

Foundation for Auditing Research: Call for Research Project Proposals 2020

January 30st, 2020

Introduction

With this Call for Research Project Proposals 2020 the Foundation for Auditing Research (FAR) invites scholars to submit a proposal for research projects that provide academics and/or practitioners insights into audit phenomena. This note introduces FAR and provides some guidance regarding the research proposals FAR would like to receive.

What is FAR?

Established in 2015, the Dutch Foundation for Auditing Research (FAR) aims to enhance the knowledge of what makes a good audit today and to continuously improve audit practices. In a swiftly changing context regarding expectations and demands, FAR facilitates rigorous academic research with practical relevance for the auditing field.

FAR research is aimed at disseminating new academic knowledge and insights, as well as scientifically informing ongoing debates about the subject of audit quality. FAR pursues these objectives by researching the drivers of audit quality, by collaborating with other research institutes internationally, and by sharing its findings through research conferences and masterclasses.

The FAR conducts its research projects through a unique collaboration between science and practice, sustainably strengthening the learning curve of audit professionals and stakeholders in the auditing field. By applying specific protocols and established methods geared towards working with confidential data, the affiliated audit firms and departments provide FAR access to research data including research subjects needed for the research projects defined. With its scientific output, FAR aims to feed auditing education and sustainably bolster the auditing research community in the Netherlands and abroad. FAR disseminates this knowledge to practitioners and standard setters, regulators, and other stakeholders for practical development and improvement.

Please see the website for further information: www.foundationforauditingresearch.org.

Research objectives and focus

FAR is seeking to identify the **drivers and root causes** of audit quality as a means to improve audit practices. This objective can be broken down into at least three main parts:

- the underlying **drivers** of auditors' behavior and decision making, which may include the organizational conditions which stimulate or hamper auditors to work in the way that is expected;
- **root causes** of poor audit quality (rather than the symptoms of the underlying root causes); and
- effectiveness of possible **interventions** (organizational changes and levers of control) implemented to enhance audit quality, including **monitoring** thereof.

While factors have been identified by experts as determinants of audit quality, we have yet to learn how these factors inter-connect to each other. Based on DeFond and Zhang (2014)¹ and audit quality frameworks provided in Francis (2011) or Knechel et al. (2013), FAR proposes that audit quality can be studied from three perspectives throughout the corporate reporting assurance supply chain:

1. Clients' control environments, reporting systems and innate characteristics: Firms are becoming increasingly complex, in terms of business models, systems of control, and how the audited firms' underlying economics are reflected in their financial statements;
2. Audit firms' organizational settings and conditions for creating an organizational culture and architecture that increases the likelihood of audit staff achieving greater assurance and that strengthens incremental learning; and
3. Stakeholders and environmental forces, which may include auditors' communication (effectiveness of auditors' reporting), audit quality from multiple stakeholder perspectives, the environmental context of the audit (e.g., in terms of audit industry and markets), and the external supervision and regulatory environment.

FAR believes that research has the potential to identify those factors that influence audit quality in daily practice. The Dutch audit profession has decided to commission research projects to enhance our knowledge of how these factors affect audit quality.

¹ "We define high audit quality as greater assurance of high financial reporting quality. (...) [i.e.,] greater assurance that the financial statements faithfully reflect the [audited] firm's underlying economics, conditioned on its financial reporting system and innate characteristics" (DeFond and Zhang 2014: 275-6). This definition "reflects audit quality's continuous nature, encompasses the auditor's broad responsibilities, and recognizes audit quality as a component of financial reporting quality that is bounded by the [audited] firm's reporting system and innate characteristics" (p.313).

Call for Research Projects

In this call, FAR invites scholars to submit research proposals with regard to the following two research programs:

- **Research Program A: Replication projects.**
- **Research Program B: Empirical research projects.**

RESEARCH PROGRAM A: Replication projects

The list below shows auditing regulatory interventions in the Netherlands for which the (causal) effect on Audit Quality (AQ) have hardly been studied. Often though there are studies already available in the literature that have studied these (or similar) interventions in other countries. Given the preference for, and trust in, Dutch research findings for these interventions in reports such as those by the Dutch Professional Body of Accountants, Monitoring Committee Accountancy, and the Committee on the Future of the Accountancy Sector FAR organizes a “FAR Replication Program”.

The idea is that the best research (paper) that exist in the literature (and generally based on publicly available data) with regard to interventions listed below is replicated. This is done in the context of one centrally organized replication project (envisioned to at least result in a special edition of 12 FAR Practice Notes, apart from the expected academic publication in a leading accounting journal).

FAR welcomes research proposals from scholars / departments in the Netherlands to carry out such replication research in the academic 2020/21. Because existing research designs are used, doing the project within 1 to 2 year appears feasible, although FAR would expect research teams to suggest (beforehand as part of their proposal) relevant and / or necessary improvements to the research design. While replication projects would seem to be particularly interesting for upcoming scholars, FAR’s quality assurance criteria of senior research involvement and high-quality publication remains applicable (see later). Furthermore, these research projects would generally be based on publicly available data, but when essential to the research may be complemented by proprietary data of the FAR affiliated firms.

The list of interventions below shows these by year of introduction. The list may be incomplete, and some introduction years may be incorrect – hence, other relevant interventions within the context above may be suggested. Because all these interventions “create” before and after phases,

the possibility of good causal research is present, especially when there are unaffected firms control groups available. The list starts in 2006 – the regulatory 'building' surrounding auditing in the Netherlands is older obviously. Note: there are about 850 PIEs in the Netherlands: the total number of statutory audits is about 20,000, and about 13,000 of these are for for-profit corporations, 4,000 large, and 9,000 medium-sized.

2006

1. AFM supervision of PIE audit firms (also of their non-PIE audits)
2. Engagement partner name disclosure for large and medium sized clients (starts in fiscal year 2005)
3. Engagement partner mandatory rotation starts
4. PIE audit firm transparency reporting starts
5. PIE audit firms' Engagement Quality Review requirement starts (in addition to what firms may have implemented themselves).

2008

6. PIE client-firms are required to have an Audit Committee in their Supervisory Board (SB)
7. Audit fee (and composition) disclosure by large corporations (client-firms) starts

2009

8. AFM inspections of the Dutch Big 4 audits starts

2013

9. PCAOB inspections of US related audits by Dutch audit firms starts

2014

10. PIE audit firms are required to have a SB
11. Management Board (MB) of PIE audit firms: cannot be practicing partners / must have non-auditor members
12. Claw back arrangement for engagement partners of PIE audit firms introduced
13. Professional oath of all Dutch auditors: introduced (NBA regulation)
14. Expanded auditor report with KAMs introduced

2015

15. Fewer statutory audits for Dutch corporations by increasing medium sized corporations' size thresholds (about 2500 fewer)

2016/17

- 15. NAS restrictions for PIE audit firms introduced
- 16. PIE mandatory audit firm rotation required
- 17. More client-firm Audit Committee responsibilities in selecting auditor introduces.

2018

- 18. Suitability testing of SB and MB members by AFM of PIE audit firms

Other possible separate replication/extension projects: a (replication) study into the number of financial reporting “scandals” that involve Dutch audit firms in the Netherlands. The study could also be extended financial reporting related disciplinary- and court cases. Hail et al. (2018) is a paper that discusses corporate scandals and its discovery in multiple countries, including the Netherlands, for listed firms over the period of 1815-2015. The paper looks at listed firm scandals. It could be extended for all Dutch firms that are subject to mandatory auditing.

RESEARCH PROGRAM B: Empirical research projects

FAR empirical research projects generally have a project timeline of one to four years (depending on the scope of the research project) and include a research practice note and synthesis (see below). FAR is open to various research questions and topics within the research objectives and focus set-out earlier on page 2 of this call and could comprise research throughout the entire corporate reporting “ecosystem” as well as research focused on audit firm management controls or speaking to audit and assurance innovations.

FAR supports projects that use multiple research approaches and methods. This, for example, means that FAR would encourage a leading auditing / accounting academic to submit a project that includes researchers with a diverse back ground, be it in methods, and/or in research focus. Such projects would attract special attention of the review board. The rationale behind this is that FAR believes that the multi-dimensional /-theory /-disciplinary projects that potentially evolve from such teams, while embedded within institutional knowledge, would provide novel insights into the working van auditing and the into the context in which audit comes about and how they are used.

A strong focus of the program is to expand the knowledge of how audit works in practice and which factors affect their working. To that end, for empirical research projects FAR makes available archival data that it collected from audit firms. Participating audit firms have also agreed to cooperate with survey research, interviews, experiments, and field case/event studies. Such studies by independent research groups may have a project timeline of 1 to 4 years (depending on scope of the research project). Longitudinal and cross-sectional research could be of specific relevance to study the effectiveness of interventions taken in the firms and the profession. Research is to cover multiple industries, including listed and non-listed companies, public sector, and owner-managed-businesses.

Over the past four years FAR started a large number of archival studies using data from audit firms. In order to optimize data collection, it is therefore decided to give priority to finish data collection for the projects that have commenced already before starting (large) archival data gathering efforts required from the audit firms for incoming projects.

FAR strongly believes that academics should share and discuss their findings to inform professional and public policy making. Therefore, all FAR research projects start with a FAR “Practice Note” and a “Research Synthesis”. The idea of a FAR **Practice Note** is that academics discuss what they already know from new or existing research about current issues and questions in practice, are geared to academically inform the current professional and public debate with regard to the audit profession in the Netherlands and have an expected completion timeline of **3 months** after commencement of an empirical project. FAR Practice Notes are concise notes (a brief research synthesis of maximum 2,000 words, preceded by a 200 words executive summary) that aim at informing stakeholders, and make practical recommendations relevant to audit practitioners, audit firm management, standard setters, regulators, or other stakeholders to the auditing profession. A FAR **Research Syntheses** is intended to unlock what we already know from science (in accounting and in other fields) about a specific question and potential interventions that can be suggested to strengthen audit quality and have an expected completion timeline of **6 to 9 months** after commencement of an empirical research project. A FAR Research Synthesis should have the potential to be published in one of the leading accounting journals.

Guidance for proposal applications

For both research programs, but most particularly for the empirical research projects (Program B), FAR welcomes research proposals that adopt an interdisciplinary approach, also in relation to the practice notes and research syntheses. The support that FAR will provide for successful applications

may include, but is not limited to, access to appropriate publicly available (for Programs A and B) and experimental, archival, survey, and other relevant proprietary data from participating audit firms (for Program B) and coverage of travel costs, support for research assistants and students, and/or release time for project participants. While FAR does not intend to impose undue constraints on meaningful research, some of the criteria that will be used to determine successful applications for support include:

1. Proposals that aspire to inform practitioners as well as the research community: While it is of course vital that each project will be scientifically rigorous, it is important that the research proposal also speaks to the practical relevance of the study.
2. Projects (both in Programs A and B) led by a researcher who has a strong track record of publication in world class journals (including, but not limited to, *JAE, JAR, TAR, CAR, AOS, RAST, and AJPT*): The researcher is encouraged to seek collaboration with one or more talented junior researchers at his/her discretion (e.g., PhD students, assistant professors, etc.).
3. Deliverables include a FAR Practice Note within 3 months and a FAR Research Syntheses between 6 to 9 months and (intermediate, annually throughout the project) FAR Practice Notes, research/working papers, and one or more presentations at FAR Masterclasses and the (annual) FAR conference and/or to the participating audit firms and their stakeholders. It is also important that the research teams are willing to communicate their findings both with their peers and with auditors working in practice (e.g., by writing or including a survey directed to auditors in practice).
4. For international scholars, collaboration with at least one person employed at a Dutch university is highly recommended and preferred.

Application Procedure

Research groups in accounting and auditing are invited to submit a written proposal to the Scientific Committee of FAR **not later than April 30th, 2020**. The Scientific Committee will evaluate the proposals and make a recommendation for support to the Board of FAR. The final decision regarding support will be made by the Board. During the admission process, FAR may ask the research groups to elaborate on their data needs. Such a request may be necessary to ensure the appropriate support from participating audit firms and *does not in itself signal that the project will be accepted*. The Board may conditionally select the projects and notify all applicants accordingly. FAR will subsequently work with the selected applicants towards a final research proposal. Application forms may be downloaded from the FAR website: <http://www.foundationforauditingresearch.org/>.

Please send application forms, including appendices, to Olof Bik and Jan Bouwens at info@foundationforauditingresearch.org. Applicants will receive a confirmation of their submission.

What may FAR funds be used for?

Financial funding for PhDs and faculty members

While FAR will support the research groups in gaining access to public data and the appropriate data from the participating audit firms (for Program B mainly), FAR is, under certain conditions, also prepared to fund research projects financially should the research group wish to be funded. Research groups may submit research proposals that include expenses for both established academics and PhD candidates. In the case of established scholars, FAR funds are intended to be used to acquire release time at their home university. Such funds can be used at different universities and internationally if appropriate. When PhDs are included, the home university must demonstrate a clear willingness to provide joint support for the student (i.e. FAR support is not intended to cover 100% of the cost of a doctoral student). In cases that includes PhDs, FAR funding can be awarded for a period of one to five years, or until the student completes his or her thesis, whichever comes first and depending on the nature of the project.

Project funding may include salary and travelling costs that a student typically has to make. In addition, FAR may cover 5% of the salary costs of the supervisor for each student he/she supervises (for the period concerned). The university may claim a maximum of 25% of the project related salary costs to cover other project-related costs. In addition, team members may claim up to € 6,000 a year to visit designated international conferences and the like. Office space and overhead costs will not be funded by FAR.

FAR may fund small and large projects. For example, projects spanning one year of a PhD student or to buy release time for a seasoned researcher up to a four-year project of a PhD candidate plus expenses that allow for travelling and some allowance for the (senior) researcher(s) in charge. As a benchmark, project funding could amount € 10,000 up to € 200,000. Of course, if a project has exceptional features FAR may still consider a project that requires further accommodation.

For further information or questions, please contact FAR at info@foundationforauditingresearch.org.