is not known to the auditors and therefore cannot be applied.

Importance of the Components of the New Quality Model

Question 3 investigates the experts’ opinion on how important they rate the individual components of the new quality model developed by the author in terms of quality. They were able to assess the importance of each item in a scale of 1 to 6 (1 lowest importance to 6 highest importance).

⁴⁸⁵ Interview Hildebrandt, Dirk, 2012

⁴⁸⁶ Interview Gschrei, Michael, 2012

⁴⁸⁷ Interview Knoll, Roland, 2012

⁴⁸⁸ Interview Leopold, Kirsten, 2012

The analysis shows following results:

Question 3: In your opinion, which importance do the following Components have in terms of Quality?

Group: Auditors (34)	1		2		3		4		5		6	
	lowest importance		low importance		rather low importance		rather importance		high importance		very high importance	
	no.	%	no.	%	no.	%	no.	%	no.	%	no.	%
Legal Requirements	0	0.0	2	5.9	4	11.8	3	8.8	5	14.7	20	58.8
Professional Requirements	7	20.6	6	17.6	3	8.8	2	5.9	6	17.6	10	29.4
Independence	1	2.9	2	5.9	5	14.7	13	38.2	8	23.5	5	14.7
Code of Ethics	0	0.0	10	29.4	10	29.4	5	14.7	9	26.5	0	0.0
Employee	5	14.7	3	8.8	3	8.8	11	32.4	12	35.3	0	0.0
Clients	2	5.9	8	23.5	10	29.4	4	11.8	5	14.7	5	14.7
Public	7	20.6	5	14.7	5	14.7	9	26.5	6	17.6	2	5.9
Competition	5	14.7	2	5.9	8	23.5	14	41.2	5	14.7	0	0.0

Table 9: Importance of Components – Auditors

Group: Reviewers (10)	1		2		3		4		5		6	
	lowest importance		low importance		rather low importance		rather high importance		high importance		very high importance	
	no.	%	no.	%	no.	%	no.	%	no.	%	no.	%
Legal Requirements	0	0.0	1	10.0	0	0.0	1	10.0	1	10.0	7	70.0
Professional Requirements	0	0.0	1	10.0	1	10.0	3	30.0	2	20.0	3	30.0
Independence	0	0.0	0	0.0	3	30.0	1	10.0	2	20.0	4	40.0
Code of Ethics	0	0.0	4	40.0	2	20.0	1	10.0	2	20.0	0	0.0
Employee	3	30.0	0	0.0	2	20.0	4	40.0	1	10.0	0	0.0
Clients	2	20.0	0	0.0	3	30.0	2	20.0	2	20.0	1	10.0
Public	3	30.0	1	10.0	1	10.0	1	10.0	2	20.0	2	20.0
Competition	2	20.0	2	20.0	1	10.0	3	30.0	2	20.0	0	0.0

Table 10: Importance of Components - Reviewer

First of all an analysis of the responses shows that all components are of importance to the respondents. Both, the group of auditors as well as the group of reviewers rated the fulfillment of legal and professional requirements as of the highest importance for quality. So 58.8% of the auditor and even 70% of the reviewers consider the fulfillment of the legal requirements as their highest priority (6 in scale). When adding up the answers “with high priority” (5), then this results in a total of 73.5% of auditors and 80% of reviewers who consider professional and legal requirements as the most important aspects of the new quality model.

The following chart illustrates the order of the respondents' ranking of the individual components of the new quality model.

Question 3: In your opinion, which importance do the following Components have in terms of Quality?

Group: Auditors (34)	1		2		3		4		5		6	
	lowest importance		low importance		rather low importance		rather high importance		high importance		very high importance	
	no.	%	no.	%	no.	%	no.	%	no.	%	no.	%
Legal Requirements	0	0.0	2	5.9	4	11.8	3	8.8	5	14.7	20	58.8
Professional Requirements	7	20.6	6	17.6	3	8.8	2	5.9	6	17.6	10	29.4
Independence	1	2.9	2	5.9	5	14.7	13	38.2	8	23.5	5	14.7
Employee	5	14.7	3	8.8	3	8.8	11	32.4	12	35.3	0	0.0
Clients	2	5.9	8	23.5	10	29.4	4	11.8	5	14.7	5	14.7
Code of Ethics	0	0.0	10	29.4	10	29.4	5	14.7	9	26.5	0	0.0
Public	7	20.6	5	14.7	5	14.7	9	26.5	6	17.6	2	5.9
Competition	5	14.7	2	5.9	8	23.5	14	41.2	5	14.7	0	0.0

Table 11: Ranking of components according to their importance – Auditors

Group: Reviewer (10)	1		2		3		4		5		6	
	lowest importance		low importance		rather low importance		rather high importance		high importance		Very high importance	
	no.	%	no.	%	no.	%	no.	%	no.	%	no.	%
Legal Requirements	0	0.0	1	10.0	0	0.0	1	10.0	1	10.0	7	70.0
Independence	0	0.0	0	0.0	3	30.0	1	10.0	2	20.0	4	40.0
Professional Requirements	0	0.0	1	10.0	1	10.0	3	30.0	2	20.0	3	30.0
Public	3	30.0	1	10.0	1	10.0	1	10.0	2	20.0	2	20.0
Code of Ethics	0	0.0	4	40.0	2	20.0	1	10.0	2	20.0	0	0.0
Clients	2	20.0	0	0.0	3	30.0	2	20.0	2	20.0	1	10.0
Competition	2	20.0	2	20.0	1	10.0	3	30.0	2	20.0	0	0.0
Employee	3	30.0	0	0.0	2	20.0	4	40.0	1	10.0	0	0.0

Table 12: Ranking of components according to their importance - Reviewer

For the analysis of the order of importance scales 5 and 6 have been considered together. The analysis according to the order of importance of the individual components results in a clear position for both, the group of auditors as well as for the group of reviewers. Overall, 73.5% (scale 5 and 6) of the auditors and 80% of the interviewed reviewers evaluate the fulfillment of legal requirements as the most important prerequisite for good quality. The reviewers rated independence in second place (60%) followed by the professional requirements, while the auditors rank the fulfillment of professional requirements first (47%) before independence at

38.2%, by accounting scale 5 and 6. Only 35.3% of the respondent auditors consider the employee as a very important key element of their own quality, even though only 10% of the reviewers name the employee as an very high important component. The result is actually surprising because the audit is a very specialized service in which well-trained employee (professionals) is a guarantee of good quality (see Chapter two). The clients, the recipients of the auditors' services, play a minor role when it comes to the giving importance. In detail, only 29.4% of the auditors and 30% of the reviewers think the inclusion of clients in the quality process is of rather low importance for the company. The result confirms again the outcome of Question 2, in which 23.5% of the auditors and 30% of the reviewers included client satisfaction as part of their understanding of quality. The remaining order of the auditors' responses in terms of the importance of quality is the following: Code of Ethics (6th place, 26.5%), Public (7th, 23.5%) and competition (8th, 14.7%). When it comes to the reviewers' responses, the Code of Ethics (20%) and public component share the score of 40%, whereas competition (20%) and employees (10%) got the lowest points.

Result 2:

The analysis of this question clearly shows that when the importance of the individual components of the author's new model is examined, the significance of the consideration will be affirmed by all. All components of the model are thus deemed by experts as important for the quality. It is also clear that the respective experts regard different components as particular or less important. This confirms the fact:

- that the profession has still no truly comprehensive understanding of quality,
- that every auditor needs to define the 8 components and its importance by himself,
- that the 8 components and the model are not static but need to be developed further.

Measures for Ensuring Quality

Questions 4 and 8 are dealing with measures that should be undertaken in order to ensure quality in the company as well as in audits. The following points were mentioned most frequently by the group of auditors: the training and ongoing education of employees as well as their own ongoing training (73.5%), the use of audit software (20.5%), the development and implementation of a quality control booklet (26.4%), but also the work with checklists (38.2%). The evaluation of this question also shows clearly, that the recipient of the audit service does not play a role at all in defining and ensuring quality in the companies. The answers of the quality control reviewers differ only slightly; they listed the following implemented measures in their offices:

Question 9: most important elements to guarantee a high quality: Further education

Group		Frequency	Percentage	Valid Percentage
Auditors	Not named	9	26.5	26.5
	Named	25	73.5	73.5
	Total	34	100.0	100.0
Quality control reviewers	Not named	2	20.0	20.0
	Named	8	80.0	80.0
	Total	10	100.0	100.0
All 4 Groups Total		46	100.0	100.0

Table 13: Important elements to guarantee high quality in financial audits

Question 4 : Measurements to ensure quality: Checklists

Group		Frequency	Percentage	Valid Percentage
Auditors	Not named	21	61.8	61.8
	Named	13	38.2	38.2
	Total	34	100.0	100.0
Quality control reviewers	Not named	8	80.0	80.0
	Named	2	20.0	20.0
	Total	10	100.0	100.0
All 4 Groups Total		46	100.0	100.0

Table 14: Measurements to ensure quality

Effects of the External Quality Control on the Quality

Questions 5 and 6 examined the influence of the introduction of external quality controls, as well as a confirmation of test T02.

“T0₂: The external quality control did not increase the quality in audits and auditing companies”

First of all Question 5 examined in how far the introduction of external quality control has had an influence on the implementation of these measures. The answers varied. One part of the interviewees (29.7%) (all 4 groups) denied an influence of external control on these measures but answered to “have always had a high quality“. The others, being the majority with a total of 70.3%, affirmed the influence on quality respectively to the understanding of quality in their company, and stated that external quality control had led to a confrontation with the topic of quality and that this has become clearer. The results of Question 6 should lead to an approval or rejection of **Test T₀₂** and came in line with the

answers to Question 5. In the following, the results of these questions are outlined separately, examined, and then summarized in their entirety.

Question 6: Has external Quality Control raised the quality in financial audits significantly?

Group		Frequency	Percentage	Valid Percentage	Accumulated Percentage
Auditors	No	10	29.4	29.4	29.4
	Yes	24	70.6	70.6	100.0
	Total	34	100.0	100.0	
Reviewers	No	3	30.0	30.0	30.0
	Yes	7	70.0	70.0	100.0
	Total	10	100.0	100.0	
All 4 groups	No	13	29.7	29.7	29.7
	Yes	31	70.3	70.3	70.3
	Total	46	100.0	100.0	100.0

Table 15: Effects of External Quality Control on Quality

The answers in the examined groups do not vary in a crucial way. Of the auditors interviewed, 24 answered, yes (70.6%), the implementation of an external quality control has increased the quality in auditing companies and/or of final audits. Of the reviewers, 70% of the interviewees saw an increase in quality as a result of the implementation of the external quality control. A closer look into the statements in their entirety, how that 70.3% of the interviewees are of the opinion that external control has increased quality, and 29.7% do not see any increase in quality as a result of the implementation of external quality control. When further analyzing the answers, it can be stated that those who answered yes, complain about too high and not always focused formalization, whose influence is not always considered positive. This view of external quality control can be seen especially among the group of auditors and the representative. The former president of the Chamber of Public Accountants, Michael Gschrei who was very intensively interviewed, affirms that there is an influence of external quality control but, complains about “massive overregulation”⁴⁸⁹. Furthermore, it was examined, if the responses differ from offices that had taken part in the external quality control a different number of times. All 34 interviewed offices were evaluated as a whole and their answers were examined in

⁴⁸⁹ Interview Gschrei, Michael, 2012

relation to the number of their participations (1x, 2x, or 3x) on the external quality control. This results in the following outcome:

Question 6: Has external Quality Control raised the quality in financial audits significantly?

Participation in the quality control process		Frequency	Percentage	Valid percentage	Accumulated Percentage
Once	No	2	20.0	20.0	20.0
	Yes	7	70.0	70.0	90.0
	Partly	1	10.0	10.0	100.0
	Total	10	100.0	100.0	
Twice	No	9	39.1	39.1	39.1
	Yes	12	52.2	52.2	91.3
	Partly	2	8.7	8.7	100.0
	Total	23	100.0	100.0	
Triple	Yes	1	100.0	100.0	100.0

Table 16: Influence of External Quality Control on Quality

The comparison shows that the company that had already passed through external quality control three times, clearly sees an increase in quality because of its implementation. This company is a big audit company, and it must be assumed that big companies, which are controlled regularly (every three years), due to their size and their capacity, are able to undergo this process more frequently. Of the companies that had only taken part in external quality control once, 70% see an increase of quality through the implementation of external procedure. This is certainly due to the fact that quality control assessment was not performed too long ago, and that the engagement with the topic of quality as well as the implementation of several QS-measures is still quite new to the heads of the auditors. It has to be assumed, that companies passing through external quality control for the first time, take measures in advance, e.g. the writing of the quality control manual, introduction of formalities and p.r.n. checklists, which had not existed up to that day, at least not in small companies.

Result 3:

The comparison therefore shows that in the whole group of the auditors interviewed (34) 70.6% of the interviewees and of the group of quality control reviewers 70% hold the opinion, that external quality control has increased quality in auditing companies. Over all, interviewees (46) 70.3% agree that a higher quality has come into practice since the external quality control were implemented.

Therefore it can be stated, that:

The results of Question 6 **do not confirm** Test T0₂. It is to be noted that the alternative Test T1₂ has to be accepted

External quality control has increased to quality in auditing companies and audits.

To start with, the answer to this question has surprised the author before the background that there was considerable resistance in the profession at the beginning of the implementation of external quality control. Moreover, small and medium-size auditing companies considered external quality control as an unnecessary burden and “nuisance made by large companies”. The answers show, however, that even small and medium-size auditing companies have initiated a rethinking process, so that the necessity of a quality control system has been recognized. Hence, external quality control has led to an engagement in the subject of quality – also in small auditing companies – and therefore to a completely different quality awareness. Nevertheless, when analyzing this result, it needs to be mentioned, that there is, however, no uniform and even less so a broad understanding of quality in the profession (see answers to Question 2 to 4). Thus it is not surprising, that the answers to Question 12 (in how far a fee scale is suitable for increasing quality in audits) are quite controversial. Half of the interviewees welcome the question and thereby see a positive impact of a fee scale on the quality of their work. By implementing a fee scale, dumping prices that can be found in audits, are to be banned in order to ensure audits being done in the required time. The connection between dumping prices and delays needs to be explained. The response is balanced between the answers of quality control reviewers and mirrors exactly the same picture of auditors as a whole. Of the quality control reviewers, likewise, 50% of the interviewees are of the opinion, that a fee scale may increase quality and the other 50% do not see a potential in it for achieving a higher quality. This shows that there is no unified field answer to this question, either in the group of quality control reviewers nor in the group of auditors.

Question 12: Fee structure increases quality

Group		Frequency	Percentage	Valid percentage	Accumulated Percentage
Auditors	No	17	50.0	50.0	50.0
	Yes	17	50.0	50.0	100.0
	Total	34	100.0	100.0	
Quality control reviewers	No	5	50.0	50.0	50.0
	Yes	5	50.0	50.0	100.0
	Total	10	100.0	100.0	
Education	No	0	100.0	100.0	100.0
	Yes	1	0.0	0.0	100.0
	Total	1	100.0	100.0	
Professional	No	0	0.0	0.0	100.0
	yes	1	100.0	100.0	100.0
	Total	1	100.0	100.0	
All 4 Groups	Total	46	100.0	100.0	100.0

Table 17: Is a fee ordinance able to enhance the quality in financial audits**Influence of the Company Size on the Quality**

The size of a company as a means of measuring quality was doubted by 85.3% of all auditors. Spread across the interviewees, 89.1% of the auditors interviewed doubt this statement. They stated that size does not automatically mean good quality.

It was however acknowledged, that the bigger companies have more resources for specialization, employee training, and internationalization. A better quality – solely due to size – was nevertheless not agreed upon.

Question10b: simply because of their size large auditing companies provide a higher quality audit

Group		Frequency	Percentage	Valid Percentage	Accumulated Percentage
Auditors	No	29	85.3	85.3	85.3
	Yes	5	14.7	14.7	100.0
	Total	34	100.0	100.0	
Quality control reviewers	No	10	100.0	100.0	100.0
Education	No	1	100.0	100.0	100.0
	Yes	0	0.0	0.0	100.0
	Total	1	100.0	100.0	
Professional	No	1	100.0	100.0	100.0
	Yes	0	0.0	0.0	100.0
	Total	1	100.0	100.0	

Question10b: simply because of their size large auditing companies provide a higher quality audit

Group		Frequency	Percentage	Valid Percentage	Accumulated Percentage
Auditors	No	29	85.3	85.3	85.3
	Yes	5	14.7	14.7	100.0
	Total	34	100.0	100.0	
All 4 Groups	Total	46	100.0	100.0	100.0

Table 18: Do large companies provide higher quality because of their size - according to groups

The evaluation of this question was divided according to the company's size, hints at whether or not the owners of big companies are more likely to be of the opinion that they have a better quality just because of their size. This led to the following result:

Question 10b: simply because of their size large auditing companies provide a higher quality audit

Employee Groups		Frequency	percentage	Valid Percentage	Accumulated Percentage
no employee	No	7	100.0	100.0	100.0
Up to 10 empl.	No	12	85.7	85.7	85.7
	Yes	2	14.3	14.3	100.0
	Total	14	100.0	100.0	
More than 10 emp.	No	10	76.9	76.9	76.9
	Yes	3	23.1	23.1	100.0
	Total	13	100.0	100.0	

Table 19: Do large companies provide higher quality because of their size - according to company's size

It is evident that small companies without employees share the opinion, that bigger companies do not have a higher audit quality simply because of their size. This might be due to the fact, that in these companies, the auditor carries out all audits himself, is on site continually and thus guarantees a high audit quality through his performance. The answers of those companies with up to 10 or more than 10 employees are to the greatest possible extent similar. 85.7 % of the companies with up to 10 employees and 76.9 % of the companies with more than 10 employees doubt a better quality in big auditing companies simply because of the size of a company. The vote of the quality control reviewers is unambiguous on this question. All of them, i.e. 100%, are of the opinion that big auditing companies do not offer a better quality just because of their size and do not have a bigger interest in rendering a high-quality audit, as small companies would have. Rather the opposite of this is believed to be true. As for the reasons for this, it is stated that it is important especially for small and medium-sized auditing

companies, which operate in regional surroundings, in which they are rooted privately and live with their families, to deliver high quality.⁴⁹⁰ Professional errors harm the reputation of small companies in such a way, that their whole existence is at risk and thus also the existence of the owners and their families. In addition, at small and medium-size auditing companies, it is the owner who is liable with his assets; insofar losses are not covered by liability insurance. Small and medium-sized auditing companies usually carry the name of the respective auditor in their company's name, so that the name always represents the company / association and is always affected in case of errors, e.g. "wrong certificates". The reputation of the auditor is thus lost for a long time not only in his professional, but also in his private surroundings.

Question 10a: large companies have a greater interest in providing a high-quality audit

Group		Frequency	Percentage	Valid Percentage	Accumulated Percentage
Auditors	No	31	91.2	91.2	91.2
	Yes	3	8.8	8.8	100.0
	Total	34	100.0	100.0	
Reviewers	No	10	100.0	100.0	100.0
Education	No	1	100.0	100.0	100.0
	Yes	0	0.0	0.0	100.0
	Total	1	100.0	100.0	
Professional	No	1	100.0	100.0	100.0
	Yes	0	0.0	0.0	100.0
	Total	1	100.0	100.0	
All 4 Groups	Total	46	100.0	100.0	100.0

Table 20: large companies have a greater interest in providing a high-quality audit

As a result of the evaluation, **Test T0₃**:

The size of the auditing company has no influence on the quality of audits can be affirmed.

Influence of External Quality Control on the Continuity of Small and Medium-Sized Auditing Companies

Another goal of this research project was to find out, in how far external quality controls as well as other planned measures have an impact on the continuity of small and medium-sized auditing companies. An influence can be noted by the fact that only 59,1 % of the auditing companies with one auditor took part in external quality control, thus have no certificate of

⁴⁹⁰ Interview Schwane, Edwin, 2012

participation that entitles them to conduct annual final audits (c.f. Chapter 2.5.). “The German regulation of auditors and audit supervision has drastically reduced the number of auditors but nevertheless not essentially increased the quality of the Big4 audits.”⁴⁹¹

The empirical analysis led to the following results:

Question 15: Opportunities of small and medium-sized auditing companies

Groups		Bad	Good
Auditors	Number	16	18
	in %	47.1	52.9
Reviewer	Number	5	5
	in %	50.0	50.0
All 4 groups	Number	21	25
	in %	45.7	54.3

Table 21: Opportunities of small and medium-sized auditing companies

One part of the interviewed companies still sees a good chance to remain successful in the market. Reasons for this are personal, long-term contacts to clients as well as specialization (niches). Especially the personal contact and long-term stable audit teams (and not constant change of audit assistants) are regarded as a competitive advantage over the big companies. Medium-sized auditors usually test medium-sized companies that put emphasis on personal working relationship with the auditor. A further increase in regulation is regarded as a danger for the continuity of small companies by almost all interviewees (71.5%), as small companies neither have the capacity nor are they economically able to fulfill further requirements. The quality control reviewers interviewed see opportunities of small and medium-sized auditing companies in a balanced way, 50% consider the chances as still being good, while the other 50% fear a further reduction of smaller companies. With this question it was analyzed additionally, if the answers differ depending on the interviewee's company size and if the company size has an influence on how they estimate market opportunities. This leads to the following results:

⁴⁹¹ European Commission, 2011, p. 18

Question 15: Opportunities for small and medium-sized auditing companies

Employee Groups		Frequency	Percentage	Valid Percentage	Accumulated Percentage
No Empl.	Bad	5	71.5	71.5	71.5
	Good	2	28.5	28.5	100.0
	Total	7	100.0	100.0	
Up to 10 Empl.	Bad	6	42.9	42.9	42.9
	Good	8	57.1	57.1	100.0
	Total	14	100.0	100.0	
More than 10 Empl.	Bad	5	38.5	38.5	38.5
	Good	8	61.5	61.5	100.0
	Total	13	100.0	100.0	

Table 22: Opportunities of small and medium-sized auditing according to the company's size

The evaluation of this question filtered according to the company's size leads to the result that the bigger a company is, the higher the future opportunities for small and medium-sized companies are rated. Thus, 71.5% of the auditing companies without employees rate the future opportunities as bad; of the companies with up to 10 employees this is true for only 42.9%, while 57.1% rate the future positively. The companies with more than 10 employees rate opportunities as good with a percentage of 61.5%, while only 38.5% evaluate the outlook negatively. The reasons mentioned for this were that companies over a certain size are better able to face competition, the higher workload, as well as the higher demands of the legal and professional restrictions and the higher costs connected with this.⁴⁹² Furthermore, it is easier for bigger auditing companies to offer a broad consulting range, as they are able to employ members specialized in certain areas.⁴⁹³ Thus it is noticed, that the effects of external quality control stand in correlation with the company's size. The smaller a company is, the higher is the burden of normative changes in the profession. The 2011 research conducted on the German auditor's market by Haßlinger⁴⁹⁴, at which 120 auditing companies of different turnover-classes were interviewed, draws a similar conclusion: "The normative changes have affected the interviewed medium-sized auditing companies with an increased workload, a higher risk and additional costs." and: "The intensity of these effects is in relation to the company's size: smaller companies and companies with a smaller scope of activity proportionally carry a much bigger burdened than larger companies with a higher scope of

⁴⁹² Interview Hildebrand, Dirk, 2012

⁴⁹³ Interview Schwane, Edwin, 2012

⁴⁹⁴ Haßlinger, 2011a, pp. 200

activity.” By now, 41.2% (results question 16) of the interviewees regard the profession of the auditor not as a free profession, for fear of losing that status in the future. The EU already talks of an industry.⁴⁹⁵ 64.7% already see a „Two-Class Auditor Landscape“ as a reality today (results question 14). Hildebrandt even sees the risk of a „Three-Class Auditor Landscape“, which is divided between the Big4, the so-called „Second-Tier Companies“⁴⁹⁶, and the small and medium-sized auditing companies⁴⁹⁷. Such a development leads, together with fiercer competition and influences of international tendencies towards harmonization, to a further threat for small and medium-sized auditing companies.

Result 4:

The empirical analysis affirms Test T04:

External quality control has negatively influenced the continuance of small and medium-sized auditing companies.

The examinations conducted by Haßlinger⁴⁹⁸ also confirm too great a level of regulation especially for small companies with “proportionally significant effects“ for them. Additional regulatory interventions and measures will lead to a further crowding out of small and medium-sized auditing companies. As outlined before, at the 31st of December 2012, only 59.1% of the small German auditing companies (1 auditor) have a valid participation certificate, which means that 40.9% of the small auditing companies are excluded from the market of the legal annual final audits.

4.3. Summary of the Results of the Empirical Study of the Effects of External Quality Control on Quality

The central aspects of the empirical evaluation were the examination of the effects of external quality control on quality and the continuity of small and medium-sized auditing companies. It was also examined, whether or not there are significant differences in the answers between the four groups of auditors, reviewers, the representative of the auditing profession and professional education. The beginning of the examination showed that there is no uniform

⁴⁹⁵ Interview Hildebrandt, Dirk, 2012

⁴⁹⁶ Investigated as a "second tier companies" are companies the "second row", and therefore the companies. after the Big Four firms For this purpose, for example include Warth & Klein GmbH, Rödl & Partner GmbH, see Koecke, 2006, pp. 181

⁴⁹⁷ Interview Hildebrandt, Dirk, 2012

⁴⁹⁸ Haßlinger, 2011a, p. 201

understanding of quality in the whole of the professions; this also holds true for all auditors, the reviewers and the representatives of the profession and education. The understanding of quality among the profession mainly follows an object-related quality approach (compliance with professional obligations); the customer's expectations are hardly ever taken into consideration and if they are, only unilaterally. Also it is to be stated that there is no broad approach as a holistic business approach in the profession.

The verification of the importance of the individual components of the author's developed quality model in terms of the experts' understanding of quality also confirms the aforementioned result. Each component is granted with a certain value of importance, but with different assessments of every respondent. Object-related components receive the highest quality value, whereas client satisfaction and the fulfillment of public expectations are far behind. The individual components are not considered as equal; a uniform or even a comprehensive understanding of quality does not result from this approach. Nevertheless, a rethinking is taking place in the profession; an effect of external quality control on the company's quality has been affirmed by the majority of the interviewed companies. External quality control has, even though a slight overregulation is being lamented, definitely led to the fact, that a new understanding of quality has been created in many – especially medium-sized – auditing companies. Quality standards have been written down for the first time and audit processes have been standardized. External quality control has thus led to an increase in quality.

The influence of the size of a company on its quality has been shown not to exist without equal clarity. The medium-sized companies remarked that bigger companies have greater reserves respective their specialization, internationalization, and employee training, but that this is not the single guarantee for quality. The effects of external quality control are evident by an increased workload and by additional expenses, by which small and medium-sized companies are more burdened than expected. Thus, the majority of the medium-sized companies rated their market opportunities - to be able to stand up to the „big ones“ and to remain in the market – critically. A relation between the company size and the effects of external quality control is to be noted. The smaller the audit company is, the stronger the

burden of normative changes in the profession. One already hears about a development toward a “Three Class Auditing Community”.⁴⁹⁹

Differences and Similarities between the Results in Austria, Germany and Latvia

During the empirical analysis the author received non-representative questionnaires from auditors from Austria and Latvia as well. Due to the low number of responses only a short non-representative summary according to the differences and similarities in those countries can be given in the following: It can be stated that no auditor out of the three countries could give a uniform explanation for and understanding of quality, so this statement holds true for all countries. Nevertheless the both Latvian auditors regard quality “as the most important condition to fulfill the role of auditors in public”⁵⁰⁰ and “in our company, high quality is defined as the first condition”⁵⁰¹, indicate a broader understanding of quality, than the two other countries show. As mentioned earlier, the German auditors confirm the statement, that external quality control has increased the quality in auditing companies, whereas the interviewed Austrian auditors negated it. The result in Latvia is more balanced or partly tending towards “Yes”. One company confirms that the implementation of external quality control has led to an increase in quality, the other has two minds in their answers: yes, as “each outward control disciplines”⁵⁰², no, as there is only a small circle of auditors in Latvia. A downside is seen in the fact, that of the 170 auditors in Latvia about 80% work in Riga and its surroundings and that they know one another personally. Therefore a threat to the independence of the peer review procedure is seen.⁵⁰³

The opinion of the influence of the size of a company as a mean of measuring quality is divided in Latvia; one professional stated the opinion that quality is better in big companies due to the “international background”⁵⁰⁴, the other professional stated that size does not automatically mean good quality. As only two auditors were interviewed in Latvia, the evaluation of these two interviews does not lay claim to being representative, but it shows the trend of the profession in Latvia.

⁴⁹⁹ Interview Hildebrandt, Dirk, 2012

⁵⁰⁰ Interview Danevica, Dagnija, 2012

⁵⁰¹ Interview Punane, Aija, 2012

⁵⁰² Interview Punane, Aija, 2012

⁵⁰³ Interview Punane, Aija, 2012

⁵⁰⁴ Interview Danevica, Dagnija, 2012

CONCLUSIONS

This research paper was concerned with the evaluation of the effects of external quality control on the quality in auditing companies and annual final audits as well as on the continuity of small and medium-sized auditing companies. By means of an empirical study it was to be found out, in how far there is a uniform understanding of quality existing in the profession of auditors, which importance of the external quality control is attributed to this quality and whether factors such as the size, remuneration, or the separation of audit and consulting services have had an effect on this quality.

Theoretical and empirical researches of the author lead to the following results:

1. No area of business (general business management, service, and audits) has a uniform definition or approach to quality. Neither the profession of auditors nor the legislative which passes new laws and regulations have a uniform view of quality.
2. The Author`s new model, **AuditCompanies–QualityDevelopment-Model (AC-QD model)**, connects several aspects of the different theoretical approaches pictured in Chapter 1 with specialties arising out of legal obligations of the auditor. What follows, is a new, holistic approach of quality for the whole auditing company, which makes it possible that every audit company consider any component of the AC-QD model for its own and formulates them on an individual basis. By doing so, every single audit company has the opportunity to define its own quality with the help of one uniform model. This model does not aim at creating a uniform quality – which does not exist – but to create a uniform approach of defining quality on an individual basis.
3. The author derived a unique definition of audit quality. Auditing Quality is flawless work, which is performed independently and in consideration of all legal, professional and ethical requirements, exposing mistakes, reporting them and fulfilling publics’ and mandates’ expectations.
4. The empirical analysis confirmed that there is no uniform understanding of quality and even less so of a holistic understanding of the auditing profession. This applies without limitation for the auditor, the representatives of the profession, and of ongoing professional education.
5. The importance of the individual components of the author`s new model is queried, the significance of the consideration was affirmed by all interviewed experts. All components of the model are thus deemed by experts as important for the quality. It is

also clear that the respective experts regard different components as particular or less important. This confirms the fact

- that the profession has still no truly comprehensive understanding of quality,
- that every auditor needs to define the 8 components and its importance by himself,
- that the 8 components and the model are not static but need to be developed further.

The former CEO of the Chamber of Public Accountants states in his letter of recommendation that the AC-QD model is a promising approach for auditing companies. Other letters of recommendation show that the author's model is a real contribution to the profession and is already used in micro- and small auditing companies.

6. The existing understanding of quality arises principally from an object-related quality concept.
7. Contrary to the author's assumption, an increase of the quality of auditing companies and final audits is a result of the implementation of external quality control procedures.
8. At the beginning of the external quality control system, small and medium-sized auditing companies saw external quality control as an unnecessary burden put on them by bigger companies. The answers show, however, that even the small and medium-size auditing companies have begun a rethinking process since the implementation of external quality control procedures. External quality control seems to have led to an engagement in the subject of quality – in companies of all sizes – and therefore led to a changed awareness of the importance of quality.
9. A connection between quality and the size of an auditing company is clearly rejected. The majority of all interviewed companies doubt whether a better quality in big auditing companies is simply due to their size. This vote is unambiguous, as all, i.e. 100%, are of the opinion, that big auditing companies do not offer a better quality just because of their size and do not have a higher interest in providing a high audit quality as smaller companies would have. Rather the opposite of this is believed to be accurate. It is stated that it is important especially for small and medium-sized auditing companies, which operate in regional surroundings, to provide a high quality. Professional errors harm their reputation in such a way, that their whole existence – both professional and private - is at risk. Furthermore, at small and medium-sized auditing companies, it is the owner who is personally liable with his assets; insofar

losses are not covered by liability insurance. Small and medium-sized auditing companies usually carry the name of the respective auditor in their company's logo, so that the name represents the company and is always affected in case of auditing errors.

10. External quality control has negatively influenced the continuity of small and medium-sized auditing companies. This can be noted by the fact, that only 59% of German auditing companies with one auditor take part in external quality control and thus have no certificate of participation that entitles them to conduct annual final audits. The empirical analysis led to the following results:

- One part of the interviewed companies still see a good chance to remain successful in the market. Reasons given for this optimism were
 - good personal contacts
 - long-term contacts with clients as well as
 - specialization.
- The effects of external quality control depend on the company's size. Small auditing companies feel much more burdened by normative changes of the profession as the effects of external quality control are evident by an increased workload and by additional expenses. Thus, the majority of the medium-sized companies rated their market opportunities – to be able to stand up to the “big ones” and to remain in the market – critically.
- External quality control has increased to quality in auditing companies and in audits. Small and medium-sized auditing companies have initiated a rethinking process so that the necessity of a quality control system has been recognized. Additionally, external quality control has led to an engagement in the subject of quality – also in small auditing companies – and therefore to a completely different quality awareness.
- Especially personal contact and a long continuity of the same auditor were regarded as competitive advantage to big companies. Medium-sized auditing companies usually audit medium-sized companies that put their emphasis on a personal working relationship with the auditor.
- The aforementioned results clarify, that it is becoming more and more difficult to fulfill the increasing professional, legal, and auditing law guidelines, especially for the “lone fighters” typical of the auditing market but also of other small companies.

OUTLOOK AND SUGGESTIONS

It is uncertain how far the EU reform proposals currently discussed will further speed up the process of concentration and thereby lead to a further decrease of small and medium-size auditing companies. It is not verified clearly by empirical results, in how far the current reform proposals, joint audits as well as the separation of consulting and auditing lead to an increase of audit quality.

If the profession of auditors is willing to use the quality model developed in the sense of a holistic quality approach for their own companies and if they are willing to put the idea of quality above everything else, remains to be seen. Decisive for this is, to what extent the auditor is ready to integrate this quality approach, which is not static but constantly changing and needing further development, into his every -day work.

Therefore it is important to formulate recommendations for the profession and management of auditing companies, the Chamber of Public Accountants and the legislative body.

Suggestions for the profession and management of auditing companies:

1. The author's AC-QD model is recommended to auditors and it is important to define each individual component for every single company, in order to achieve a holistic quality for the company and for their auditing services.
2. Fulfilling all responsibilities in absolute independence – meaning independence in fact and independence in mind- only then a objective judgment is possible.
3. Not only revealing the errors and mistakes but also to have the courage to report them.
4. An auditing company must evolve constantly and adapt to legislation changes continually. Thus, it is important that the components of the AC-QD Model are redefined regularly; legislative changes and changes in the profession go hand in hand with a new, adapted definitions.
5. Every single auditor needs to live quality every day and to embody his own quality.

Suggestions for the Chamber of Public Accountants and the legislative bodies:

1. The establishment of more legislative regulations should not have further negative impacts on small and medium sized auditing companies.
2. Regulations supporting and strengthening small and medium-sized companies are recommended. These regulations could include the reduction of formal requirements

for small and medium sized auditing companies as well as the support of cooperation within the industry.

3. “Dumpingprices” need to be banned or regulated, as they lead to weakening small and medium-sized auditing companies and reduce their quality.

Suggestions for other Independent Professions

1. As in the other professions (for example: doctors, lawyers, accountants, etc.) high quality plays an increasingly important role, the respective profession should adapt the components of the authors’ AC QD model to its profession. So everyone who belongs to these professions can define his own quality for his law firm, practice or office, etc.

Suggestion for the Science

1. After an initial period of 5 years, the AC-QD model should be reviewed further to find out to what extent it has been used, which outcomes can be drawn and how effective it is in the profession.

LIST OF LITERATURE

Official Internet Resources

1. Bundesministerium für Wirtschaft und Technologie, 2007: Der Mittelstand in der Bundesrepublik Deutschland. Eine volkswirtschaftliche Bestandsaufnahme. Bonn (BMWi Dokumentation, 561). www.ifm-bonn.org/index.php?id=457, retrieved on 11.01.2012.
2. European Commission 2006: Richtlinie 2006/43/EG des Europäischen Parlaments und des Rates vom 17. Mai 2006, <http://www.wpk.de/pdf/Abschlussprueferrichtlinie.pdf> retrieved on 23.04.2012.
3. European Commission 2010: Green Paper: Audit Policy: Lessons from the Crisis KOM(2010) 561 final, Brüssel http://ec.europa.eu/internal_market/consultations/docs/2010/audit/green_paper_de.pdf, retrieved on 23.04.2012.
4. Institute of Chartered Accountants in England and Wales 2006: Divided by common language. Where economics meets the law: US versus non-US financial reporting models. <http://www.icaew.com/~media/Files/Technical/Corporate-governance/dialogue-in-corporate-governance/divided-by-common-language-publication.pdf>, retrieved on 27.05.2011.
5. Verheugen, G. 2006: Die neue KMU-Definition Benutzerhandbuch und Mustererklärung. Europäische Kommission. http://ec.europa.eu/enterprise/enterprise_policy/sme_definition/sme_user_guide_de.pdf, retrieved on 10.07.2011.
6. Wirtschaftsprüferkammer; Institut der Wirtschaftsprüfer 2006: Gemeinsame Stellungnahme der WPK und des IDW: Anforderungen an die Qualitätssicherung in der Wirtschaftsprüferpraxis (VO 1/2006), http://www.prof-skopp.de/uploads/File/VO_1-2006%281%29.pdf, retrieved on 27.05.2011.
7. Wirtschaftsprüferkammer 2010: Gesetz zur Änderung von Vorschriften über die Tätigkeit der Wirtschaftsprüfer vom 19. Dezember 2000. III, Nr. 1 Vorbemerkung, www.wpk.de/rechtsvorschriften, Retrieved on 4.05.2012.
8. Wirtschaftsprüferkammer 2010: Berufssatzung für Wirtschaftsprüfer/vereidigte Buchprüfer BS WP, <http://www.wpk.de/pdf/bs-wpvbp.pdf>, retrieved on 20.11.2012.
9. Wirtschaftsprüferkammer 2012: Statistische Informationen zu unseren Mitgliedern, www.wpk.de/beruf-wp-vbp/statistiken.asp, retrieved on 20.11.2012.
10. Wirtschaftsprüferkammer 2013. Gesetz über die Verordnung der Wirtschaftsprüfer (WPO), <http://www.wpk.de/pdf/wpo.pdf>, retrieved on 2.10.2013.
11. wp-net Verband 2010: Wirtschaftsprüfer sollen endlich mit verlässlichen Testaten die nächste Finanzmarktkrise verhindern, Pressemitteilung zum Grünbuch Wirtschaftsprüfung, <http://www.wp-net-verband.de/index.php/2011-07-28-09-31-53/kongress-bilder/6-kongress-2011-dacapo/detail/139-da-capo?tmpl=component>, retrieved on 21.05.2011.

Journals and Magazines

12. Ballwieser, W. 2001: Die Unabhängigkeit des Abschlussprüfers: eine Analyse von Beratungsverbot und externer Rotation, Der Wirtschaftsprüfer als Element der Corporate Governance, pp. 97-115.

13. Bigus, J.; Zimmermann, R. C. 2009: Quasirentenmodell und Honorare für Abschlussprüfungen in Deutschland – eine empirische Analyse, *Zeitschrift für Betriebswirtschaft*, 79 (11), pp. 1283–1308.
14. Büchele, E.; Gschrei, M. 2011: Transparenzbericht. Big4-Wirtschaftsprüfung, *wp.net Magazin*, 2, pp- 58-91.
15. Clauß, C. 2008: § 57a WPO: WPO Kommentar, Kommentar zum Berufsrecht der Wirtschaftsprüfer und vereidigten Buchprüfer, *WPK Magazin – Mitteilungen der Wirtschaftsprüferkammer*, (3), pp. 632–670.
16. Coenenberg, A. G.; Marten, K.U. 1993: Der Wechsel des Abschlussprüfers, *Der Betrieb*, 46 (3), pp. 101–110.
17. Daugherty, D.; Tervo, W. 2010: PCAOB Inspections of Smaller CPA Firms: The Perspective of Inspected Firms, *Accounting Horizons*, 24 (2), pp. 189- 219.
18. DeAngelo, L. E. 1981a: Auditor Independence, "Low Balling", and Disclosure Regulation, *Journal of Accounting and Economics*, (3), pp. 113–127.
19. DeAngelo, L. E. 1981b: Auditor Size and Audit Quality, *Journal of Accounting and Economics*, 3 (3), pp. 183–199.
20. Dzinkowski, R. 2000: "The measurement and management of intellectual capital: an introduction", *Management Accounting (UK)*, 78 (2), pp 32-36.
21. Ewert, R. 1993: Rechnungslegung, Wirtschaftsprüfung, rationale Akteure und Märkte – Ein Grundmodell zur Analyse der Qualität von Unternehmenspublikationen, *ZfbF*, 1993 pp. 715-747.
22. Fischer, J.M. 2005: Intellectual Capital Management in mittelständischen Kanzleien, in: *Betriebs-Berater*, 60 (16), pp. 875 – 884.
23. Fockenbrock, D. 2007: Globalisierung fordert ihren Preis, *Handelsblatt*, 2./3./4.11.2007, p. 15.
24. Fockenbrock, D. 2011: Wirtschaftsprüfungsgesellschaften, Die unheimliche Macht der großen Bilanzprüfer, *Handelsblatt*, 19.11.2011, p. 15.
25. Francis, J.R.; Yu M.D. 2007: Big 4 Office Size and Audit Quality, *The Accounting Review* 2009, 84 (5), pp. 1521–1552.
26. Francis, J.R.; Wang, D. 2008: The Joint Effect of Investor Protection and Big 4 Audits on Earnings Quality around the world, *Contemporary Accounting Research*, 25 (1), pp. 157 – 191.
27. Garvin, David A. 1984: What Does "Product Quality" Really Mean? *Sloan Management Review*, 26 (1), pp. 25–43.
28. Garvin, David A. 1987: Competing on the Eight Dimensions of Quality, *Harvard Business Review*, 65 (6), pp. 101–109.
29. Gilbertson, D.L.; Herron, R.L. 2009: PCAOB Enforcements: A Review of the First Three Years, *Current Issues in Auditing*, 3 (2), pp. A15-A34.
30. Ghobadian, A.; Speller, S.; Jones, M. 1994: Service Quality. Concepts and Models, *International Journal of Quality & Reliability Management*, 11 (9), pp. 43–66.
31. Greenwood, R.; Li, S. X.; Prakash, R.; Deephouse, D. L. 2005: Reputation, diversification and organizational explanations of performance in professional service firms, *Organization Science*, 16(6): pp. 661-675.
32. Grönroos, C. 1984: A Service Quality Model and its Marketing Implications, *European Journal of Marketing*, (4), pp. 36–44.
33. Hahne, G. 2011. Quality in Audits and External Quality Control – By the Special View of Small- and Medium-Sized Audit Companies. ISSN 2194-7308, pp. 267 – 276.
34. Hahne, G. 2013. New Model of Quality Development in Auditing Companies. Conference proceedings. ISBN 978-9984-45, pp. 268- 279.
35. Haßlinger, C. 2011b: Strategien mittelständischer Wirtschaftsprüferpraxen infolge regulativer Einflüsse, *Die Wirtschaftsprüfung*, (16), pp. 781–785.

36. Häuptli, D.; Leibfried, P. 2012: Vorschläge der Europäischen Kommission zur Regulierung der Abschlussprüfung: Sicht der Wissenschaft: Zusammenfassung empirischer Erkenntnisse über Beratungsverbot und externe Rotation, *Der Schweizer Treuhänder*, 12 (1-2); pp. 8-13.
37. Helm, R.; Mark, A. 2002: Das System der Qualitätskontrolle in der Wirtschaftsprüfung: Zur Leistungsfähigkeit des aktuellen Ansatzes als Qualitätssignal, *Wirtschaftsprüferkammermitteilungen*, 40, pp. 193-195.
38. Heininger, K.; Bertram, K. 2003: System der externen Qualitätskontrolle – Erste praktische Erfahrungen und Hinweise für kleinere und mittlere Wirtschaftsprüferpraxen, *Die Wirtschaftsprüfung*, 56 (19), pp. 1051 - 1057.
39. Helm, R.; Mark, A.; Fischer, L.J. 2003: Externe Qualitätskontrolle und Qualitätssignale in der Wirtschaftsprüfung. Eine empirische Evaluierung des Nutzens für Mandanten, *Die Wirtschaftsprüfung*, (23), pp. 1301–1309.
40. Hermanson, D.; Houston, R., Rice, J. 2007: PCAOB Inspections of Smaller CPA Firms: Initial Evidence from Inspection Reports, *Accounting Horizons*, 21 (2), pp. 137 – 152.
41. Hermanson, D.; Houston, R. 2008: Quality Control Defects Revealed in Smaller Firms' PCAOB Inspection Reports, *CPA Journal* 78.12, pp. 36-39.
42. Jeong, S. W.; Rho, J. 2004: Big Six auditors and audit quality: The Korean evidence, *The International Journal of Accounting*, 39 (2), pp. 175-196.
43. Köhler, A. G.; Ruhnke K.; Schmidt M. 2011: Nutzen der Abschlussprüfung für die Aufsichtsräte. - Eine empirische Untersuchung vor dem Hintergrund des Grünbuchs der EU, *Der Betrieb*, (14), pp. 773–778.
44. Köhler, A.G; Ratzinger-Sakel, N. 2012: Im Blickpunkt: WP-Markt in Deutschland. Umsätze und Mandate der Wirtschaftsprüfungspraxen nach Transparenzberichten, *Betriebs-Berater*, (39), pp. 6 - 7.
45. Lanfermann, G.; Maul, S. 2002: Auswirkungen des Sarbanes-Oxley Acts in Deutschland, *Der Betrieb*, 55. (34), pp. 1725–1732.
46. Leuchtmann, M. 2006: Prüfqualität von Schweizer Wirtschaftsprüfern aus der Kapitalmarktperspektive. Eine empirische Messung der subjektiv wahrgenommenen Qualität von Prüfern börsennotierter Gesellschaften, *Schriftreihe der Treuhand-Kammer*, 180, pp. 1-222.
47. Lindgens-Strache, U. 1997: Beiträge zur Qualität der Abschlussprüfung, *Qualität der Wirtschaftsprüferleistungen*, (1) pp. 275 -285.
48. Lowe, D.J.; Geiger, M.A.; Pany, K. 2001: The effects of internal audit outsourcing on perceived external Auditor independence, *Journal of Accountancy*, 191 (1), p.90.
49. Lück, W. 2000: Quality Control – Maßnahmen zur Qualitätssicherung in der Wirtschaftsprüfer-Praxis, *der Betrieb*, 1, pp. 1-6.
50. Maccari-Peukert, D.; Ratzinger-Sakel, N. 2014a: Prüfungsqualität – Eine aktuelle Bestandsaufnahme vor dem Hintergrund internationaler Entwicklungen, *Die Wirtschaftsprüfung*, 5, pp. 249 – 257.
51. Maccari-Peukert, D.; Ratzinger-Sakel, N. 2014b: A Framework for Audit Quality – Das Rahmenkonzept des IAASB zur Prüfungsqualität: „Key Elements that Create an Environment for Audit Quality“, *Die Wirtschaftsprüfung*, 12, pp. 608- 611.
52. Maijoor, S. J.; Vanstraelen, A. 2006: Earnings management within Europe: the effects of member state audit environment, audit firm quality and international capital markets, *Accounting and Business Research*, 36 (1), pp. 33-52.
53. Marten, K.U. 2001: Die Externe Qualitätskontrolle im Berufsstand der Wirtschaftsprüfer in Deutschland und den USA, *WPK-Mitteilungen*, 40 (Sonderheft April), pp. 23-26.
54. Marten, K.U. 2004: Externe Qualitätskontrolle für Wirtschaftsprüfer: Die Zeit läuft! *Betriebs-Berater*, 59 (4), p. 1.

55. Marten, K.U. 2006: Die Bedeutung einer international anerkannten Abschlussprüferaufsicht für deutsche Unternehmen, *Der Betrieb* 2006, pp. 1121 – 1125.
56. Marten, K.U.; Köhler, A. G. 2000: 4. WPO-Novelle: Anstoß zu einer externen Qualitätskontrolle von Wirtschaftsprüfern in Deutschland. *Betriebs-Berater*, 55 (17), pp. 867–870.
57. Marten, K.U.; Köhler, A.G. 2003: Das Controlling von Wirtschaftsprüferpraxen als Gegenstand der externen Qualitätskontrolle, *Zeitschrift für Planung & Unternehmenssteuerung*, (14), pp. 457–475.
58. Marti, S.; Eberle, R. 2004: Qualität in der Wirtschaftsprüfung, *Der Schweizer Treuhänder*, 77 (5), pp. 415 - 420.
59. McGrath, S.; Siegel, A.; Dunfee, T.W.; Glazer, A.S.; Jaenicke H.R. 2001: A framework for auditor independence, *Journal of Accountancy*, 191 (1), pp. 39.
60. Meyer, A.; Mattmüller, R. 1987: Qualität von Dienstleistungen. Entwurf eines praxisorientierten Qualitätsmodells, *Marketing, Zeitschrift für Forschung und Praxis*, (3), pp. 187–195.
61. Moxter, A. 1981: Wirtschaftsprüfung im Zeitgeist, *Die Wirtschaftsprüfung*, 34. (19), pp. 579–583.
62. Müßig, A. 2008: Aktuelle Entwicklungen und Perspektiven der externen Qualitätskontrolle. Kann die Erwartungslücke bei Abschlussprüfungen verringert werden? *Zeitschrift für Corporate Governance*, (4), pp. 173–183.
63. Naumann, K. P. 2012: Der Beruf des Wirtschaftsprüfers. Qualitätssicherung und -kontrolle, Berufsaufsicht und Berufsgerichtsbarkeit, *WP-Handbuch 2012*, 1 (14) pp. 116 - 174.
64. Nguyen, L.; Parasuraman A.; Zeithaml, V.A.; Berry, L.L. 1985: A conceptual mode of service quality and the implications for future research, *Journal of Marketing*, 49 (4), pp. 41-50.
65. Niehues, R. 2000: Peer Review in der deutschen Abschlussprüfung, *Der Betrieb*, 53 (23), pp. 1133 – 1142.
66. Parasuraman, A.; Zeithaml, V.A.; Berry, L. 1988: SERVQUAL: A Multiple-Item Scale for Measuring Consumer Perceptions of Service Quality, *Journal of Retailing*, 64 (1), pp. 12–40.
67. Peemöller, V. 2012: Gebührenordnung für Abschlussprüfer – ein Ansatz zur Qualitätssicherung, *WPK-Magazin*, 1, p. 37.
68. Pfitzer, N. 2006: Aktuelles zur Qualitätssicherung und Qualitätskontrolle. *Die Wirtschaftsprüfung*, 4, pp. 186–197.
69. Pfitzer, N. 2007: Der Transparenzbericht gemäß § 55c WPO. *WPK-Magazin*, 4, pp. 54 – 57.
70. Pfitzer, N.; Maxl, P. 2009: Neuordnung der Berufsaufsicht und der Qualitätskontrolle - schon wieder und für wen? *WPK-Magazin*, 4, pp. 23-28.
71. Plendl, M.; Schneiß, U. 2005: Die Durchführung von Qualitätskontrollen nach der Neufassung des IDW PS 140. Erweiterte Berichterstattungspflichten des Prüfers für Qualitätskontrolle. *Die Wirtschaftsprüfung*, 58 (10), pp. 545–554.
72. Poll, J. 2003: Externe Qualitätskontrolle in der Praxis. Erfahrungen mit dem Peer Review in Deutschland, Grenzen und Chancen. *Die Wirtschaftsprüfung*, 4, pp. 151–157.
73. Quick, R.; Wiemann, D. 2011: Zum Einfluss der Mandatsdauer des Abschlussprüfers auf die Prüfungsqualität, *Zeitschrift für Betriebswirtschaft*, 81 (9), pp. 915–943.
74. Rampersad, H. 2011: A Visionary Management Model, *The TQM Magazine*, 13 (4), pp. 211-223.
75. Ruhnke, K. 1997: Empirische Forschung im Prüfwesen, *Zeitschrift für betriebswirtschaftliche Forschung*, 49, (4), p. 332.

76. Sahner, F.; Schulte-Groß, H.; Clauß, C. 2001: Das System der Qualitätskontrolle im Berufsstand der Wirtschaftsprüfer und vereidigten Buchprüfer, WPK Mitteilungen 2001, 4, pp. 5–17.
77. Schmidt, A.; Pfitzer, N.; Lindgens, U. 2005: Qualitätssicherung in der Wirtschaftsprüfung, Die Wirtschaftsprüfung, 58 (7), pp. 321–343.
78. Schmidt, S. 2000b: Empfehlungen des Panels on Audit Effectiveness zur Verbesserung der Qualität der Abschlussprüfung, Die Wirtschaftsprüfung, (17), pp. 793–810.
79. Schmidt, S. 2006: Risikomanagement und Qualitätssicherung in der Wirtschaftsprüferpraxis, Die Wirtschaftsprüfung, 59 (5), pp. 265–274.
80. Schulze-Osterloh, J. 1976: Zur Öffentlichen Funktion des Abschlußprüfers, in: Zeitschrift für Unternehmens- und Gesellschaftsrecht, 5, pp. 411-434.
81. Stefani, U.; Gabor, G. 2004: Externe Qualitätskontrolle in der Wirtschaftsprüfung. Ergebnisse einer Umfrage im schweizerischen Berufsstand, Der Schweizer Treuhänder, (5), pp. 407–414.
82. Stefaniak, C.M.; Robertson, J.C.; Houston, R.W. 2009: The causes and consequences of auditor switching, A review of the literature, 28, pp.47–121.
83. Theden, P. 2001: Wirtschaftlichkeit von Qualitätstechniken, Qualität und Wirtschaftlichkeit, Vol. 2, pp. 235-253.
84. Tiedge, J. 2008: Abschlussprüfung in Europa DATEV Magazin, (3), pp. 28–29.
85. Uzumeri, M.V. 1997: ISO 9000 and other meta Standards: Principles for management practices? Academy of Management Executives, 11 (1) pp. 21 /36.
86. Verheugen, G. 2012: Die öffentliche Erwartung an die Abschlussprüfung – Was ist der Wert dieser Dienstleistung für die Öffentlichkeit? Die Wirtschaftsprüfung, 1, pp. 3 – 10.
87. Watson, J. 2003: The Impact of TQM Adoption on SME Financial Performance. 16th Annual Conference of Small Enterprise Association of Australia and New Zealand, pp. 1 -10.
88. Wild, A.; Scheithauer, E.K. 2012: Die Entwicklung der Konzentration auf dem Markt für Abschlussprüfungen unter Berücksichtigung externer Einflüsse. Die Wirtschaftsprüfung 2012, (4), pp. 186–197.
89. wp-net Verband 2011a: Stellungnahme zum Grünbuch, wp-net Magazin, 36, p. 18.
90. wp-net Verband 2011b: Statistic of the German Chamber of Public Accountants 2012, WP Magazine, 2, p.67.
91. WPK Magazin 2011: Anbieterstruktur, Mandatsverteilung und Abschlussprüferhonorare im Wirtschaftsprüfermarkt 2010, Mitteilungen der Wirtschaftsprüferkammer, 4, pp. 19 – 21.
92. WPK Magazin 2013: Anbieterstruktur, Mandatsverteilung und Abschlussprüferhonorare im Wirtschaftsprüfermarkt 2012, Beilage zu WPK Magazin, 4, pp. 1-12.
93. Zeithaml, V.; Berry, L.; Parasuraman, A. 1992: Performance Measurement for the Customer Relationship Management, Journal of Marketing, 56, p. 67.
94. Zülch, H.; Krauß, P.; Pronobis, P. 2009: Die Entwicklung von Abschlussprüferhonoraren zwischen 2004 und 2008: Eine empirische Analyse ausgewählter Börsenindizes (DAX, MDAX, SDAX, TecDAX), in: Die Wirtschaftsprüfung, 8, p. 226.

Books

95. Albers, S. 2009: Methodik der empirischen Forschung. Gabler, 3. Auflage, Wiesbaden
96. Alvesson, M. 1995: Management of knowledge-intensive companies, Berlin, New York.
97. Atteslander, P. 2010: Methoden der empirischen Sozialforschung. Erich Schmidt Verlag, neu bearbeitete und erweiterte Auflage, Berlin.
98. Ballwieser, W.; Richter, M. 2003: Entwicklungen der Wirtschaftsprüfung. Erich Schmidt Verlag, Berlin.
99. Ballwieser, W. 2005: Die Entwicklungen im Lagebericht, Anpassung des deutschen Bilanzrechts an internationale Standards – Bilanzrechtsreformgesetz und Bilanzkontrollgesetz, p. 1 – 10.
100. Bauwhede, H.V.; Willekends, M. 2004: Auditing, Trust and Governance Developing regulation in Europe. Oxon, Issue 1.
101. Bezold, T. 1996: Zur Messung der Dienstleistungsqualität. Eine theoretische und empirische Studie zur Methodenentwicklung unter besonderer Berücksichtigung des ereignisorientierten Ansatzes. Peter Lang. Frankfurt a. Main.
102. Binner, H.F. 2002: Prozessorientierte TQM-Umsetzung. Carl Hanser Verlag, 2nd Edition.
103. Bleibtreu, C.; Stefani, U. 2012: The Interdependence between Audit Market Structure and the Quality of Financial Reporting: The Case of Non-Audit Services, Working Paper Series of the Department of Economics, 2012 (1).
104. Brase, P. 1997: Standorte deutscher Wirtschaftsprüfungsgesellschaften. Erfassung - Darstellung - Bewertung. Dt. Univ.-Verlag, Wiesbaden.
105. Brauer, J.P. 2009: DIN EN ISO 9000:2000 ff. Gestaltungshilfen zum Aufbau Ihres Qualitätsmanagementsystems. Carl Hanser Verlag, München.
106. Bruhn, M.; Stauss, B. 1995: Dienstleistungsqualität. Konzepte, Methoden, Erfahrungen. Gabler, Wiesbaden.
107. Bruhn, M. 2008: Qualitätsmanagement für Dienstleistungen: Grundlagen, Konzepte, Methoden. Springer, 7th Edition.
108. Bruhn, M. 2011: Qualitätsmanagement für Dienstleistungen. Grundlagen, Konzepte, Methoden. Springer, 8th Edition.
109. Brown, T.; Churchill, G.; Suter 2010: Basic Marketing Research. Cengage Learning Emea, 7th Edition.
110. Bryman, A. 2012: Social Research Methods. Oxford Univ. Press, 4th Edition.
111. Buchner, R. 1996: Rechnungslegung und Prüfung der Kapitalgesellschaft. UTB, 3th Edition, Stuttgart.
112. Buhleier, C.; Helmschrott, H. 1998: Der Beruf des Wirtschaftsprüfers. Tätigkeit, Bewerbung und Berufseinstieg. Oldenbourg Verlag.
113. Bürger, B. 2004: Qualität als Differenzierungsmöglichkeit auf dem Markt für professionelle Dienstleistungen, in: Ringlstetter, M., Bürger, B., Kaiser, S. (Hrsg., 2004) Strategien und Management für Professional Firms, Weinheim, pp. 141 – 162.
114. Bürger, B. 2005: Aspekte der Führung und der strategischen Entwicklung von Professional Service Firm: Der Leverage von Ressourcen als Ausgangspunkt einer differenzierten Betrachtung, Wiesbaden.
115. Copley, P.A.; Doucet, M.S. 1993: The Impact of Competition on the Quality of Governmental Audits, Auditing: A Journal of Practice & Theory, 12 (1), p. 88–98.
116. Corsten, H.; Gössinger, R. 2007: Dienstleistungsmanagement. Oldenbourg Verlag, 5th Edition.
117. Deussen, R. 2007: Externe Qualitätskontrolle nach § 57a WPO, Qualitätssicherung in der Abschlussprüfung, Schäffer Poeschel Verlag, Stuttgart.

118. De Leeuw, E.D.; Hox, J.J.; Dillmann, D.A. 2008: The International Handbook of Survey Methodology. New York/London: Erlbaum/Taylor & Francis.
119. Donabedian, A. 1980: The definition of quality and approaches to its assessment. Explorations in Quality, Assessment and Monitoring, Health Administration Press.
120. Drucker, P. 2010: Peter F. Drucker's Next Management: New Institutions, New Theories and Practices, p. 225.
121. Ellrott, H. 2006: Kommentierung zu §289 HGB, Beck'scher Bilanz-Kommentar: Handels- und Steuerbilanz. pp. 1314 – 1340, Beck Juristischer Verlag, 8th Edition.
122. European Commission 1996: Green Paper – The Role, the Position and the Liability of Statutory Auditors within the European Union, Abl.EU, C 321, p. 1.
123. European Commission 2011: MEMO/11/856, Press Release, Brussels.
124. Farr, W.-M; Niemann, W. 2006: Qualitätssicherung in der WP-/vBP-Praxis: Neue Anforderungen durch die Änderung der Berufssatzung und durch die VO 1/2006. - Geltungsumfang für kleine und mittelgroße Praxen (Teil II), Deutsches Steuerrecht, (29), pp. 1295–1298.
125. Faßnacht, M. 2001: Begriff der Dienstleistung. Bruhn, Homburg.
126. Feigenbaum, A. V.1991: Total Quality Control. McGraw Hill, New York, 3th Edition.
127. Fischer, J.M. 2004: Strategisches Controlling mittelständischer Steuerberatungs- und Wirtschaftsprüfungskanzleien. Dissertation Erlangen-Nürnberg, Bonn.
128. Fischer, M. 1995: Agency-Theorie, WiSt, (6), pp. 320–322.
129. Flick, U. 1999: Qualitative Forschung. Theorie, Methoden, Anwendung in Psychologie und Sozialwissenschaften. Reinbeck, Hamburg.
130. Flick, U. 2009: An Introduction to Qualitative Research. Sage, 4th Edition.
131. Flick, U. 2012: Qualitative Sozialforschung, Eine Einführung, Rowohlt Taschenbuch Verlag, 5. Auflage, 2012.
132. Friedrichs, J. 1990: Methoden empirischer Sozialforschung. Westdeutscher Verlag, Opladen.
133. Garvin, D. A. 1988: Managing quality. The strategic and competitive edge. Free Press, New York.
134. Gesetz über eine Berufsordnung der Wirtschaftsprüfer (Wirtschaftsprüferordnung) (WPO), in the version of notice from 5. November 1975, last amended by the Act of BGBl. I S. 2515 on 6. December 2011.
135. Gillmann, J.-P. 2002: Performance measurement in professional service firms Gestaltungsmodell am Beispiel von Wirtschaftsprüfungs- und Beratungsunternehmen, Wiesbaden.
136. Gläser, J.; Laudel, G. 2010: Experteninterviews und qualitative Inhaltsanalyse, 4th Edition, Wiesbaden 2010.
137. Gouthier, M. H. J.; Strauss, B. 2003: Kundenentwicklung im Dienstleistungsbereich. Dt. Univ.-Verlag, Wiesbaden.
138. Grant, 2010: Auditing Standards and Audit Quality, Presentation at workshop in Parnu, 8-9 July, 2010.
139. Grönroos, C. 1982: Strategy Management and Marketing in Service sector. Helsingfors, Sweden.
140. Grönroos, C. 2001: Service management and marketing. A customer relationship management approach. Chichester, Wiley, 2nd Edition.
141. Grönroos, C. 2010: Service management and marketing. Customer management in service competition. Chichester, Wiley, 3rd Edition.
142. Gschrei, M. 2008: Spezialfortbildung für den Prüfer für Qualitätskontrolle. Spezialfortbildung in Cologne, November 2008, wp-net Verband für die mittelständische Wirtschaftsprüfung.
143. Haller, S. 1998: Beurteilung von Dienstleistungsqualität: Dynamische Betrachtung des Qualitätsurteils im Weiterbildungsbereich. Deutscher Univ. Verlag, 2nd Edition.

144. Haßlinger, C. 2011a: Strategien mittelständischer Wirtschaftsprüferpraxen in Folge der Auswirkungen regulativer Einflüsse auf den Wirtschaftsprüfermarkt. IDW, Düsseldorf.
145. Heinhold, M.; Pasch, H. 1999: Qualitätsmanagement in Steuerberatung und Wirtschaftsprüfung. Oldenbourg Verlag.
146. Hense, B.; Ulrich, D. 2008: WPO-Kommentar, Kommentar zum Berufsrecht der Wirtschaftsprüfer und vereidigten Buchprüfer-Wirtschaftsprüferordnung. IDW-Verlag, Düsseldorf.
147. Henze, J. 1999: Kleine Wirtschaftsprüfungsunternehmen im Wettbewerb: Auswirkungen veränderter Wettbewerbsbedingungen auf die Wettbewerbsposition kleiner Wirtschaftsprüfungsunternehmen in Deutschland. Verlag Wissenschaft und Praxis, Sternenfels.
148. Hildebrandt, D. 2010: Das System der Prüferaufsicht in Deutschland. § 66a WPO. Primus Seminare, Köln.
149. Hildebrandt, D. 2014: Aktuelles Prüfungswesen. Primus Seminare, Köln.
150. Hoffmann, E. 2013: Erfolgsfaktor Soft Skills, Was Wirtschaftsprüfer aus der Sozialpsychologie lernen können, IDW Verlag, Düsseldorf.
151. Hofmann, H.J. 1982: Die Evolution von Marktstrukturen. Eine theoretische und empirische Untersuchung zur Entwicklung der horizontalen Unternehmenskonzentration. P. Haupt, Michigan.
152. Hohlheimer, I.; Oberlander, W.; Kössler, S. 2005: Kooperationsformen bei Rechtsanwälten: Disziplinäre und interdisziplinäre Zusammenarbeit im Rahmen gesetzlich geregelter und nicht geregelter Formen, Nürnberg.
153. Hücke, A. 2003: Aufsichtsrat und Abschlussprüfer, Eine symbiotische Beziehung? In: Wollmert, P./Schönbrunn, N./Jung, U./Siebert, H./Henke, M. (Hrsg.), Wirtschaftsprüfung und Unternehmensüberwachung, Festschrift für Prof. Dr. Dr. h.c. Wolfgang Lück, Düsseldorf 2003, pp 115 – 131.
154. Hummel, Th.; Malorny, Chr. 2011: Total Quality Management, Tipps für die Einführung, 4. Auflage, Carl Hanser Verlag, München.
155. IAASB 2014: A Framework for Audit Quality – Key Elements that Create an Environment for Audit Quality February 2014. IAASB, New York.
156. IAASB 2013: A Framework for Audir Quality – Consultation Paper January 2013. IAASB, New York.
157. IFAC, 2008: Financial Reporting Supply Chain - Current Perspectives and Directions. International Federation of Accountants, New York.
158. IFAC, 2009: International Standard on Auditing 260 – Communication with those charged with Governance. International Federation of Accountants, New York.
159. Institut der Wirtschaftsprüfer 2006: Gemeinsame Stellungnahme der WPK und des IDW: Anforderungen an die Qualitätssicherung in der Wirtschaftsprüferpraxis (VO 1/2006), adopted by the board of WPK and IDW on 27. March 2006.
160. Institut der Wirtschaftsprüfer 2007: WP Handbuch 2008 – Wirtschaftsprüfung, Rechnungslegung, Beratung, Band II. IDW-Verlag, 13th Edition, Düsseldorf.
161. Institut der Wirtschaftsprüfer 2011: IDW Praxishandbuch zur Qualitätssicherung 2011/2012. IDW-Verlag, 6th Edition, Düsseldorf.
162. Institut der Wirtschaftsprüfer 2012: Die Durchführung von Qualitätskontrollen in der Wirtschaftsprüferpraxis (IDW PS 140). IDW-Verlag, Düsseldorf.
163. Institut der Wirtschaftsprüfer 2013: IDW Praxishandbuch zur Qualitätssicherung 2013/2014. IDW-Verlag, 8th Edition, Düsseldorf.
164. Institute of Chartered Accountants in England & Wales 2006: AuditQuality: Fundamentals – Principles-based auditing standards, ICAEW, London.
165. International Federation of Accountants 2012: Handbook of the Code of Ethics for Professional Accountants. IESBA, New York.

166. Jany, J. 2011: Die Qualität von Abschlussprüfungen im Kontext der Haftung, Größe und Spezialisierung von Prüfungsgesellschaften. Lohmar, Rheinl: Eul, J.
167. Jehle, N. 2007: Konflikte innerhalb von Wirtschaftsprüfungsgesellschaften. Eine empirische Untersuchung branchenspezifischer Einflussfaktoren. Gabler, Wiesbaden.
168. Juran, J.M. 1993: Der neue Juran. Qualität von Anfang an. Verlag Moderne Industrie, Landberg am Lech.
169. Kamiske, G.F. 2011: Qualitätsmanagement von A bis Z. Fachbuchverlag, 6th Edition.
170. Kamiske, G.F.; Malorny, C. 1994: „Total Quality Management – ein bestechendes Führungsmodell mit hohen Anforderungen und großen Chancen“, in: Kamiske, G.F. (Hg.): Die Hohe Schule des Total Quality Management, Berlin/Heidelberg, pp. 1 – 18.
171. Kamiske, G.F.; Umbreit, G. 2006: Qualitätsmanagement – eine multimediale Einführung. Fachbuchverlag Leipzig, 3rd Edition.
172. Kamiske, G.F.; Brauer, J.-P. 2011: Qualitätsmanagement von A bis Z. Wichtige Begriffe des Qualitätsmanagements und ihre Bedeutung. Hanser Verlag, 7th Edition.
173. Kampe, T. 2011, Führung von Wirtschaftsprüfungsgesellschaften. Gabler Verlag, Wiesbaden.
174. Kellner, K. 2007: Kommunale Profilierung. Ein neuer Ansatz für das Consulting in der Angewandten Sozial- und Wirtschaftsgeographie. Geographica Augustana, 2nd Edition.
175. Kellner, K. 2010: Internationales Marketing, Lecture in Kufstein, Austria in Dezember 2010.
176. Kitchler, R. 2005: Abschlussprüfung, Interessenkonflikt und Reputation. Deutscher Univ. Verlag, Wiesbaden.
177. Kleinaltenkamp, M.; Jacob, F.; Plinke, W.; Albrecht S. 2006: Markt- und Produktmanagement. Die Instrumente des Business-To-Business-Marketing. Betriebswirtschaftlicher Verlag Dr. Th. Gabler.
178. Koecke, A. 2006: Die Bedeutung mittelständischer Wirtschaftsprüferpraxen in Deutschland. Eine empirische Untersuchung. IDW-Verlag, Düsseldorf.
179. Krawitz N.; Leukel S. 1998: Deutsches Steuerrecht. Verlag C.H. Beck oHG.
180. Langenbucher, G. 1997: Qualität und Umfang der Abschlussprüfer. Aktuelle Entwicklungen in Rechnungslegung und Wirtschaftsprüfung. IDW-Verlag, Düsseldorf
181. Leffson, U. 1988: Wirtschaftsprüfung. Gabler Verlag, 4th Edition, Wiesbaden.
182. Le Vourc'h, J.; Morand, P. 2011: Study on the effects of implementation of the acquis on statutory audits of annual and consolidated accounts including the consequences on the audit market. ESCP Europe, Final Report.
183. Lowendahl, B. 2005: Strategic management of professional service firms. 3. überab. u. erw. Auflage, Copenhagen.
184. Lux, W. 1996: Der Einfluss von Total Quality Management auf die organisatorische Gestaltung von KMU. Verlag Paul Haupt, Bern, Stuttgart, Wien.
185. Lück, W. 1999: Prüfung der Rechnungslegung - Jahresabschlussprüfung. Oldenbourg Verlag.
186. Maccari-Peukert, D. 2011: Externe Qualitätssicherung. Eine empirische Analyse des Einflusses der externen Qualitätskontrollen und der anlassunabhängigen Sonderuntersuchungen auf die Prüfungsqualität in Deutschland. IDW-Verlag, Düsseldorf.
187. Maleri, R. 1991: Grundlagen der Dienstleistungsproduktion. Springer, 3rd Edition.
188. Marten, K.U. 1999: Qualität von Wirtschaftsprüferleistungen - Eine empirische Untersuchung des deutschen Marktes für Wirtschaftsprüferleistungen - (Habilitationsschrift). IDW-Verlag, Düsseldorf.
189. Mayer, H. O. 2008: Interview und schriftliche Befragung. Entwicklung, Durchführung und Auswertung. Oldenbourg Verlag, 4th Edition.

190. Mayring, P. 2010: Qualitative Inhaltsanalyse – Grundlagen und Techniken, 10. Auflage, Weinheim 2010.
191. Meffert, H.; Bruhn, M. 2009: Dienstleistungsmarketing Grundlagen-Methoden-Konzepte. Gabler Verlag, 6th Edition.
192. Meyer, S. 2003: Die externe Qualitätskontrolle im Berufsstand der Wirtschaftsprüfer, Deutscher Status quo und internationale Entwicklungen. Josef Eul Verlag, Köln
193. Niehus, R. J. 1998: Gewährleistung der Qualität der Abschlussprüfung International. IDW-Verlag, Düsseldorf.
194. Niemann, W. 2005: Anforderungen an die Qualitätssicherung in kleinen und mittleren WP/vBP-Praxen, Deutsches Steuerrecht, 2005, (37), pp. 1581 -1588.
195. Obermüller, P.; Riemenschneider, S. 2011: Reformüberlegungen zur Corporate Governance und Abschlussprüfung in der EU, Kapitalmarktorientierte Rechnungslegung, 7, p. 379.
196. Oess, A. 1994: Total Quality Management: Die ganzheitliche Qualitätsstrategie. Gabler Verlag, 3rd Edition.
197. Oppenheim, A. N. 2005: Questionnaire Design, Interviewing and Attitude Measurement. Continuum, 2nd edition.
198. Oppermann, R. 1998: Marktorientierte Dienstleistungsinnovation: Besonderheiten von Dienstleistungen und ihre Auswirkungen auf eine abnehmerorientierte Innovationsgestaltung. Verlag GHS, Göttingen.
199. Orodowski, G. 1997: Duden, Etymologie der deutschen Sprache. Die Geschichte der deutschen Wörter und der Fremdwörter von Ihrem Ursprung bis zur Gegenwart. Dudenverlag, 2nd Edition.
200. Orth, C. 2000: Abschlussprüfung und Corporate Governance. Vom Financial Audit zum Business Audit vor dem Hintergrund der Erwartungslücke. Deutscher Univ.-Verlag, Wiesbaden.
201. Pasch, H.; Heinhold, M. 1999: Qualitätsmanagement in Steuerberatung und Wirtschaftsprüfung. Oldenbourg Verlag.
202. Paulischek, P. 2009: Aufsicht über den Berufsstand der Wirtschaftsprüfer in Deutschland. - Eine agencytheoretische Analyse. Gabler Verlag, Wiesbaden.
203. Peemöller, V.H. 2004: Einführung in das betriebliche Prüfungswesen, in: Förschle, G., Peemöller, V.H. (Hrsg., 2004), Wirtschaftsprüfung und Interne Revision, Heidelberg, pp. 1 – 140.
204. Quick, R. 1996: Die Risiken der Abschlussprüfung. IDW-Verlag, Düsseldorf.
205. Quick, R. 2005: Unabhängigkeit des Abschlussprüfers im Spiegel der Wissenschaft. Wirtschaftsprüfung und Corporate Governance in Österreich. Linde Verlag, Wien.
206. Rebhan, E. 2012: Qualität der Wirtschaftsprüfung in Österreich. Beurteilung, Wahrnehmung und Erwartung von Wirtschaftsprüfungsleistung aus Anbieter- und Nachfragersicht - eine empirische Untersuchung. Linde Verlag, Wien.
207. Reithel, J. 2008: Quantitative Forschung – Ein Praxiskurs. Gabler Verlag, Wiesbaden.
208. Ringlstetter, M.; Bürger, B.; Kaiser, S. 2004: Eine Einführung in die Welt der Professional Service Firms, in: Ringlstetter, M., Bürger, B., Kaiser, S. (Hrsg. 2004), Strategien und Management für Professional Service Firms, Weinheim, pp. 11 – 35.
209. Rothlauf, J. 2003: Total Quality Management, 2nd Edition, Oldenbourg Verlag, München.
210. Rothlauf, J. 2012: Total Quality Management in Theorie und Praxis – zum ganzheitlichen Unternehmensverständnis, 3rd Edition, Oldenbourg Verlag, München 2012.
211. Satzung für Qualitätskontrolle (§57c WPO) in the version of 6. November 2009 came into force on 09. December 2009 (BANz. S. 4125).
212. Scharitzer, D. 1994: Dienstleistungsqualität - Kundenzufriedenheit. Service Fachverlag, Wien.

213. Schmidt, S. 2000a: Externe Qualitätskontrolle zur Sicherung der Abschlussprüfung, IDW Verlag, Düsseldorf, 2000.
214. Schüller, A. 1967: Dienstleistungsmärkte in der Bundesrepublik Deutschland. Sichere Domänen selbständiger mittelständischer Unternehmen. Abhandlungen zur Mittelstandsforschung. Westdeutscher Verlag.
215. Seghezzi, H.D. 2003: Integriertes Qualitätsmanagement – Das St. Galler Konzept. 2. vollständig überarbeitete und erweiterte Auflage, München/Wien, Carl Hanser Verlag.
216. Seghezzi, H.D.; Hansen, J.R. 1993: Qualitätsstrategien. München/Wien, Carl Hanser Verlag.
217. Seghezzi, H.D; Fahrni, F.; Herrmann, F. 2007: Integriertes Qualitätsmanagement. Der St. Galler Ansatz. Carl Hansen Verlag, 3rd Edition.
218. Shewhart, W.A 1980: Economic control of quality of manufactured product. American Society for Quality Control.
219. Sieker, A. 2000: Qualitätssicherung bei Dienstleistungen. Kovač, Hamburg.
220. Umbreit, J. 2008: Qualitätsmanagement: eine multimediale Einführung. Carl Hanser Verlag, München.
221. Vohl, H.J. 2004: Balanced Scorecard im Mittelstand. Veränderungsprozesse in mittelständischen Unternehmen. Murmann Verlag.
222. Volkmann, T.; Hense, B.; Dieter, U. 2008: WPO- Kommentar: Kommentar zum Berufsrecht der Wirtschaftsprüfer und vereidigten Buchprüfer – Wirtschaftsprüferordnung (WPO). IDW-Verlag, Düsseldorf.
223. Wagenhofer, H.; Ewert, R. 2007: Externe Unternehmensrechnung, Springer Verlag, 2nd Edition.
224. Waldthausen, J. 2011: Das Grünbuch zur Abschlussprüfung, wp-net Magazin, 34, pp. 116–125.
225. Weber, R. J. 2011: Die Entscheidung über die Auftragsannahme in der Wirtschaftsprüfung, Ein qualitätssicherndes Instrument im Rahmen der Jahresabschlussprüfung, Gabler Verlag, Wiesbaden.
226. Wiemann, D. 2011: Prüfungsqualität des Abschlussprüfers. Einfluss der Mandatsdauer auf die Bilanzpolitik beim Mandanten. Gabler Verlag, Wiesbaden.
227. Wirtschaftsprüferkammer 2005: Die WPK 2002 – 2005 – Berichte vom Vorstand und Beirat. Wirtschaftsprüferkammer, Düsseldorf.
228. Wöhe, G.; Döring, K. 2010: Einführung in die Allgemeine Betriebswirtschaftslehre. Verlag Vahlen, 24th Edition, München.
229. Wysocki, K. 1988: Grundlagen des betriebswirtschaftlichen Prüfungswesens. Verlag Vahlen, 3rd Edition, München.
230. Zollondz, H.D. 2011: Grundlagen Qualitätsmanagement. Einführung in Geschichte, Begriffe, Systeme und Konzepte. Oldenburg Verlag, 3rd Edition.

APPENDIX 1: COMPARISON NEW MODELS‘ COMPONENTS WITH THEORETICAL QUALITY APPROACHES

elements/ approach	professional requirements	legal requirements	Code of Ethics	Independence	Public	Clients/ Customer	Employee	Competitor
I. In Business Administration								
1. Garvin	yes	yes	no	no	no	yes	no	no
2. Shewhard	yes	yes	no	no	no	yes	no	yes
3. Denning	yes	yes	no	no	no	yes	yes	yes
4. Feigenbaum	yes	yes	no	no	no	yes	yes	no
5. Juran	yes	yes	no	no	no	yes	yes	no
6. Quality Standards	yes	yes	no	no	yes	yes	yes	yes
II. In Services								
1. Donabedian	yes	yes	no	no	no	yes	yes	no
2. Grönroos	yes	yes	no	no	no	yes	yes	yes
3. Parasuraman's, Zeithaml's and Berry's GAP-Model	yes	yes	no	no	yes	yes	yes	no
4. Kellner	yes	yes	no	no	yes	yes	yes	yes
III. In Audits								
a. Quality Definitions								
5. DeAngelo	yes	yes	no	yes	no	no	no	yes
6. Schmidt	yes	yes	no	yes	no	no	no	no
7. Copley and Doucet	yes	yes	yes	yes	no	no	no	no
8. Niehues	yes	yes	yes	yes	no	no	no	no
9. Marti and Eberle	yes	yes	yes	yes	yes	no	no	no
10. Marten	yes	yes	yes	yes	yes	no	no	no
11. Leffson	yes	yes	no	yes	yes	yes	no	no
12. Müßig	yes	yes	no	yes	yes	yes	yes	no
13. Langenbucher	yes	yes	no	yes	yes	yes	no	no
b. direct quality research								
14. Marten	yes	yes	no	yes	yes	yes	no	no
15. Leuchtmann	yes	yes	no	yes	yes	yes	no	no
16. Rebhan	yes	yes	no	yes	yes	yes	no	no

APPENDIX 2: CONTENT AND DESIGN PARAMETER OF AC-QD MODEL

Components	<u>Content and design parameter</u>
Legal requirements	<p>The appointment of auditor is subject to proof of personal and professional qualification in admission and state examination (§ 1 WPO)</p> <p>The auditor is one of the professionals under public law and is therefore subject to strict professional supervision.</p> <p>Auditor's field of activity is defined in §§ 2, 129 WPO</p> <p>Prohibition to exercise certain functions § 43a (3) WPO</p>
Professional requirements	<p>Public Accountant Act (WPO)</p> <p>Professional Charter of the Chamber of Public Accountants on the Rights and Responsibilities of Wirtschaftsprüfer and vereidigte Buchprüfer (BS WP/vBP)</p> <p>Statute for quality control</p> <p>Regulation on Document Seals (SiegelVO)</p> <p>Regulation on Accountants' Professional Liability Insurance (WPBHV).</p> <p>International Auditing Standards</p> <p>Code of Conduct §§ 43 – 56 WPO: impartiality and Independence,</p> <p>conscientiousness, personal responsibility, and has to be particularly cognizant of the professional duties arising out of his entitlement</p> <p>System of external quality control</p>
Code of Ethics	<p>provides ethical requirements of the profession and a framework for compliance with fundamental principles:</p> <ul style="list-style-type: none">• Integrity,• Objectivity,• Professional Competence and Due Care• Confidentiality,• Professional Behavior <p>No necessarily professional duty, but may become a contractual obligation</p>
Independence	<p>cardinal quality of honesty</p> <p>Personal, commercial and financial independence</p> <p>Auditors must be free of all bonds which may restrict his professional discretion</p>

	<p>Conditions for exclusion according to § 319 Abs. 3 HGB to accept audit assignments</p> <p>Independence in fact and in appearance</p> <p>Not only detecting errors but also report about it</p>
Clients	<p>different mandates with different expectations and needs</p> <p>reputation (potential, meaning new clients may evaluate auditing companies on reputation on market)</p> <p>client relationships</p> <p>Expectations differ due to the different circles of recipients</p> <p>External quality control differs depending on the clients</p>
Employees (Professionals)	<p>must be included in the implementation and realization of the model</p> <p>certain dependence between auditing company and its employees (professionals)</p> <p>Focus of performances is on professionals</p> <p>Establishes expertise and specialized knowledge is required depending on client structure</p> <p>Biggest challenge is to recruit new employees and retain them</p> <p>Motivation</p> <p>Organizing continuing training, obligation for advanced training of 40 hours on-the-job, near-the-job</p> <p>Evaluation of Professionals</p> <p>Promotion for passing professional exams</p> <p>Career- and incentive systems</p> <p>Fixed and variable salary components</p> <p>Development prospects</p> <p>Long-term commitment to the company</p> <p>Professionals are „Human Capital“</p>
Competition	<p>it is a highly dynamic environment</p> <p>High degree of concentration</p> <p>strategy decision to offer „traditional activities“, few services (differentiation) or niche products (niche strategy)</p> <p>Decision on strategy has an impact on selection of professionals (special skills are required) and on various legal and professional obligations</p>
Public	<p>high responsibility towards the public</p> <p>The public relies on the judgment of auditor</p> <p>The auditor leaves a promise to the public</p> <p>Therefore the public has high expectations on auditor</p>

Because of the yearly publications of financial statements in the German “Bundesanzeiger”, every auditor has to deal with the “general public”

APPENDIX 3: EXAMPLE OF APPLYING THE AC-QD MODEL

The single components are dependent on each other. The respectively defined content of one components influences the content of the other components. Here the author presents the application of the AC-QD model on the basis of one example, which is a micro-sized auditing company in Germany:

Competition

At the beginning of a self-employed profession or formation of a company, the company owner has to develop a strategy how to position the company on the market. In this example of using the AC-QD model it is assumed, that the auditing company decides on a niche strategy. On purpose, the auditing company passes on offering services as taxation, accounting, the so called “traditional activities”. Instead it will offer niche products with the focus on specific industries such as trading industry, financial and municipal sector, and at the same time the auditing company will offer specific services. These services are narrowed down to annual financial statements and the preparation of expert opinions. While choosing a niche strategy and focusing only on specific services, the auditing company does not only keep up with its competitors but it also assert itself by offering explicit services. Now it is important that the auditing company introduces its offers in the specific industries.

Employees

The decision on the strategy and competition has influences on the selection of employees. The auditing company focusing on niche services does not need employees who have “all-round-talents” but rather highly qualified employees. The established expertise and specialized knowledge is required depending on client structure and training programs for employees needs to be designated to their knowledge. Additionally it is important to hire employees which are highly motivated and committed to the company as they build a relationship to their clients.

Clients

Deciding on the competition does also have influences on the client structure of the auditing company. The company focusing on the niche strategy serves different clients than companies who offer traditional services (e.g. Accounting, Taxation etc.). When a company focuses on niche industries such as municipal or financial sector, they need a keen sense of the industry. This means the auditing company provides expert knowledge, observes changes and tasks of

this industry and acts upon it. The acquisition of new clients does have a significant value compared to the handling of traditional services.

Professional and legal requirements

Before starting to work as an auditor, the Professional Examination needs to be passed as well as several legal and professional requirements need to be met. Prior to operating an auditing company, the company needs to be acknowledged as such. The offer of different services influences legal and professional requirements, namely the frequency of the external quality control. When the company decides on auditing publicly traded companies, the external quality control needs to be on a regular basis of 3 years as well as a special investigation needs to take place, otherwise the time frame accounts for 6 years.

Code of Ethics

The auditing company, no matter on which strategy they are focusing, needs to act according to the Code of Ethics at all times. In details this means that it is prohibited to arrange a success fee, or such a low fee which does not allow serious work. The work of auditors needs to be objective and responsible permanently, the auditor needs to be aware of his public duty at all times and work accordingly.

Independence

When it comes to Independence, for a auditing company focusing on niche industries it is very important to maintain their independence. For example the company needs to make sure that the annual turnover of one client does not exceed .. % of the total turnover of the company. An auditor is not allowed to prepare opinion expertise when he depends on the client economically. Additionally he needs to remain distance to his clients in public in order to appear independent from the outside (Independence in Appearance)

Public

The public relies on the judgment of auditors, the auditor leaves a promise to the public. The auditor needs to be aware of and act upon this specific tasks and commitment at all times, no matter which strategy he has chosen. Basically every auditor performing annual financial audits works in the public spotlight, simply because of the publication of financial statements in the Federal Gazette. Nevertheless there are differences concerning the public's interest of

annual financial audits of publicly traded companies with many shareholders or medium-sized companies with family-owned shares.

APPENDIX 4: QUESTIONNAIRE

Questionnaire for expert interviews

1. General Information

1.1. I am an auditor in

- ☐ A single chancellery or a small audit company (1 – 2 auditors)
- ☐ A medium sized audit company (3 – 5 auditors)
- ☐ A large audit company (> 5 auditors, NOT one of the BIG4)

1.2. I work as an auditor since _____

1.3. I am autonomous auditor / part of a company / associate of an audit company since _____

1.4. My chancellery has _____ employees.

1.5. I / My chancellery received the certificate for taking part in the external quality control system

- ☐ One Time
- ☐ Two Times
- ☐ Three Times

1.6. I / We

- ☐ examine
- ☐ don't examine

capital market oriented clients.

1.7. Age: _____

1.8. Name of my chancellery _____

1.9. Does your chancellery belong to any kind of network?

If Yes, which one? _____

1.10. How many obligatory audit mandates and how many voluntary audit mandates do you test per year (average)? _____

Quality

2. The securing and the enhancement of Quality in audits were reasons for the introduction of an external quality control, given by the legislative and the profession of auditors.

How do you define Quality in general for your chancellery, and especially for financial audits?

3. In your opinion, which importance do the following Components have in terms of Quality? Please give your answers in the following scale from 1-6 (6 Highest importance).

1	2	3	4	5	6
lowest importance	low importance	rather low importance	rather high importance	high importance	very high importance

- Legal Requirements
- Professional Requirements
- Independence
- Code of Ethics
- Employee
- Clients
- Public
- Competition

4. Which measurements did you take to secure and enhance the quality in your chancellery and in the audits, performed by you and your chancellery?

5. Which impact had the introduction of an external quality control on these measurements?

6. Do you think that the external quality control has raised the quality in audit companies / in financial audits significantly?

☐ If yes, why?

☐ If no, why?

7. Which meaning does the independency of an auditor have for his work for you?
8. Which measurements did you take to guarantee your own independency as well as the independency of your partners and employees?
9. What do you think are the most important elements to guarantee a high quality-level in your chancellery and in financial audits?
10. Some scientific researchers did complain, that large audit companies
- a) are more interested in providing a higher quality-level than smaller organizations
 - b) do provide a higher quality-level than smaller organization only because of their size.

What do you think about that?

Do you agree to these theses?

☐ If yes, why?

☐ If no, why?

Can you affirm these research conclusions?

11. In your opinion, which impact does a higher formalization have on the quality of financial audits?

Can Checklists replace an audit?

12. In Germany, a discussion about a fee ordinance for financial auditors came up. As a reason for this discussion, the enhancement of the quality of financial audits to prevent “price-dumping” is mentioned. What is your opinion? Is a fee ordinance able to enhance the quality in financial audits?

- 13.** The actual system for external quality controls knows, beside the regular, three year audit, irregular controls for auditors who perform audits for Capital market oriented companies. Audit chancelleries, who do not perform audits for such companies, need to undergo an external control every six years.

Should the external quality control be different in another way from the irregular control?
If yes, in which way?

- 14.** Do you fear a “Two-Class-auditor-landscape” because of these developments?

- 15.** Do you think smaller and medium-sized audit companies can survive on the auditor market in the future?

Which impact does the increasing formalization on the survival of your chancellery and small and medium-sized chancelleries in general?

- 16.** Will the profession of the financial auditor be an independent profession in a few years, or does the increasing formalization remove the profession from its independence?

- 17.** Actually the European Union discusses the separation of the consultation from the audit (Green/White paper). Should the separation be fulfilled? Is a separation useful for every mandate or only for Capital market oriented mandates?

APPENDIX 5: GLOSSARY

AC-QD Model:

A new model designed by the author which enables each micro- small and medium sized auditing company to define its own quality standards according to a uniform method. The model is able to replace external quality control in these companies.

Annual financial audits:

The term annual financial audit describes the evaluation of the financial information set up by a company voluntarily or due to legal prescription over a back-dated period. According to the two functions fulfilled by the annual financial audit, namely the informative function and the calculative function, the financial information is to inform different circles of addressees about the company's financial and profit situation. These addressees may stem at that from both company internal and company external circles.

Auditor:

Auditors practice, like doctors or lawyers, is also called liberal profession. The special character of a liberal profession is based on professional understanding, the practice of the profession and regulations for their respective practices, which are based on the professional ethic rules. The term "auditor" at that means natural and juridical persons, who are licensed to carry out legal annual financial audits. To be allowed to work as a professional auditor, there are broad admission requirements in all countries. The auditors have a lot of tasks and functions and they are not allowed to perform commercial activities.

External Quality Control:

External Quality Control is given by law §57a Public Accounts Act. Auditors who carry out statutory audits (annual financial audits) are obliged to submit to external quality control and need a valid certificate of participation. The goal of introducing external quality control was to strengthen the trust of the public in statutory audits, to improve quality control systems in auditing companies and to facilitate an adjustment to international standards. External quality control should make the quality of audits more transparent and traceable for the public.

Internal Quality Control:

The auditor and the auditing company bear the responsibility of the internal quality control. The internal quality control system is understood as all principles and measures, which are implemented in an auditing company in order to increase quality and in order to fulfil the Public Accountants Act.

System of Quality Control:

The system of quality control forms part of the professional supervisory system with varying responsibilities, which are the auditing companies themselves and which are distributed between the Chamber of Public Accountants, the Commission for Quality Control and the Auditor's Oversight Commission. The system of quality control can generally be divided into the internal quality control and the external quality control. The feature which distinguishes between those two is by whom the quality control is performed.

Quality Control Reviewer:

This person is a fellow professional, meaning another auditor, who is registered with the Chamber of Public Accountants as a Quality Control Reviewer and has to meet specific requirements. After he has carried out his inspection, the Quality Control Reviewer has to document it, compile a report with his opinion (without deficiencies, with deficiencies or objection) and submit this quality control report to the Commission for Quality Control. After receiving the inspection report, the Quality Control Commission issues a preliminary certificate of participation. However, it can revoke it or retroactively issue a withheld certificate of participation, if it reaches a different opinion after the final assessment of the inspection report.