

Summary of Paper: [The Effects of Audit Partner Industry Experience on Lowballing, Subsequent Audit Fees, and Audit Quality](#)

What is this Study About?

This study explores how an audit partner's industry experience affects the practice of fee discounting (or "lowballing") and its impact on audit fees and audit quality. Lowballing involves offering reduced fees in the first year of an audit to attract clients, with potential later increases to recover costs. The researchers examine whether more experienced audit partners avoid lowballing and maintain superior audit quality.

What are the major findings of the study?

Audit partners with higher industry experience tend to charge lower initial fees due to efficiencies rather than lowballing. These discounts are not followed by steep fee increases in subsequent years, reflecting genuine cost savings. Importantly, these experienced partners deliver superior audit quality, as measured by more accurate financial reporting and reduced discretionary accruals. In contrast, less experienced auditors often engage in lowballing, later raising fees significantly, which could compromise audit quality.

Why is the study important?

The findings have far-reaching implications for regulators, companies, and anyone seeking high-quality audits. Experienced audit partners provide a winning combination of cost-effectiveness and high-quality services, reducing risks associated with lowballing, such as compromised independence. These results suggest that policies promoting transparency about audit partner experience, like those of the PCAOB, could be a game-changer in selecting auditors. Additionally, the study highlights the value of industry-specific expertise in driving client satisfaction and robust financial oversight.