

Foundation for Auditing Research: Call for Research Project Proposals 2018

*December 2017*

*What is FAR?*

The Dutch *Foundation for Auditing Research (FAR)* was launched in Amsterdam on October 20, 2015. While the audit profession is undergoing significant change in terms of expectations and demands, FAR is focusing on enhancing knowledge in the area of what constitutes a good audit today and on achieving sustainable improvement in audit practices. The objective of FAR is to advance the profession's learning curve in terms of continuous improvement of the audit practice, feeding audit education, and extending the accountancy research community in the Netherlands and abroad. Central to FAR is practical relevance through scientific knowledge and research focused on audit quality drivers (and root causes of audit quality failures) within audit firms. FAR pursues these objectives by conducting relevant and rigorous academic research into the drivers of audit quality, by collaborating with other research institutes internationally, and by sharing its findings through research conferences, publications, and masterclasses. 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](http://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 in 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.

In its 2014 report, the IAASB defines the objective of an audit of financial statements as being “for the auditor to form an opinion on the financial statements based on having obtained sufficient appropriate audit evidence about whether the financial statements are free from material misstatement and to report in accordance with the auditor's findings.”

The IAASB also states in its report that “A quality audit is likely to have been achieved by an engagement team that:

- Exhibited appropriate values, ethics, and attitudes;
- Was sufficiently knowledgeable, skilled, and experienced and had sufficient time allocated to perform the audit work;
- Applied a rigorous audit process and quality control procedures that complied with law, regulation, and applicable standards;
- Provided useful and timely reports; and
- Interacted appropriately with relevant stakeholders.”

While these 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)<sup>1</sup> and audit quality frameworks provided in Francis 2011 or Knechel et al. 2013, FAR proposes that audit quality can be studied from three perspectives:

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.

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<sup>1</sup> “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 that aim to examine the determinants (drivers and root causes) of audit quality. The three topics that are selected for this year are reproduced in Table 1.

FAR supports projects using multiple research approaches and methods. A strong focus of the program is to expand the knowledge of the working of auditing in real settings. To that end FAR manages available archival data collected from audit firms. Participating audit firms have also agreed to cooperate with survey research, interviews, experiments, and field case / event studies. Such researches 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.

All research projects start with a research synthesis, 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. Such research projects would have an expected project timeline of 6 to 12 months after commencement of any project.

FAR invites scholars to submit research proposals on the following 3 topics:

[ SEE TABLE 1 ON NEXT PAGE ]

**Table 1: Research topics in this call for research project proposals**

<i>Project Name</i>	<i>Main topic</i>	<i>Illustrative questions to further inform (but not limit) the research proposal (based on the questions from practice)<sup>2</sup></i>
1. Data driven auditing	How are data driven audits (e.g., big data and block chain analytics) impacting audits?	<ul style="list-style-type: none"> <li>• We can think of different venues of how the application of data science impacts on the audit. In the first place, the technologies allow for a more sophisticated analysis (more data to produce evidence) while potentially being more cost- and time-efficient. In addition, these technologies allow the audit firm to extend its services. The presence of data analytics may also impact on the relevance of audit regulation.</li> <li>• What is “audit evidence” in the realm of a data-driven audit?</li> <li>• Do data driven audits (i.e., big data and block chain analytics) result in higher audit quality as compared to “traditional” audits? And if so, how and in which contexts?</li> </ul>
2. Audit quality indicators	What are the most informative engagement level AQI’s during the audit?	<ul style="list-style-type: none"> <li>• Which (potential) leading (as opposed to lagging) and both quantitative and qualitative engagement level AQIs have the highest information value in driving a quality audit? That includes, but is not limited to questions such as: What are the key AQI that audit firms are using to determine engagement level audit quality? How can these (leading, quantitative, and qualitative) AQIs be effectively and efficiently measured and monitored? What is the set of 5 to 10 AQIs that firms may practically consider to apply for monitoring audit quality during an audit?</li> <li>• Does one-size-fits-all? What is the impact of different audit engagement characteristics and contexts on the information value of engagement level AQI’s? That is, audit quality conditions cannot be reduced down to its constituent elements as it is the configuration the audit approach and contextual conditions that ultimately drives audit quality at the engagement level. Furthermore, the audit quality effect of any such audit quality measure may be non-linear – for example, partner involvement in the audit may add to audit quality, but only to a certain level after which more partner involvement may become ineffective.</li> </ul>
3. Audit committee involvement	What is the impact of (increased) audit committee involvement with the audit on audit quality?	<ul style="list-style-type: none"> <li>• Selected contribution to the Joint Working Group Research Agenda on the “Future Audit Firm Business Model”:</li> <li>• Additional focal points are a (post-implementation) comparison of AC involvement and audit quality and AC involvement in key audit matter reporting and issue-clearance (including related fee-issues).</li> </ul>

<sup>2</sup> These are just illustration and are not intended to be leading.

Given these topics, FAR welcomes research proposals that adopt an interdisciplinary approach, also in relation to the research syntheses. The support that FAR will provide for successful applications may include, but is not limited to, access to appropriate experimental, archival, survey, and other relevant data from participating audit firms 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 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 research syntheses between 6 to 12 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, but not strictly required. In case FAR needs to liaise in establishing a Dutch research connection, we are willing to do so during the application process.

### *Application Procedure*

Research groups in accounting and auditing are invited to submit a written proposal to the Scientific Committee of FAR not later than 16 March 2018. 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*. Early in May 2018, the Board will 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](mailto:info@foundationforauditingresearch.org). Applicants will receive a confirmation of their submission.

*What may FAR funds be used for?*

#### Access to research data

Audit firms have agreed to provide the research groups with experimental, survey, archival, or other relevant data as is appropriate for the project. FAR will assist research groups to collect this data. One essential element of the process is to ensure that the data is de-personalized, transformed, and that data cannot be identified with the auditor, the audited firm, the audit firm, or its personnel. Therefore, for projects that require proprietary data from audit firms a specific data gathering protocol is to be drawn up for each project. To maintain confidentiality, the applicant's data plan should define what data he/she would require in as much detail as possible. In order to gauge whether data requirements can be achieved, the researcher may discuss the research plan with FAR management during the application process.

The data is subsequently collected under the supervision of FAR. Encryption/transformation is needed to avoid attribution of the source of the data to an individual client or audit firm. In any case where proprietary data is used and disclosure thereof would be detrimental, all research team members will be required to sign a Non-Disclosure Agreement and the research team and university of research institute a Data Processing Agreement.

Data gathered through FAR commissioned projects, either by FAR or the research groups, will remain FAR proprietary data at the disposal and discretion of FAR for future research purposes. FAR will provide for acknowledgements of data originality for review boards, where needed.

#### Financial funding for PhDs and faculty members

While FAR will support the research groups in gaining access to appropriate data from the participating audit firms, FAR is, under certain conditions, also prepared to fund the 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 include 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. Project funding could amount to anywhere between €0 and €200,000 as a benchmark for Research Program B and between €0 and €25,000 for Research Program A. Of course, if a project has exceptional features FAR may still consider a project that requires further accommodation.

Approved projects will be subject to periodic progress reporting and review with the academic board of FAR.

For further information or questions, please contact FAR at [info@foundationforauditingresearch.org](mailto:info@foundationforauditingresearch.org).