

# ANNUAL REPORT 2017

Financial year from 1 January 2017 up to and including to 31 December 2017

FOUNDATION FOR  
**A**AUDITING  
RESEARCH

a unique collaboration  
between science  
and practice

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**A**AUDITING  
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# 2015

Autumn 2015

# 2016

Spring 2016

*The FAR is established.  
The foundation adopts its first research agenda.*

*The FAR selects the first six research projects and organises the first International FAR Conference.*

## Foreword

We are happy to present the second annual report of Stichting Foundation for Auditing Research. We are proud to show in this annual report that good progress has been made in opening the “black box” of auditing – and thereby for innovative research through cooperation between academics and audit practitioners. The annual report makes it clear that good work takes time, but also that the audit profession takes academic research into audit quality seriously and attaches great value to such research. The profession itself is also looking for answers to important questions in this field.

In 2016 we laid the fundament for the Foundation for Auditing Research: the research, data, and legal infrastructure. 2017 was needed to find out how the structured and reliable gathering of research data works best in practice and how much it actually involves – the discovery and learning of which all took the larger part of 2017, with a great deal of interaction between the firms, the research teams and FAR. It did not stop us from extending our research program and committing to another six empirical research projects, one research synthesis, two “joint working groups”, two case studies, and a FAR Auditing Research Chair. Furthermore, the FAR actively participated and contributed to the professional debate in auditing.

In terms of FAR’s organization, the FAR activities continued to expand, the FAR board decided to strengthen and professionalize the working organization to facilitate FAR in its general operations. Furthermore, as of autumn 2017 the FAR moved its offices to the Nyenrode estate in Breukelen, with that providing FAR with a “home base”

instead of its virtual form so far. Lastly, based on the intermediate institutional evaluation, the FAR Board agrees unanimously that FAR should continue for the next three years of the initially committed five years at establishment of FAR.

Thanks to the enormous efforts made by the affiliated audit firms in unlocking data, we have taken significant steps towards actual data exchanges between practitioners and academics. These exchanges not only involve data contained in the firms’ files and information systems, but also participation in surveys, experiments, interviews, case studies and (other) qualitative research. At the same time, the research teams have had to exercise considerable patience, but we are reaching the tipping point of the learning curve of actual delivery of research data – based on which we expect to be able to share our first research results in the near future. We have already been able to share intermediate findings at our 2018 international FAR conference on 5 and 6 June 2018. This demonstrates that the auditing profession is serious in its endeavours to obtain academic insights to help strengthen the continuous improvement of the profession as a whole.

The FAR believes that research has the potential to identify those factors that influence audit quality in daily practice. To that end, FAR supports projects using multiple research approaches and methods to arrive at a balanced, evidence-based perspective of informing the auditing practice. In determining the research agenda, the FAR takes the perspective of the profession at large and its stakeholders.

Autumn 2016

2017

Spring 2017

Autumn 2017

2018

Spring 2018

*The FAR obtains legal clearance and launches a data gathering pilot. In addition, the first FAR Masterclass is held and the research agenda is extended.*

*Researchers and audit firms meet each other during the Data Summits, and full data gathering can commence. On 7 and 8 June, the second International FAR Conference is held. New projects are initiated as well, such as Joint Working Groups and Case Studies.*

*Pilot research data are gathered and shared with the research teams. FAR initiates a FAR Auditing Research Chair and publishes its 3rd call for research projects. Professionalization of FAR's working organization and move of offices to the Nyenrode estate in Breukelen.*

*First survey and interview research data and parts of archival data come in and can be delivered to the research teams. First intermediate results are presented at FAR's 3rd International conference.*

There is still much to be done and research takes time, which requires patience. But we are steaming full speed ahead – also with regards to the provision of confidential data and extending our research programs. Accordingly, there is an abundance of ambitions for the coming period. We are excited about the foundations that have been laid and the learning curve we are in collectively to make further major steps in the coming period towards academic research into the audit quality drivers and thereby the unlocking of the audit 'black box'.

We have all the confidence that, thanks to all participants, various publications will be produced in the coming years that will have a significant impact on science and practice.

On behalf of the board of Stichting Foundation for Auditing Research

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The executive board

Olof Bik – Managing director and academic board member

Jan Bouwens – Managing director and academic board member

Henriëtte Prast – Chair of the board

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# BOARD REPORT

# About Stichting Foundation for Auditing Research

The Foundation for Auditing Research (FAR), established in Amsterdam on 20 October 2015 following recommendation 5.10 of the Dutch audit profession's improvement plans ('In the public interest') of September 2014, aims to scientifically inform the auditing profession in its continuous development and improvement of audit quality. In this, the focus is on relevant and rigorous academic research into audit quality drivers. The FAR provides a unique environment for cooperation between science and practice, reinforces the learning curve of the audit profession and its stakeholders, feeds audit education and offers ongoing support to the research community in the area of auditing, both within the Netherlands and at international level. The activities to be carried out by the FAR consist of three elements: unlocking data, initiating and executing (or arranging the execution of) research projects, and finally communicating extensively about the knowledge expansion.

FAR is open to all audit practices, both large and small as well as auditors in business and government. Audit firms and departments can affiliate with FAR if they provide data access and commit to an annual grant of EUR 50.000 or more. Other parties wanting to contribute, either by providing research data or financial means, are welcome as sponsors. Such commitments are for an initial 5-year period.

## Cooperation with the 10 largest audit firms of the Netherlands and Stichting Accountantsfonds

The FAR focuses on the audit function at large and smaller audit firms, businesses and government bodies. The eight largest audit firms in the Netherlands (Deloitte, EY, KPMG, PwC and Baker Tilly Berk, BDO, Grant Thornton and Mazars) took the initiative to provide financial support to the foundation and to make data available for research over an initial period of five years (with an interim evaluation being held after a two year period). Accon AVM joined FAR as per 1 January 2017 and Flynth as per 1 January 2018. This again underlines that the FAR is focused on profession wide research questions, including those in the area of small and medium sized organizations and owner managed businesses. With the 10 largest audit firms of the Netherlands providing data access and EUR 1.5 million of financial support annually, FAR is a unique collaboration between practice and science in the auditing profession.

Stichting Accountantsfonds has been a valued FAR sponsor since April 2016 providing EUR 100,000 in financial support annually. The primary objective of this foundation is to subsidize the development of research and education programs.



Social  
Media  
Big  
Data  
Cloud  
Computing  
Internet  
Communication

# Research Agenda: Drivers of Audit Quality

The FAR's research agenda is focused on relevant and rigorous academic research into audit quality drivers so as to inform the auditing profession in its continuous development and improvement of audit quality. We do so by aiming to identify the drivers of audit quality and thus improving the audit practice. In doing so, the FAR gives consideration to:

- the underlying drivers of auditor judgment and decision-making, such as organisational circumstances that may stimulate auditors or, conversely, prevent them from working in the manner expected of them;
- the underlying causes of good and poor audit quality (rather than the symptoms of those causes); and
- the effectiveness of potential interventions (organisational changes and levers of control) that have been implemented to enhance audit quality, including the monitoring of these interventions.

The FAR believes that research has the potential to identify those factors that influence audit quality in daily practice. To that end, FAR supports projects using multiple research approaches and methods to arrive at a balanced, evidence-based perspective of informing the auditing practice. In the FAR's view, the application of multi-disciplinary and multi-method research approaches enables the audit industry to learn from academic

insights gained in other disciplines (such as management, leadership, organisation, psychology, sociology, behavioral research, etc.).

In determining the research agenda, the FAR takes the perspective of the profession at large and its stakeholders. This agenda involves the following two approaches in particular: on the one hand, to unlock academic knowledge in order to apply it in practice and, on the other, to define, invite and evaluate research proposals speaking to promising new research directions. In this, the focus is on strengthening the core aspects of audit quality in areas such as audit inputs, the audit process, the auditor's intention and behavior, audit outcomes, and finally the organisation, management and culture of audit firms.

Research questions that the FAR issues are typically the result of a process where board members collect information on what the types of questions are that audit firms face in assuring high quality audits. Furthermore, FAR's MDs have various (annual) stakeholder meetings to gauge the most important questions of practitioners, regulators, and public policy makers. The potential themes are subsequently discussed in the board in order to produce final themes.

Such themes are issued once a year and communicated with accounting and audit research groups all over the world. These research groups are invited to submit a proposal (FAR's Call for Projects). While this proposal may involve any method and multidisciplinary approaches are expected, FAR does apply criteria to assess the quality, academic rigor, and relevance of the research proposal. The criteria FAR applies include: how well the proposal is supported by the existing theory, and how well this theory is tested according to the proposal. In addition, it is important that the research team is at least comprised of one or more members who have a proven scholarly background. The review process also considers the feasibility – including in terms of data gathering – of the research proposals, and the involvement of Dutch researchers, junior researchers and PhD candidates.

The project proposals are initially reviewed by FAR academic board members. They prepare an advice for the board to decide on each individual project. During the board meetings, the board may and does amend the advice. Subsequently the research teams get to hear that their project is accepted as is, should be adapted to acquire acceptance, or is rejected.

FAR supports projects using multiple research approaches and methods to arrive at a balanced, evidence-based perspective of informing the auditing practice

# Extended research programs

In 2017 the FAR again extended its research programs. Next to the empirical research projects (research program B) the FAR started with, the FAR defined three new research programs by the end of 2016: literature synthesis (program A), design-oriented 'Joint Working Group' research projects (program C), and case studies into 'near misses' and quality measures in the profession (program D). In 2017 the FAR decided to initiate a FAR Audit Research Chair sponsor program (program E) to open up additional avenues to achieve FAR's objectives of stimulating audit quality research, increasing knowledge dissemination, and strengthening the auditing research faculty and community in the Netherlands through support of research funding and data access. Programs C, D, and E are managed directly by the FAR managing directors and the FAR board.

The FAR's research programs can be summarised as follows:

**DESCRIPTION** To unlock what we already know about specific practical questions and potential interventions that can be suggested to strengthen audit quality (where possible in joint academic-practitioner teams). Should also inform knowledge gaps and future FAR research projects.

**RESEARCH SYNTHESIS** Only

**EMPIRICAL RESEARCH** No

**FIRM DATA NEEDED** No

**PROJECT TIMELINE** 6 to 12 months

**OUTPUTS** Intermediate: FAR Practice Notes, Masterclasses, and conferences. The potential to be published in, e.g. JAL or a JAE research synthesis call.

B - EMPIRICAL RESEARCH	C - JOINT WORKING GROUP DESIGN ORIENTED PROJECTS	D - CASE STUDIES	E – AUDITING RESEARCH CHAIR
<p>Archival, survey, experimental, interviews (and other qualitative) research by independent research groups. Longitudinal and cross-sectional research could be of specific relevance to study the effectiveness of interventions taken in the firms and the profession.</p>	<p>Projects directed by the FAR Board / MDs for the more pervasive, all-encompassing practical questions and dilemma's, geared towards professional interventions and improvements. Proactive participation of top practitioners and selected top researchers meeting 3 to 5 times over a period of several years on the topic jointly.</p>	<p>Case Studies directed by the FAR MDs on: the objectives and rationale behind firms' policy decisions in relation to audit quality enhancements; on the root causes of restatements in financial statements after the audit opinion has been issued; and / or the root causes of (near) audit quality failures.</p>	<p>The FAR Audit Research Chair sponsor program is geared towards expanding the research pool in the Dutch auditing research community through appointing a new auditing research chair (including supervision of new PhD students) who drives a strategically focused research agenda closely related to FAR's research and knowledge dissemination agenda.</p>
Included	Included	Included	Multiple
Yes	Yes	Yes	Multiple
Yes	Yes	Yes (detailed case information)	Yes
1 to 4 years	1 to 3 years (depending on depth and breadth of the project)	6 to 12 months	At least 4 years (50/50% FAR/University funding).
<p>Similar like program A and a FAR Research Paper and A-journal academic publication(s).</p>	<p>Similar like program B and FAR Round Table meetings</p>	<p>FAR Case Studies and FAR Masterclasses. The potential to be published in scholarly, educational journals.</p>	<p>Same as research programs A to D.</p>

# Development of the FAR's research portfolio in 2017

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Based on its research objectives and criteria (and considering that access to data is at least equally valuable for academic research) FAR was able to commit € 1,170,000 in research grants (of the maximum available research budget of € 1,250,000) for six empirical research projects, one research synthesis, two case studies, and one FAR Auditing Research Chair in 2017. The development of our research activities can be summarized as follows – and are further detailed and illustrated per research program in the sections below.

## **Empirical research and research syntheses (research program A and B): new research projects in 2017**

Based on the research agenda, the FAR defined five topics for its 2nd Call for Research Proposals (2017) in the following two research programs: A - Research syntheses and B - Empirical research projects. This call included five topics in the grant program (empirical research projects), detailed below. At the same time, FAR welcomes other topics relevant to its research agenda for consideration of support. In this way, the FAR wants to give academics the opportunity to put forward research proposals and ideas that will help obtain insight into the drivers of good audit quality. FAR supports projects using multiple research approaches and methods. A strong focus of the program is to expand the understanding of the theoretical substance of auditing by making available archival empirical data collected from audit firms, while the participating audit firms have also agreed to cooperate with survey research, interviews, experiments, and case studies.

Research program	A		B		C		D		E		
	Year	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
<b>Beginning of period</b>	<b>0</b>	<b>0</b>	<b>6</b>	<b>0</b>							
Research proposals submitted to FAR	1	0	11	16	2	0	2	0	2	0	0
<b>Research proposals committed to by FAR</b>	<b>1</b>	<b>0</b>	<b>6</b>	<b>6</b>	<b>2</b>	<b>0</b>	<b>2</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>0</b>
Intermediate results presented	0	0	3	0	1	0	0	0	0	0	0
Research projects completed	0	0	0	0	0	0	0	0	0	0	0
<b>End of period</b>	<b>1</b>	<b>0</b>	<b>12</b>	<b>6</b>	<b>2</b>	<b>0</b>	<b>2</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>0</b>

PROJECT NAME	MAIN TOPIC
1. Going concern opinions (Program A project)	What are the main determinants, considerations and hurdles for auditors to move on to a going concern opinion?
2. Auditing standards' function, setting, interpretation and application (Program B project)	Do different stakeholders (e.g. audit firms and audit regulators) interpret and apply the audit standards differently in terms of nature, timing and extent of audit procedures (to be) performed?
3. Different audits for different purposes: auditing in the Owner-Managed-Business [OMB] environment (Program B project)	Does the OMB environment call for different audits and auditing standards?
4. The auditee's internal controls and financial reporting quality (Program B project)	What is the mutual impact of the audit and the auditee's internal controls and financial reporting quality?
5. Fraud detection by the auditor (Program B project)	What are the determinants of a fraud (not) being detected and reported by the auditor? What can be improved?

This call resulted in the submission of 12 research proposals by researchers in the Netherlands and abroad, all of which were carefully and thoroughly reviewed. Nevertheless, we had to make conscious decisions in selecting proposals that could go to the next stage. After a first review round, one research proposal was accepted for a grant from the FAR and seven research teams were given the opportunity to revise their research proposals, partly on the basis of the review report. Of those seven proposals, six were eventually selected in a second round for a grant from the FAR. In total six new empirical research projects and one research synthesis were selected for a grant (see project overview on pages 33 to 38). This grant is a combination of financial resources and access to data. The FAR Board is excited about the new projects and thanks all research teams for their submissions.

The following seven research projects were committed to in 2017 in programs A and B (further details included in the overview of all research programs A and B on page 33 to 38):

- Going concern opinions research synthesis (2017A01) by Marshall Geiger, Anna Gold, Philip Wallage.
- Does the private owner-managed firm audit market serve a different purpose? (2017B01) by Jeroen Suijs, Mahmoud Gad, and Robin Litjens.
- How is the production of audits and its quality affected by the accounting information system design of the client? (2017B02) by Joseph Gerakos, Chad Syberon, and Ulrike Thürheimer.
- Auditor judgment on internal control quality and audit quality (2017B03) by Jean Bédard, Annelies Renders, Caren Schelleman, Mathijs van Peteghem, Lei Zou, and Mieke Jans.

- Improving audit quality by enhancing auditor's detection of markers of management deception and fraud (2017B04) by Mark Peecher, Jesse Hobson, and Sebastian Stirnkorb.
- The effects of expert status on the audit of complex estimates (2017B05) by Justin Leiby, Anna Gold, and Kathryn Kadous.
- How is auditor commercialism related to audit quality and efficiency? (2017B06) by William Ciconte, Marleen Willekens, and Justin Leiby.

#### **FAR Joint Working Groups (research program C)**

Research Program C has seen the launch of two 'Joint Working Group Design-Oriented Projects' (JWG) in 2017. JWG's are geared towards the more complex questions that cannot be answered in one single research project. With the proactive participation of high-level practitioners from the affiliated audit firms, expert academic researchers, and selected stakeholders a JWG will meet at JWG Research Summits five to six times over a period of two to three years, with intermediate reports to be defined and delivered each summit. We want to be able to do researches on these topics – in-between these summits – so that we can share new knowledge and direct further research at each consecutive summit. This involves the following two projects:

1. The (future) auditing (partner) business model: this JWG had its initial Research Summit in October 2017. The objective of this summit was to define the JWG's research objective, research agenda, and first research projects, resulted in the following three (interrelated) focal points and illustrative questions
  - a. Audit firm business models: Is it appropriate to have the same firm deliver both audit and non-audit services (i.e., a multidisciplinary model versus an "audit only" model)? Does the existence of both within the same firm enhance or undermine audit quality (i.e., the relative balance of expertise versus independence)?
  - b. Audit firm partnership, ownership, and

governance models: Do the current partner profit sharing, compensation, and performance incentives systems appropriately influence the achievement of audit quality? Does the structure of international firm networks adequately support governance and quality assurance systems?

- c. The audit profession's earnings model and audit markets (competition): What is the appropriate process for evaluating, selecting and appointing auditors? What is the role of auditor rotation, and corporate governance (e.g., the audit committee) in providing appropriate incentives to improve audit quality while controlling audit costs?

This first Summit resulted in the six envisioned research projects detailed below. The second JWG meeting was held in February 2018, the first intermediate meeting in which we discuss progress and next steps for three of these projects.

#### **Research projects defined at the constituting JWG Summit "The (future) audit firm business model".**

- 1 *What do we already know from research about the impact of a combination of audit and non-audit services (1) within one firm and (2) for one client on audit quality in general and on the specific audit engagement? Additional focal points are knowledge spillovers, audit firm quality culture and multidisciplinary talent pool (e.g., attracting within firm expertise for audit purposes), the trade-off between independence and the auditor's knowledge base, and different auditee market segments (e.g., public interest entities versus owner-managed-businesses).*
- 2 *How have the Dutch audit firms' partner profit sharing, compensation, and performance incentives systems developed over the past 10 years in relation to audit quality incentives? Additional focal points are (equal) firm based profit sharing versus partner performance*

*systems, profit sharing systems across service lines, audit firm sustainability over the economic cycles of each of the service lines – and how these incentive systems relate to the firms' overall audit quality assurance systems.*

- 3 *How have the Dutch audit firms' organizational structures and corporate governance systems developed over the past 10 years as part of the firms' audit quality assurance systems? Focal points include the profession's (historical) establishment, the development from partnerships to corporate models, and the role of the international firm networks in the quality assurance systems of the Dutch audit firms and audit quality for multinational group audits.*
- 4 *How do audited companies (and their supervisory boards / audit committees / shareholders) select and appoint their auditors? What are primary selection criteria in design and practice (i.e., what are actual selection and appointment decisions made)? How are the (total) costs of auditing (thus including potential switching costs) considered in selection and appointment?*
- 5 *What is the impact of (increased) audit committee involvement with the audit on audit quality? 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).*
- 6 *What is the effect on audit quality and auditor independence of auditor selection and appointment through a government organized agency ("government organized auditing") compared to the current appointment system in the Netherlands? Additional focal point may be the statutory required audit versus voluntary auditing.*

2. **Root cause analysis methods in auditing: What are effective ways to conduct (continuous) Root Cause Analyses within audit firms? We have initiated our literature synthesis (across different fields of research and professions), we have had our first interviews with audit firms to gather the RCA methods currently applied, and are scheduling a first JWG "summit" on this topic with practitioners from the affiliated firms and subject matter experts from academia and other professions.**

#### **FAR Case Studies (research program D)**

Research Program D involves case studies. The first case study pilot will deal with 'near misses': audits that nearly went wrong. How do the parties involved respond to these near misses, and what measures are taken to prevent audit quality failure in the future? With the cooperation of one of the affiliated audit firms, a complex 'near miss' audit case will be selected that will be studied in depth, the envisaged outcome being an academic case study that can be used in audit training. By now a case has been selected.

#### **FAR Audit Research Chair (research program E)**

In the board meeting of September 2017 the FAR board decided to initiate a FAR Audit Research Chair sponsor program (research program E) to open up additional avenues to achieve FAR's objectives of stimulating audit quality research, increasing knowledge dissemination, and strengthening the auditing research faculty and community in the Netherlands through support of research funding and data access.

## The first case study pilot will deal with 'near misses': audits that nearly went wrong

4 to 5 years depending on available funding. The receiving University is to provide the remaining funding. A 50/50 investment is envisioned.

- The FAR Chair holder will get access through FAR to audit firm data, similar to other FAR research project teams.
- The FAR Chair topic should be closely related to FAR's research and knowledge dissemination agenda. Therefore, although universities were invited to recruit and select potential candidates, FAR will have some involvement into the recruitment and selection process.

The objectives and criteria for the FAR Audit Research Chair sponsor program are as follows:

- As the FAR Audit Research Chair sponsor program is geared towards expanding the research pool in the Dutch auditing research community, the Chair holder may need to be recruited from outside the Netherlands (it is this that will increase Auditing research capacity in the Netherlands) or from other but related fields (provided that institutional knowledge is present).
- FAR attaches sponsoring to new (Dutch) PhD students in auditing. Therefore, a FAR Audit Research Chair sponsoring includes the recruitment of a number of PhD students.
- The sponsoring would "create" pure research time for the Chair holder and PhD student(s).
- A FAR Audit Research Chair sponsoring for the Chair holder and PhD student(s) would be for a period of

FAR has invited and received proposals from two universities to fulfill this Chair. One proposal was accepted by FAR as it contributes significantly to the objective of the FAR Audit Research Chair which is geared towards expanding the research pool in the Dutch auditing research community. Jointly with this university, FAR is in the final stages of actual recruitment and selection of the first FAR Audit Research Chair.

# Data Provision by the Affiliated Audit Firms

By the end of 2016 the FAR obtained legal clearance from all the affiliated audit firms. Coordinating this process required much time and effort from all the parties involved: the audit firms, the research teams and the FAR. A milestone had been reached.

## Security measures

A number of security measures were agreed in order to create research data sets which can no longer be traced back to a particular firm, specific client file, individual auditor or staff member. The security measures involved here include the following:

- Audit firms do most of the anonymisation. The use of an encryption application prevents data from being directly traceable.
- By applying strict data-management procedures, such as transformation and calculation of derivative research variables, the FAR also eliminates indirect traceability.
- Remote access to the academics. This means that researchers often do not physically receive the data, but can only analyse the data in a secure FAR environment to which they can log in (and from which no data can be copied or exported). This has far-reaching, limiting consequences for the researchers,

but these are accepted for the sake of being able to conduct the badly needed research.

- NDAs as a 'base line' with each academic involved.
- Confidentiality check by FAR of each research output or (draft) publication prior to disclosure. In doing so, the FAR makes sure that the publication does not contain any identifiable data, but obviously has no substantive influence on the results of the research.

CentERdata, a specialised scientific data management bureau, supports the FAR in this process. Its activities include management of FAR's data center, gathering and managing data, and making this data available to research teams – all in a reliable and confidential manner and in accordance with the data processing agreements between FAR and the affiliated audit firms. Jointly with CentERdata, FAR has passed a number of "penetration tests" on its secure data environment and is currently working towards third party assurance (ISEA 3402) on its data processing and security control environment.

## Data Summits: direct contact between audit firm and researcher

The subsequent year was needed to find out how the structured and reliable gathering of research data works best in practice and how much it actually involves – the

discovery and learning of which all took the larger part of 2017, with a great deal of interaction between the firms, the research teams and FAR.

During the period January-March 2017, the FAR determined the data gathering and sampling strategy for the current research projects. In April 2017 audit firms and academics sat around the table for the first time, hunched over the research projects, during the events known as Data Summits. As well as being mutually stimulating and informative, these events strengthened mutual understanding. Direct contact with the researchers created enthusiasm among the audit firms about the relevance of the research question. Firms subsequently invited those researchers to their offices in order to experience the practical side of things.

The latter also formed the basis for further explorations, such as the research team holding discussions with each firm individually in order to gather data. This is because combining the data requests from so many research projects (each with its own specific data requests and selection criteria) into one large data request proves to be difficult. FAR provides the audit firms with intensive support, also by lending a hand in actually unlocking data.

#### **Illustrating the learning curve of data gathering**

In addition to survey, experiment, interview, and case study data, FAR also explicitly focuses on "archival data" – so research data from audit files, from (financial) administrations of the firms themselves, from personnel files and from the quality assurance systems of the audit firms. All those involved realize that it concerns large numbers of cases (e.g., a significant sample of audit

As well as being mutually stimulating and informative, these events strengthened mutual understanding

files per year per firm) and a multitude of variables and information points that are to be gathered. An important observation in the first is that for firms to ensure client confidentiality most of the data is behind digital lock and key and cannot easily be accessed.

An important observation in the latter is that the requested information points need to be clearly defined - but even when this is the case, there will still be important differences in measurement between the firms, which need to be solved by the researchers. It also often involves data that has to be collected from multiple systems (which must be linked and combined) or that has to be hand collected or gathered by the audit teams by means of an additional information request. It was necessary to learn how to collect such rich and complex data in a structured way, and to organize the internal organization accordingly. This is already a challenge for structured, digitally available data, let alone for non-structured information which often needs to be collected and recorded through information requests to audit teams or even by hand. Thus, in 2017 discussions took place between FAR and the audit firms about how best to collect which types of data for the research project.

“Together with the 10 FAR affiliated audit firms, we are approaching the tipping-point of the learning curve”

research projects at FAR's 3rd International Conference (5 and 6 June 2018). Is FAR thus over the "tipping point" of the learning curve? The first major hurdles have been taken, the ground work has been done. At the same time it is fair to say that in the future this will only be possible by means of a great deal of interaction between, and with the clear commitment of both the researchers as well as the audit firms involved.

Now that we are approaching the tipping-point of the learning curve of gathering research data with the 10 FAR affiliated audit firms – something unique in the field of auditing research for years to come – data gathering continues to have our highest priority in 2018.

#### **Intermediate results**

All this means that more than two years has been invested in the foundation, to be able to provide the first usable (archival) research data to research teams in the spring of 2018, on the basis of which they can start their research. In the meantime, much has been learned – and also achieved. For example, enriching the firms' own management information systems because FAR is requesting information that in turn makes the firms wonder: should we not also know this for our own management of quality assurance? That is, it is quite possible that information which currently still needs to be collected by hand can, in time, be easily obtained from the audit firms' central systems.

FAR is now at a point that they were ready to share the first interim or preliminary research results on a number of first

# Knowledge Dissemination to Academically Inform the Development of the Auditing Profession

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While stimulating research aimed at gaining new insights, the FAR also focuses on unlocking existing knowledge with the objective to contribute to evidence-informed (policy) development of the auditing profession. Examples of this are the first International FAR Conference, the FAR Masterclasses, and contributions to the professional debate on important topics in the profession.

“The FAR needs to science the hell out of the problem”  
- Dijsselbloem makes this remark to emphasize that more profound analyses are needed to address problems in the audit profession.

## 2nd International FAR Conference ‘Controversies in Future Audit Quality’

On 7 and 8 June 2017 the second International FAR Conference took place which offered science and practice a platform to interact with each other on the topic ‘Controversies in Future Audit Quality - A multi-stakeholder perspective’. With a Minister of Finance issuing a challenge, a driven regulator, enthusiastic and renowned (inter) national scientists, a broad and engaged audience and a substantive debate on intriguing statements: the 2nd International FAR Conference brought the organisation and the participants what they had hoped for – and more. Most of all, the conference was again a unique meeting between academics and audit practitioners.

The questions central to the conference were: is the gap between theory and practice too wide, what is the definition of audit quality, how do we measure such quality, how can the industry regain trust and what personal qualities of the auditor play a part (or perhaps: a much more important part than we tend to think) in an audit?

The profession’s importance for society was reflected in the make-up of the audience during the conference.

Compared to the previous year, a greater number of practitioners made their way to Breukelen: 45 percent of the visitors were practitioners (or both practitioners and academics), against 37 percent in 2016. Academics made up 44 percent of the audience, against 57 percent last year. The FAR is happy with these numbers. 'We want to close the gap between the academic world and practice,' said chair Henriëtte Prast in her opening speech. 'If you are ensconced in an academic ivory tower, you are unaware that people in other areas or other industries do not always understand your language.'

***"I also attended last year's FAR conference, says a participant in the 2017 FAR Conference who is also a researcher and a practitioner. 'What I really like is the fact that both practice and theory are addressed here.'"***

The first keynote speaker at the conference, Mark DeFond from the University of Southern California, started his address (entitled 'Controversies of Audit Quality') by provocatively taking a step backwards. His question, taken from a research paper, was 'Should we research audit quality at all?' DeFond made his own position clear from the start by underlining that we should, because researching audit quality can have an important policy impact for the profession.

The second day of the conference was characterised by contributions from two prominent speakers: Dutch Finance Minister Jeroen Dijsselbloem and AFM (the Dutch audit profession regulator) board member Gerben Everts. In order to regain society's trust, the audit industry must itself take the initiative, also towards the authorities.

Hence, the negotiation strategies of both the auditor and the client play an important role in the actual accounting misstatements being adjusted (or not).

This was the core message of Jeroen Dijsselbloem's address. 'Show that it is the practitioners, rather than the politicians, who take the first step,' said Dijsselbloem, who referred to regaining trust as an 'uphill battle'.

Just like Dijsselbloem, AFM board member Gerben Everts also encouraged the audit industry to develop initiatives, especially in the area of innovation. Robert Knechel, in the audience, pointed out that the industry must innovate, but that tolerance of failure is the other side of the coin. Everts agreed, and therefore wants to offer companies a 'safe haven' when it comes to innovation. If audit firms see possibilities for providing assurance in a model different

from the current one, the AFM will be prepared to grant 'waivers' of the applicable rules. 'In that case, we want to offer flexibility', said Everts.

During the conference, four FAR research projects were presented by Frank Moers ('The Loss of Talent'), Kris Hardies ('Professional Skepticism'), Reggy Hooghiemstra ('Multiple Team Membership Effects') and Denise Hanes Downey ('Group Audits'). The International FAR Conference was mentioned in a broad range of media. The Financial Newspaper [FD] dedicated an article to FAR which outlined an interview with the managing directors, Olof Bik and Jan Bouwens, on the Auditing Profession finally opening their "black box". A special issue of the MAB [Maandblad voor Accountancy en Bedrijfseconomie] was published with the conference proceedings (October 2017).

#### **Masterclass "Identification and discussion of audit findings"**

On 15 November 2017 the second FAR Masterclass took place about "Identification and discussion of audit findings" by Prof. Ann Vanstraelen and Ulrike Thürheimer from Maastricht University. This FAR Masterclass gave a sneak preview into the black box of an auditor's impact on audit quality through the lens of misstatements and negotiations. How do auditors identify misstatements, and if they do, how do they negotiate these misstatements with their clients? Again, the masterclass provided a platform for mutual knowledge sharing between practitioners and scientists.

The most important takeaways were: the auditor's impact on ultimate financial reporting quality is significant in the

auditor-client negotiation process in which accounting errors and issues are discussed and corrected. This auditor-client negotiation process is influenced by contextual, social factors: external conditions, interpersonal context, and parties' characteristics. Hence, the negotiation strategies of both the auditor and the client play an important role in the actual accounting misstatements being adjusted (or not).

***"If we really want to understand audit quality we need to understand where the auditor directly impacts the process"***, Ann Vanstraelen, Master Class 15 November 2017.

#### **Contributions to the professional debate**

The FAR actively participated and contributed to the professional debate in auditing. FAR participated in the round table conferences of the Dutch Professional Body of Accountants (NBA) in relation to their green papers on "Audit Quality" (September 2017) and "Structure Models in Accountancy" (March 2017), and submitted consultation responses on these green papers. FAR furthermore contributed with a number of "expert meetings" with the knowledgeable academics in relation to these topics.

The FAR furthermore had a number of stakeholder meetings with the objective of knowledge exchange, amongst which with the Authority for the Financial Markets (AFM), the Ministry of Finance, the NBA Steering Committee "In the public interest", the Monitoring Committee Accountancy, Eumedion (the policy institution representing the investor community), and Stichting Accountantsfonds.

# Realized public papers, contributions, and activities

Overview of public FAR contributions to the continuous development of the auditing profession and auditing research

## OCTOBER 2016

Special FAR issue of the Maandblad voor Accountancy en Bedrijfseconomie (MAB) entitled *“What do we know about audit quality?”* – Olof Bik, Jan Bouwens, Philip Wallage, Chris Knoops

This edition includes the following FAR papers:

- *“What practitioners and academics want to know about audit quality”* – Jan Bouwens
- *“If auditors are like Belgian beers, which style would you prefer? Discussion of “Auditor style and financial statement comparability” by Francis, Pinnuck, and Watanabe (2014)”* - Liesbeth Bruynseels and Herman van Brenk
- *“A discussion of “Auditor-client co-production of the audit and the effect on production efficiency”* - Sytse Duiverman and Christine Nolder
- *“Opportunities to improve the measurement of audit quality: a call for collaboration between the profession and academics”* - Jeroen van Raak and Ulrike Thürheimer
- *“Debate on Public Audit Oversight enforcement: it is all about procedural justice?”* - Joost van Buuren and Annie Wong
- *“Panel discussion: A multi-stakeholder perspective on audit quality and audit research”* - Philip Wallage
- *“A view from practice - What audit firm leaders expect from audit research and how they see their role in strengthening the bridge between practice and science”* - Olof Bik
- *“Puzzle”* – Willem Buijink

<http://foundationforauditingresearch.org/wp-content/uploads/2016/01/MAB-September-2016.pdf>

FAR Practice Note *"Zwijgen is zilver, spreken is goud? De invloed van leiderschap op audit kwaliteit"* – by Olof Bik and Jan Bouwens, published on the Accountant website  
<https://www.accountant.nl/artikelen/2016/10/zwijgen-is-zilver-spreken-is-goud/>

*"Auditors: their mindset and their decisions"* – by Jan Bouwens, published in MAB  
<http://foundationforauditingresearch.org/wp-content/uploads/2016/11/Auditors-their-mindset-and-their-decision-by-Jan-Bouwens.pdf>

*"The governance of a quality oriented culture – In search of congruence"* – by Olof Bik, published in MAB  
<http://foundationforauditingresearch.org/wp-content/uploads/2016/11/The-governance-of-a-quality-oriented-culture-by-Olof-Bik.pdf>

## NOVEMBER 2016

FAR Master Class *'Designing audit firm environments for sustainable learning from errors'* by Wim Gijsselaers, Roger Meuwissen and Therese Grohnert  
<http://foundationforauditingresearch.org/report-far-masterclass-22-november-2016/>

## JANUARY 2017

Attending the 2017 *"Assurance & Governance Research Conference"* of the University of Florida.  
<https://warrington.ufl.edu/international-accounting-and-auditing-center/>

Attending the 2017 "Auditing Midyear Meeting" research conference of the American Accounting Association.  
<http://aaahq.org/Meetings/2017/Auditing-Section-Midyear-Meeting>

## JUNE 2017

FAR's 2nd International Conference entitled *"Controversies in Future Audit Quality - A multi-stakeholder perspective"*  
<http://foundationforauditingresearch.org/reflections-on-the-2nd-international-far-conference-2017/>

## SEPTEMBER 2017

Ninth EARNet Symposium 2017 in Leuven, Belgium  
<http://www.ear-net.eu/index.php?id=3>

*FAR consultation response* to the NBA Green Paper on "Audit Quality"  
<http://foundationforauditingresearch.org/wp-content/uploads/2017/11/Audit-quality-greenpaper-reactie-FAR-20170929.pdf>

## OCTOBER 2017

1st FAR Joint Working Group meeting on "The (future) audit firm business model"

<http://foundationforauditingresearch.org/joint-working-groups/>

Special FAR issue of the Maandblad voor Accountancy en Bedrijfseconomie (MAB) entitled "**Controversies in Future Audit Quality: A multi-stakeholder perspective**" – Dr. O.P.G. Bik RA, prof. dr. J.F.M.G. Bouwens, dr. J. Wijnmaalen, prof. dr. Ph. Wallage RA and dr. C.D. Knoop.

This edition includes the following FAR papers:

- "**In the Public Interest**" – Philip Wallage
- "**The future of audit quality - A multi-stakeholder perspective**" - Olof Bik
- "**Can research improve audit practice?**" Jan Bouwens
- "**Panel discussion: A true and fair value of the audit sector**" – Olof Bik and Julia Wijnmaalen
- **FAR Research Project: Professional skepticism: A trending concept in need of understanding** – Kris Hardies and Sanne Janssen
- **FAR Research Project: The effects of multiple team memberships on individual auditors' performance** - Reggy Hooghiemstra, Floor Rink and Dennis Veltrop
- **FAR Research Project: What do we know about group audits?** - Denise Hanes Downey and Anna Gold

<http://foundationforauditingresearch.org/wp-content/uploads/2017/10/MAB-september-oktober-FAR-2017.pdf>

**FAR Master Class "Designing audit firm environments for sustainable learning from errors"** by Wim Gijsselaers

FAR Master Class "**The identification and negotiation of audit findings**" by Ann Vanstraelen and Ulrike Thürheimer  
November 2017

<http://foundationforauditingresearch.org/report-far-masterclass-15-november-2017/>

## FEBRUARY 2018

2nd FAR Joint Working Group meeting on "**The (future) audit firm business model**"

<http://foundationforauditingresearch.org/joint-working-groups/>

## MARCH 2018

**Evidence does not support 'conflict of interest' worries** – by Jan Bouwens

<http://foundationforauditingresearch.org/wp-content/uploads/2018/03/EB-Evidence-does-not-support-'conflict-of-interest'-worries.pdf>

**"We moeten retoriek bestrijden!"**, by Willem Buijink, published in the Accountant

<http://foundationforauditingresearch.org/wp-content/uploads/2018/03/WB-We-moeten-retoriek-bestrijden.pdf>

## APRIL 2018

FAR consultation response to the NBA Green Paper on "Structure Models"

<http://foundationforauditingresearch.org/wp-content/uploads/2018/04/FAR-reactie-Structuurmodellen-greenpaper-20180409.pdf>

## MAY/JUNE 2018

Attending the European Accounting Association annual research conference in Milan

<http://www.eaa-online.org/r/default.asp?ild=FFMIHL>

## MAY 2018

**"The Salterio Papers – Hoe de wetenschap de beroepsontwikkeling van accountants effectief kan informeren"** – Olof Bik and Jan Bouwens

<http://foundationforauditingresearch.org/wp-content/uploads/2018/05/The-Steven-Salterio-papers-20180508.pdf>

## JUNE 2018

FAR's 3rd International Conference entitled **"Moving the Audit Profession Forward – New Research and Best Practices"**

<http://foundationforauditingresearch.org/quality-is-theme-at-the-3rd-conference-of-the-foundation-for-auditing-research/>

FAR Chaired panel discussion on **"How culture, ethics, and leadership impact audit quality"** at the International Symposium on Audit Research in Maastricht, the Netherlands

<http://www.isarhq.org/>

**"What Is the Relationship between Audit Quality and Non-Audit Services? An Overview of the Existing Literature"** – by Jan Bouwens published on SSRN

[https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3184895](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3184895)

# FAR Board and Organisation

## The FAR Board

The FAR is established as an autonomous foundation in the Netherlands. The board of FAR consists of an independent chair, four independent academic board members, and five board members representing the affiliated audit firms. In the event of a tie, the chair of the board shall have the casting vote (i.e., the independent chair and the independent academic board members jointly hold the majority of board votes, likewise do the independent chair and the board members representing the affiliated audit firms).

Together with Prof. dr. Jan Bouwens (Cambridge Judge Business School) and dr. Olof Bik RA (Nyenrode Business Universiteit), both FAR managing directors, the chair also forms the executive board of the foundation.

The board consists of the following persons:

- drs. L. Albers RA, board member representing Deloitte Accountants (succeeding M.J. van der Vegte RA as per 23 February 2018).
- dr. O.P.G. Bik RA, managing director and academic board member
- Prof. dr. J.F.M.G. Bouwens, managing director and academic board member
- Prof. dr. W.F.J. Buijink, academic board member
- Prof. drs. E. Eeftink RA, board member representing KPMG Accountants
- drs. P.A.J. Hopstaken RA, board member representing Mazars Accountants, as well as Baker Tilly Berk, BDO and Grant Thornton
- Prof. dr. W.R. Knechel, academic board member
- Prof. dr. H.M. Prast, chair of the board
- N.M. Pul RA, board member representing EY Accountants (succeeding drs. J.F.M. Kamphuis RA as per 28 August 2017)
- drs. M. de Ridder RA, board member representing PwC Accountants, as well as treasurer of the board

### Board meetings and other consultations and gatherings

In 2017 five board meetings were held to discuss and decide on, amongst others, FAR's research agenda and programs, review and selection of submitted research proposals, data gathering and its related infrastructure, knowledge dissemination and contributions to the professional development of auditing, and FAR's contribution to the auditing research and education community.

The FAR periodically consulted with Stichting Accountantsfonds about the research agenda and wider professional developments. In addition, FAR met with various stakeholders about the FAR's objectives and research agenda, including the AFM, NBA, MCA, Ministry of Finance, IAASB, IIA and NBA Young Professionals. The FAR was represented at a number of academic conferences.

### FAR's mid-term institutional evaluation

With FAR's establishment in October 2015, and per Article 4.4 of FAR's Articles of Association, it was decided to have an intermediate institutional evaluation of FAR's activities. Based on the five objectives included in a questionnaire to all FAR Board members and FAR affiliated audit firms and an in-depth discussion of the feedback received in the February 2018 board meeting, the board evaluated the extent to which FAR as an institution is on its way to meeting its mission. These evaluation objectives were:

1. The research agenda and initiatives of FAR are designed to encourage and assist in the publication of high quality, original research in reputable international journals that contribute to the profession, and to communicate the acquired knowledge with

2. people who work in practice and students.
2. Research projects supported by FAR are (in anticipation) recognized as significant contributions to the field of auditing.
3. FAR activities contribute to the practice of auditing, to inform policy and regulatory debates, and to improve practice (knowledge dissemination).
4. FAR supports with its activities graduate and post graduate programs by providing them with a comprehensive and up-to-date body of knowledge.
5. FAR activities improve the long-term infrastructure for research and teaching that will meet the needs of future participants in the auditing profession.

The conclusion is that the potential is there, but for now understandable reasons with regards to data gathering mostly, there is less materialization than was hoped for. The FAR Board underlines the importance of disseminating new FAR knowledge with the general public and to monitor the progress of actual output. The intermediate progress is that FAR is actively disseminating knowledge through its conferences, master classes, and practice notes, and is increasingly involved in terms of academically informing public policy making. FAR's potential contributions to the auditing profession through its research projects is positive because of the combination of the quality of the research groups and the topic selection on the one hand and opening of the "black box" of data on the other. The FAR Board concludes that FAR's contributions to accountancy education and the auditing research community have not materialized yet, but look promising. FAR may need to be more transparent in its communication about its activities and progress.

Based on the intermediate institutional evaluation the FAR Board agrees unanimously that FAR should continue for the next three years of the initially committed five years at establishment of FAR.

#### **FAR working organisation**

As the FAR activities continued to expand, the FAR board decided to strengthen and professionalize the working organization by hiring a deputy director and a corporate secretary, who jointly can to a large extent manage all general operations of FAR so as to increase execution power. With that FAR's staff currently comprised 3.4 FTE working on program management, data gathering, communication, and administration.

As part of this professionalization of the FAR organization, we are happy to have found Nyenrode Business Universiteit welcoming and willing to facilitate FAR in its general operations. As of autumn 2017 the FAR moved its offices and registered address to Straatweg 25 in Breukelen, with that providing FAR with a "home base" instead of its virtual form so far. For this the FAR and Nyenrode entered into a service level agreement which includes human resources, housing, ICT, and other activity based facilities. The related costs are charged through to FAR on a not-for-profit basis. The FAR's financial administration remains at the Royal Netherlands Institute of Chartered Accountants under the existing service level agreement.

As the FAR activities continued to expand, the FAR board decided to strengthen and professionalize the working organization

# Financial Results

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The FAR's financial income primarily consists of contributions of the affiliated audit firms of € 1.5 million (2015-16 € 1.5 million) on the basis of committed research projects and approved office costs. In addition, we are very grateful to Stichting Accountantsfonds for its annual contribution of € 100,000 (2015-16 € 100,000).

The maximum research grants available were spent largely on the selected research projects. The total amount of multi-year grants for these committed research projects is € 1,170,000 (2015-16: € 1,038,000), which includes the costs directly relating to the execution of the research projects. These are recognised as an expense in the statement of income and expenses and as a liability in the balance sheet as unconditional commitments for this amount were made to research teams. In addition, an amount of € 185,000 (2015-16: € 125,000) is recognised as project-related research costs, which concerns the costs of the research agenda, the selection of research projects, and data gathering in particular. This increase of project related expenses reflects the growth of research and knowledge dissemination activities of FAR.

The office costs, including board costs and the general working organization, amount to € 181,000 (2015-16 € 208,000). To appropriate the balance of income and expenses 2017 to research projects the board decided to allocate the positive balance of 2017 of € 64,000 to a reserve for restricted use for research project funding still to be committed in 2018.

Funding through invoicing will only take place if there is a liquidity requirement as the research projects progress, or in order to cover the approved and budgeted office costs. This means that the FAR has no unused financial resources.

The FAR has an external auditor, RSM Netherlands Accountants N.V., who audits the financial statements. These 2017 financial statements were discussed with the auditor on 19 and 28 June 2018.

# Outlook for 2018

Now that the foundations for the FAR have been laid, we look forward to going at full steam in the coming financial year. Our particular aim for this year is to deliver the research data for the first cycle research projects, which is crucial in order to share new research and insights and realise the research agenda.

## **Research: call for research proposals 2018**

As in previous years, FAR issued its 3rd call for research proposals in December to invite multidisciplinary research groups in accounting and auditing to submit a written proposal to the Scientific Committee of FAR. This year FAR emphasized three topics:

- **Data driven auditing:** How are data driven audits (e.g., big data and block chain analytics) impacting audits? What is audit evidence in the realm of a data driven audit?
- **Audit quality indicators:** What are the most informative engagement level AQI's during the audit?
- **Audit committee involvement:** What is the impact of (increased) audit committee involvement with the audit on audit quality?

FAR also invited researchers to submit other topics relevant to the institutional development of the auditing

profession and research into the drivers of good audit quality. So far this year, in total we received eight FAR Research Proposals following our call in December 2017. The general conclusions of the FAR Board were that the average quality of the research proposals was again high. We hope to finalize this year's project review and selection before summer. We furthermore strive for a balanced development over our different research programs (A to E).

## **FAR accreditation for permanent education**

On 22 March 2018, we received positive news from the NBA that the FAR maintains its PE certification for another three-year period. The outcomes from the accreditation process motivates us even more to organize events in the future in which we can share our knowledge on auditing related questions.

## **3rd International FAR Conference**

Different perspectives provide different insights about the audit profession. Understanding each other's vision and everyone's role in the entire financial reporting and assurance supply chain, finding a common language, and open dialogue about the working disciplines within the audit profession helps to stimulate quality. The exchange of knowledge and experience at the 3rd conference of the FAR, held on 5 and 6 June at the Nyenrode Business

University estate, supported this. That was one of the conclusions at the closing of the conference.

Under the heading "Moving the Audit Profession Forward - New Research and Best Practices" around 130 practitioners from the field and academics from universities in the Netherlands and abroad shared knowledge and insights about the audit profession. We were honored to have Preeti Choudhary (University of Arizona) giving a keynote speech on "Auditor - Auditee Interactions and Audit Quality", and that Steve Salterio (Queens University, Canada) gave a talk and organized a discussion and Q&A on "Moving beyond the Lab - Bridging the Gap between Academics and Practice".

Furthermore, the following FAR Research Groups presented (intermediate) research findings or new research projects (including existing scientific evidence) on the following topics:

- How to create a learning culture in audit teams by Wim Gijsselaers (University of Maastricht);
- Talent management in auditing by Frank Moers (University of Maastricht);
- Managing global group audits by Anna Gold (VU Amsterdam);
- Auditor's detection of fraud cues and management deception by Mark Peecher (University of Illinois);
- Client's internal controls and audit quality by Joseph Gerakos (Dartmouth University); and
- Audit partner performance and incentives systems in relation to audit quality by Olof Bik (Nyenrode/FAR) and Jan Bouwens (Cambridge/FAR).

The general conclusions of the FAR Board were that the average quality of the research proposals was again high

Provided science and practice do their best to speak a common language, both can learn a lot of each other. It enables academics to ask, as well as answer, better questions. In practice, one can take advantage of the insights from science. Here we can think of the importance of experience, which emerged twice as a quality-determining factor during the conference. Steven Salterio of Queens University, Canada noted the following: "This FAR conference is the best example of how the interaction should be between science and practice."

#### **Financial outlook**

To help us flesh out our research agenda, unlocking of knowledge and contribution to the development of the profession, the FAR will also in the coming year rely on the financial contributions committed by the affiliated audit firms and donor(s). These contributions total a maximum of € 1,650,000 million for 2018 (2017 € 1,600,000). Taking account of the use of the reserve of € 64,000 for research project funding still to be committed in 2018 on the one hand, and the project-related research costs (budgeted

at € 263,000) and the general office costs (budgeted at € 206,000) on the other, the maximum research budget for the coming year again amounts to approximately € 1,250,000. It appears that financial resources do not always have the highest priority for the research teams – their principal concern is access to data. While the FAR expressly wants to invest in building up the research community in the auditing discipline – which entails funding PhD students, for example – this does not mean that large financial contributions will be requested all the time, and it is therefore not certain that the entire budget will be required to fund the projects we want to conduct. At the same time, FAR explores the best approach to realize its strategy, for example by extending the research programs. In addition, the unlocking of data by the audit firms requires considerable efforts and investments from those firms. Where possible, the FAR will support them in this.

When the FAR was formed, preference was given to a transitional model based on a coordinating office organisation. The aim is still to keep the working organisation to a minimum by cooperating as much as possible with the affiliated research groups and the audit firms. We pursue a cost ratio not exceeding approximately

15 percent of the current basis of financial contributions. In view of the FAR's ambitions and the growth of its activities, however, consideration will also be given in the coming period to further professionalisation of the working organisation.

Accordingly, there is an abundance of ambitions for the coming period. We are excited about the foundations that have been laid and the learning curve we are in collectively, and have every confidence that further major steps can be taken in the coming period towards academic research into the audit quality drivers and thereby the unlocking of the 'black box' of auditing.

**Breukelen, 28 June 2018**

**On behalf of the executive board of Stichting Foundation for Auditing Research**

**sgd dr. O.P.G. Bik RA**  
Managing director and  
academic board member

**sgd Prof. dr. J.F.M.G. Bouwens**  
Managing director and  
academic board member

**sgd Prof. dr. H.M. Prast**  
Chair of the board



# Detailed overview of FAR's research program A and B

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Details of the FAR's current projects in Research Programs A (Research Syntheses) and B (Empirical Research) are included in the overview below. Details of FAR's current projects in Research Programs C (Joint Working Groups), D (Case Studies), and E (Auditing Research Chair) are included in FAR's board report above.

**TITLE - Going concern opinions research synthesis**

**PROJECT NUMBER**  
**2017A01**

**WHAT?** - In this study the team aims at writing a literature review on going concern decisions. The study wants to update, extend what we know about going concern audit opinions. It also wants to identify whether new avenues for research can be identified.

**WHY?** - What are the main determinants, considerations and hurdles for auditors to move on to a going concern opinion? What are the primary stakeholders' expectations in relation to auditors' detection and reporting of an auditees going concern risks? What are the determinants of auditors' effective going concern judgments (e.g., fear of self-fulfilling prophecy)?

**WHO?** - Prof. M.A. (Marshall) Geiger  
Professor of Auditing and CSX Chair in Management and Accounting,  
University of Richmond  
Prof. A. (Anna) Gold  
Professor of Auditing, Free University of Amsterdam; Adjunct Professor,  
Norwegian School of Economics (NHH)  
Prof. P. (Philip) Wallage  
Professor of Auditing, University of Amsterdam and Free University of Amsterdam

**TIMELINE** - 09/17 - 08/18

**TITLE - The loss of talent - A threat for audit quality**

**PROJECT NUMBER**  
**2016B01**

**WHAT?** - Understanding the drivers of potential talent loss across experience years and its consequences in terms of audit quality – in order for the firms to be better able to retain talent over the years (and thus better capitalize on their investment in learning and development). Focus is on the effectiveness and potential improvements of the firms' Performance Management Systems (being one of the most influential conditions in the work environment under control of the firms), taking the firm's business models into account.

**WHY?** - Firms invest many resources in new professionals to build up their human capital to achieve quality audits, only to see many with talent leave (too early) over the years. Talent loss is very costly for audit firms that rely on knowledge workers – especially as the main loss of talent seems to be just after the firms have incurred the major parts of the training costs – hence, not only jeopardizing audit quality but also generating high replacement costs.

**WHO?** - Prof. F. (Frank) Moers  
Professor of Management Accounting and Control, Maastricht University School of Business and Economics  
Dr. I. (Isabella) Grabner  
Associate Professor of Accounting, Maastricht University School of Business and Economics  
Dr. J. (Judith) Künneke MSc  
Assistant Professor, Maastricht University School of Business and Economics

**TIMELINE** - 01/17 - 12/18

**TITLE - Why some auditors thrive while others struggle - The effects of multiple team membership on audit quality**

**PROJECT NUMBER**  
**2016B02**

**WHAT?** - Identify the conditions where under audit firms can most effectively leverage on Multiple Team Memberships (specific to the firms' business model) and team members to most effectively cope with the demands of fluid team membership in securing both high quality audits, a motivated workforce, and appropriate team culture. I.e., increasing the benefits of working with fluid teams, while mitigating the negative effects of MTM to employees.

**WHY?** - To learn why in the given business model (i.e., fluid audit teams, MTM) one employee thrives, while another suffers. I.e., identify previously unconsidered factors for firms to learn how to better capitalize on HC within the audit team and firm context (create appropriate organizational conditions). Furthermore, for audit staff to learn how to deal with the potential adverse effect and make use of the potential benefit (e.g., training on the job).

**WHO?** - Dr. R.B.H. (Reggy) Hooghiemstra  
Associate Professor, University of Groningen  
Prof. F.A. (Floor) Rink  
Full Professor, University of Groningen  
Dr. D.B. (Dennis) Veltrop  
Assistant Professor, University of Groningen; Economist, De Nederlandsche Bank

**TIMELINE** - 01/17 - 12/20

**TITLE - Moving audit teams forward - Designing firm environments for sustainable learning from errors**

**PROJECT NUMBER**  
**2016B03**

**WHAT?** - This study will (provide a diagnostic tool to) investigate the appropriate conditions audit firms may want to consider to strengthen their (audit team's) learning from error climate (i.e., the organizational context wherein audit teams effectively learn from errors) to strengthen the interplay between individual auditors' characteristics and the firm's organizational environment in order to strengthen audit judgment quality.

**WHY?** - Above and beyond auditors' experience (and other audit inputs), the research team's recent research shows that audit firms are able to improve performance significantly when auditors are able to actively learn from errors in audits. Furthermore, given that audits are (sometimes) complex social interactions within an audit team, above and beyond auditors' individual learning, audit quality is ultimately the outcome of team work and interaction. Prof. W.H. (Wim) Gijsselaers  
Full Professor in Education, Maastricht University School of Business and Economics

**WHO?** - Prof. R.H.G. (Roger) Meuwissen RA  
Professor of Control and Auditing, Maastricht University School of Business and Economics  
Dr. P. (Piet) van den Bossche  
Associate Professor Learning in Organisations University of Antwerp; Associate Professor Learning in Organisations, Maastricht University School of Business and Economics  
Dr. T. (Therese) Grohnert  
Assistant Professor, Maastricht University School of Business and Economics  
Prof. A.C. (Amy) Edmondson  
Novartis Professor of Leadership and Management, Harvard Business School

**TIMELINE** - 01/17 - 12/19

**TITLE - The auditor's evaluation of misstatements - Exploration, drivers, and consequences**

**PROJECT NUMBER**  
**2016B04**

**WHAT?** - Improve understanding and potential improvement recommendations about the process and the consequences of evaluating misstatements – when and why does the auditor waive or require adjustment? Focus is on the drivers in the process (not on evaluation of the misstatements itself). What is the type, nature, direction, magnitude, and recurrence of detected and adjusted misstatements? To what extent are such adjustments effective in improving actual financial reporting quality (i.e., the value of auditing)?

**WHY?** - Auditors detect misstatements during the audit process for which the auditor (through a (social) negotiation process with management), either requires or waives an adjustment. Because this decision will directly influence the financial reporting quality, it is important for firms to know how to positively influence the effectiveness of the negotiation process over audit findings.

**WHO?** - Prof. A. (Ann) Vanstraelen  
Professor of Accounting and Assurance Services, Maastricht University School of Business and Economics; additional part-time (0.1) position at University of Antwerp U. (Ulrike) Thürheimer MSc  
PhD Candidate in Accounting, Maastricht University School of Business and Economics  
Prof. R. (Roger) Simnett  
Full Professor, Scientia Professor, Macquarie Group Foundation Chair and Academic Director, University of New South Wales (UNSW) Australia;  
Prof. G.V. (Gopal) Krishnan  
Tenured Full Professor, Chairman Department of Accounting and Taxation and Kogod Research Professor, American University  
Prof. T.L. (Teri) Yohn  
Professor, Indiana University

**TIMELINE** - 01/17 - 12-20

**TITLE - Professional skepticism profiles, effects on audit processes and outcomes, and the moderating role of audit firm culture**

**PROJECT NUMBER**  
**2016B05**

**WHAT?** - This study focuses on a firm's potential improvement of professional skepticism in the interplay between an auditor's innate professional skepticism (personality trait), audit firm culture and audit quality by addressing three questions: How skeptical are auditors by nature in different ranks and experience levels? How does this professional skepticism affect the audit process auditors apply and the ultimate audit quality achieved? And how does firm and team culture affect professional skepticism in the audit?

**WHY?** - This study will provide insights into what more skeptical auditors by nature do differently during the audit process and whether or not this leads to higher levels of audit quality (nature, timing, and extent of audit procedures) – and, through that, it will enable firms to strengthen firm culture in promoting professional skepticism (and more specifically how to provide the fruitful ground for less skeptical auditors by nature to perform a skeptical audit nevertheless). These insights are also highly relevant in relation to regulators (IFIAR, AFM, PCAOB) and standard setters (IAASB).

**WHO?** - Dr. K. (Kris) Hardies  
Assistant Professor, University of Antwerp  
Prof. A. (Ann) Vanstraelen  
Professor of Accounting and Assurance Services, Maastricht University School of Business and Economics; additional part-time (0.1) position at University of Antwerp  
Prof. K.M. (Karla) Johnstone  
EY Chaired Professor of Accounting, University of Wisconsin-Madison  
S. (Sanne) Janssen  
Joint-PhD, University of Antwerp and Maastricht University School of Business and Economics; PhD student and teaching assistant, University of Antwerp

**TIMELINE** - 01/17 - 12/20

**TITLE - Coordination and communication challenges in global group audits - Evidence from component audit leaders**

**PROJECT NUMBER  
2016B06**

**WHAT?** - This study aims to identify barriers and best practices to achieve high audit quality of component audits of global group audits from the component auditor perspective. What is the influence of specific engagement characteristics on the degree of coordination and communication challenges of component auditors? What coordination and communication strategies (are thought to) help mitigate these challenges?

**WHY?** - While the group auditor is ultimately responsible for the whole audit of the consolidated financial statements, irrespective of the extent of use of component auditors throughout the global group audit, the group auditor needs to make sure that the component audits are effective and efficient, despite at the same time having to deal with many coordination and communication challenges – which the group auditor (sub sample included in the study) may be able to overcome based on the recommendation of this study.

**WHO?** - Prof. A. (Anna) Gold  
Professor of Auditing, Free University of Amsterdam; Adjunct Professor, Norwegian School of Economics (NHH)  
Dr. D. (Denise) Hanes Downey  
Assistant Professor, Villanova University  
Dr. A.J. (Andrew) Trotman  
Assistant Professor, Northeastern University

**TIMELINE** - 01/17 - 04/18

**TITLE - Does the private owner-managed firm audit market serve a different purpose?**

**PROJECT NUMBER  
2017B01**

**WHAT?** - This study is designed to examine whether economic forces and regulation (institutions) affect different audits conditional on whether these audits are executed for Public interest entities, privately owned business or owner-managed business. The researchers want to start to ask the question whether regulation should be the same for the different type of firms.

**WHY?** - Does the OMB environment call for different audits and auditing standards? What institutional factors (e.g., complexity, size, capital market structure, legal environment, audit risks, etc.) in the OMB environment may call for a specific audit approach and auditing standards for OMB audits?

**WHO?** - Prof. J. (Jeroen) Suijs Professor Economics of Accounting, Tilburg University  
Dr. M (Mahmoud) Gad  
Assistant Professor, Tilburg University;  
Teaching Assistant, University of Bristol  
Dr. H.J.R. (Robin) Litjens  
Assistant Professor Accounting, Tilburg University

**TIMELINE** - 01/18- 03/19

**TITLE - Audit production**

**PROJECT NUMBER  
2017B02**

**WHAT?** - The authors propose to examine how the production of audits and its quality is affected by the accounting information system design of the client. The idea would be to gauge audit production efficiency and the quality of the client's AIS. They want to examine the magnitude of how the production surplus (price production versus price clients pay) is affected by these AIS designs.

**WHY?** - What is the mutual impact of the audit and the auditee's internal controls and financial reporting quality? What is the impact of the quality of the auditee (e.g., internal controls, governance, management accounting, etc.) on audit quality and value?

**WHO?** - Prof. J. (Joseph) Gerakos  
Associate Professor of Business Administration, Dartmouth College  
Prof. C. (Chad) Syverson  
J. Baum Harris Professor of Economics, University of Chicago  
U. (Ulrike) Thürheimer MSc  
PhD Candidate in Accounting, Maastricht University School of Business and Economics

**TIMELINE** - 01/18- 12/21

**TITLE - Auditor judgment on internal control quality and audit quality**

**PROJECT NUMBER**  
**2017B03**

**WHAT?** - This study aims at identifying what client characteristics affect the perception of internal control quality and whether this perception is substantiated by the quality of the internal controls that are actually present. They want to use archival data to examine their research question.

**WHY?** - What is the mutual impact of the audit and the auditee's internal controls and financial reporting quality? What is the impact of the quality of the auditee (e.g., internal controls, governance, management accounting, etc.) on audit quality and value?

**WHO?** - Prof. J. (Jean) Bédard  
Professor and Holder of the Chair in Corporate Governance, Université Laval  
Dr. A. (Annelies) Renders  
Assistant Professor, Maastricht University School of Business and Economics  
Dr. C.C.M. (Caren) Schelleman  
Assistant Professor, Maastricht University School of Business and Economics  
Prof. M. (Mathijs) van Peteghem  
Assistant Professor, Maastricht University School of Business and Economics  
L. (Lei) Zou  
PhD Candidate in Accounting, Maastricht University School of Business and Economics  
Dr. M. (Mieke) Jans  
Assistant Professor, Hasselt University

**TIMELINE** - 01/18 - 12/20

**TITLE - Improving audit quality by enhancing auditor's detection of markers of management deception**

**PROJECT NUMBER**  
**2017B04**

**WHAT?** - Based on two experiments, this study explores the effectiveness of using a (negative affect) instruction to improve auditor fraud detection and skepticism. Given the importance of auditor interview of management during field work (e.g., the ISA 240 fraud enquiry) and resulting narratives in the audit process, this intervention (i.e., instruction) may help auditors overcome their experientially learned avoidance of false positives.

**WHY?** - Auditors' knowledge, skills, and experience of repeatedly interacting with managers gives them the rare ability to detect (client) deception. Although they have a learned ability to detect deception, they need a prompt to use those abilities – because the ability is subconsciously suppressed due to learned disincentives (e.g., over time, auditors experientially learn that there are few rewards and numerous costs to undertake skeptical actions). In other words, auditors can detect deception, but they subconsciously avoid it (the "illusion of objectivity").

**WHO?** - Prof. M.E. (Mark) Peecher  
Deloitte Professor in Accounting and Academic Professor, University of Illinois  
Prof. J.L. (Jesse) Hobson  
Associate Professor, University of Illinois  
Sebastian Stirnkorb, PhD student  
Erasmus University Rotterdam.

**TIMELINE** - 01/18- 09/21

**TITLE - The effects of expert status on the audit of complex estimates**

**PROJECT NUMBER**  
**2017B05**

**WHAT?** - It is proposed that auditors overestimate specialists' competence. The team wants to conduct an experiment to examine whether auditors rely more on the high status specialists than the situation would warrant.

**WHY?** - To study the impact of specialist involvement on audit quality.

**WHO?** - Dr. J. (Justin) Leiby  
Assistant Professor of Accounting, University of Georgia  
Prof. A. (Anna) Gold  
Professor of Auditing, Free University of Amsterdam; Adjunct Professor, Norwegian School of Economics (NHH)  
Prof. K. (Kathryn) Kadous  
Schaefer Chaired Professor of Accounting, Emory University

**TIMELINE** - 01/18- 12/20

**TITLE - How is auditor commercialism related to audit quality and efficiency?**

**PROJECT NUMBER  
2017B06**

**WHAT?** - This study will (1) examine whether a tradeoff actually exists between auditors' commercial and professional motivations and (2) whether audit firms' quality control mechanisms create conditions in which the two sets of motivations are (or can be) even mutually reinforcing.

**WHY?** - Stakeholders to the auditing process have frequently asserted that there is a fundamental conflict between auditors' professional obligations and commercial interests, i.e., auditing as a profession versus auditing as a business – fueling regulatory and standard-setting interventions. The study may very well contribute to the demystification of current perceptions of (partners' and firms') focus on commercialism versus professionalism (or regulatory focus on quality over the firms' business model).

**WHO?** - Dr. W.A. (William) Ciconte  
Assistant Professor of Accountancy,  
University of Illinois  
Prof. M. (Marleen) Willekens  
Full Professor of Accounting and  
Auditing, KU Leuven; additional part-  
time (0.1) position at BI Norwegian  
School of Business  
Dr. J. (Justin) Leiby  
Assistant Professor of Accounting,  
University of Georgia

**TIMELINE** - 01/18-12-21

# FINANCIAL STATEMENTS

Financial year from 1 January 2017 up to and including to 31 December 2017

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## 1. BALANCE SHEET AT THE END OF THE FINANCIAL YEAR

(after appropriation of the balance of income and expenses)

		31-12-2017	31-12-2016
		x € 1,000	x € 1,000
	Ref.		
<b>ASSETS</b>			
Receivables	1	2,000	1,000
Cash	2	412	372
<b>TOTAL ASSETS</b>		<b>2,412</b>	<b>1,372</b>
<b>LIABILITIES</b>			
Equity	3	293	229
Research commitments	4	1,849	1,038
Current liabilities	4	270	105
<b>TOTAL LIABILITIES</b>		<b>2,412</b>	<b>1,372</b>

## 2. STATEMENT OF INCOME AND EXPENSES

		<b>Actual 2017</b> <small>x € 1,000</small>	<b>Budget 2017</b> <small>x € 1,000</small>	<b>Actual 2015-16<sup>1</sup></b> <small>x € 1,000</small>
	Ref.			
<b>INCOME</b>	<b>5</b>			
Financial contributions 'Big 4'		1,200	1,200	1,200
Financial contributions 'Middle 5'		300	300	300
Donation Stichting Accountantsfonds		100	100	100
<b>TOTAL INCOME</b>		<b>1,600</b>	<b>1,600</b>	<b>1,600</b>
<b>EXPENSES</b>	<b>6</b>			
Research-related costs		185	151	125
Costs of research projects		1,170	1,250	1,038
<i>Total project costs</i>	<i>6a</i>	<i>1,355</i>	<i>1,401</i>	<i>1,163</i>
Formation costs		-	-	7
Office costs		21	37	34
Board costs		69	77	107
Overhead		91	84	60
<i>Total office costs and overhead</i>	<i>6b</i>	<i>181</i>	<i>198</i>	<i>208</i>
<b>TOTAL EXPENSES</b>		<b>1,536</b>	<b>1,599</b>	<b>1,371</b>
<b>BALANCE</b>		<b>64</b>	<b>1</b>	<b>229</b>

<sup>1</sup> The 2015-16 actuals relate to the (extended) financial year from 20 October 2015 up to and including 31 December 2016.

	<b>Actual 2017</b> <i>x € 1,000</i>	<b>Budget 2017</b> <i>x € 1,000</i>	<b>Actual 2015-16</b> <i>x € 1,000</i>
<b>Appropriation of the balance of income and expenses:</b>			
Addition to continuity reserve	-	-	229
Addition to reserve for restricted use	64	-	-
	<b>64</b>	<b>-</b>	<b>229</b>

### 3. ACCOUNTING PRINCIPLES

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#### 3.1. Objectives and activities

Stichting Foundation for Auditing Research [hereafter: the FAR] has its registered office at Straatweg 25 in Breukelen. Its objectives are to make a structural contribution to the learning curve and to the continuous development in general of audit firms, the audit profession and audit training and research in the Netherlands, among other things in order to:

- bring about continuous improvement in the audit practice (including the applicable or associated laws and regulations);
- feed audit training programs; *and*
- at the same time reinforce academic auditing research.

In order to achieve its objectives, the FAR initiates (often multi-year) research projects on the basis of a research agenda. These projects are awarded through procedures such as the Calls for Research Proposals, which are open to universities and research teams at both national and international level. By means of these research projects, the FAR also aims to stimulate auditing research (in the Netherlands) and to disseminate the knowledge thus obtained via research articles, education and contributions to the professional debate (for example, by organising conferences and masterclasses and by publishing professional articles). Furthermore, the FAR focuses on unlocking existing scientific insights for audit practitioners.

To this end, the FAR obtains financial contributions from the affiliated audit firms and donors, initially for a period of five years (with an interim evaluation held after a two-year period). In addition, affiliated audit firms have undertaken to provide access to data.

#### 3.2. Principles of valuation of assets and liabilities

##### 3.2.1. General

The financial statements have been prepared in accordance with the 'Guideline for Non-Profit Organisations' [DAS 640], as published under the responsibility of the Dutch Accounting Standards Board. The accounting principles proceed from measurement at nominal value, unless a different principle is stated. The reporting period comprises the financial year from 1 January up to and including 31 December 2017. The comparative figures for 2016 relate to the first (extended) financial year from 20 October 2015 (the date of establishment of FAR) up to and including 31 December 2016. As from the 2017 financial statements, the expenses in relation to research conferences, master classes, and knowledge dissemination are presented as research-related costs (the comparative figures are reclassified accordingly). The financial statements have been prepared in euros. Reference numbers refer to the explanatory notes.

### 3.2.2. *Receivables*

Receivables are valued on initial recognition at the fair value of the counter-performance, including any material transaction costs. After initial recognition, receivables are valued at amortised cost. Bad debt provisions are offset against the book value of the receivables.

### 3.2.3. *Cash*

Cash consists of bank balances with a term to maturity of less than 12 months.

### 3.2.4. *Liabilities*

Current liabilities are accounted for at fair value on initial recognition. After initial recognition, current liabilities are valued at amortised cost. This is usually the nominal value.

The current liabilities have a remaining term to maturity of less than one year.

## 3.3. **Principles for the determination of the result**

### 3.3.1. *Income*

The FAR's income consists primarily of contributions committed by the affiliated audit firms. The level of the contribution is determined on the basis of undertaken research projects and approved office costs. These contributions are shown in the statement of income and expenses in the year in which the subsidised expenses or office costs are recognised.

### 3.3.2. *Expenses*

The total grants for committed research projects, even if they cover multiple years, are recognised as an expense in the statement of income and expenses and as a liability in the balance sheet insofar as unconditional commitments have been made to research teams by the balance sheet date (other than the condition that the research must be conducted in conformity with the research proposal). The FAR simultaneously recognises the estimated expected costs (other than the commitments to research teams) directly associated with the execution of the research projects to which those commitments relate.

The other costs (office costs) are recognised in the period to which they relate.

The FAR is not recognized as an enterprise for VAT purposes and is therefore not liable to pay VAT, or able to reclaim VAT paid.

#### 4. NOTES TO THE BALANCE SHEET

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##### 1. Receivables

		<b>31-12-2017</b>	<b>31-12-2016</b>
		<i>x € 1,000</i>	<i>x € 1,000</i>
	Ref.		
Accounts receivable	(a)	-	-
<i>Accrued income:</i>	(b)		
Still to invoice to 'Big 4' firms		1,600	800
Still to invoice to 'Middle 5' firms		400	200
		<b>2,000</b>	<b>1,000</b>

##### a. Accounts receivable

There is no accounts receivable balance at the balance sheet date. For this reason, no bad debt provision has been included.

##### b. Accrued income

Accrued income relates to the financial contributions still to be invoiced to the affiliated audit firms in respect of the research projects committed in 2016 and 2017. These contributions are payable by the firms during the term of the projects and in line with their progress (as detailed under 4a).

The non-current part of the accrued income amounts to € 1,150,000.

##### 2. Cash

	<b>31-12-2017</b>	<b>31-12-2016</b>
	<i>x € 1,000</i>	<i>x € 1,000</i>
Current account with ABN Amro	412	372
	<b>412</b>	<b>372</b>

The cash is at the FAR's free disposal.

### 3. Equity

		<b>Balance on 31-12-2017</b>	<b>Movements 2017</b>	<b>Balance on 31-12-2016</b>
		<i>x € 1,000</i>	<i>x € 1,000</i>	<i>x € 1,000</i>
	Ref.			
Continuity reserve	(a)	229	-	229
Reserve for restricted use	(b)	64	64	-
		<b>293</b>	<b>64</b>	<b>229</b>

#### a. Continuity reserve

To ensure that the FAR will be able to meet its obligations also in the future, the board has created a continuity reserve in 2016.

In determining the level of the continuity reserve, the FAR follows the guidelines of the Fundraising Institutions Association (*Vereniging voor Fondsenwervende Instellingen*, VFI). The guidelines permit a maximum reserve of 1.5 times the annual organisational costs (including costs of staff, accommodation, administration and board). The estimated organisational costs are approximately € 250,000. The continuity reserve now created, equalling 0.9 times the organisational costs, is considered adequate.

#### b. Reserve for restricted use

To appropriate the balance of income and expenses 2017 to research projects the board decided to allocate the positive balance of 2017 of € 64,000 to a reserve for restricted use for research project funding still to be committed in 2018.

### 4. Research commitments and current liabilities

		<b>31-12-2017</b>	<b>31-12-2016</b>
		<i>x € 1,000</i>	<i>x € 1,000</i>
	Ref.		
Research commitments	(a)	1,849	1,038
Accounts payable		157	69
Other accrued costs	(b)	113	36
		<b>2,119</b>	<b>1,143</b>

a. *Research commitments*

The accrued project costs concern the financial grants relating to the research projects committed in 2016 and 2017 and the expected research and project costs directly associated with these projects. These can be detailed as follows:

	Commitments	2017	2018	2019	2020	2021	2022	Balance 2017
<i>Amounts x € 1,000</i>								
<b>Committed research projects 2015-2016</b>								
Committed research grants	765	296	289	100	80	0	0	765
Data gathering costs	218	87	73	44	14	0	0	218
Other project costs	55	17	20	10	8	0	0	55
Reassessment of research commitments	0	0	0	60	0	0	0	60
<b>Total commitments</b>	<b>1,038</b>	<b>400</b>	<b>382</b>	<b>214</b>	<b>102</b>	<b>0</b>	<b>0</b>	<b>1,098</b>
Payment on research commitments	-	-358	0	0	0	0	0	-358
Adjustment of timing	-	-42	42	0	0	0	0	0
<b>Remaining commitments 2015-2016 projects</b>	<b>-</b>	<b>0</b>	<b>424</b>	<b>214</b>	<b>102</b>	<b>0</b>	<b>0</b>	<b>740</b>
<b>Committed research projects 2017</b>								
Committed research grants	844	0	138	225	210	146	125	844
Data gathering costs	178	0	80	68	30	0	0	178
Other project costs	88	0	31	21	19	14	3	88
<b>Total commitments</b>	<b>1,110</b>	<b>0</b>	<b>249</b>	<b>314</b>	<b>259</b>	<b>160</b>	<b>128</b>	<b>1,110</b>
Payments on research commitments	-	-1	0	0	0	0	0	-1
Adjustment of timing	-	1	-1	0	0	0	0	0
<b>Remaining commitments 2017 projects</b>	<b>-</b>	<b>0</b>	<b>248</b>	<b>314</b>	<b>259</b>	<b>160</b>	<b>128</b>	<b>1,109</b>
<b>Total remaining commitments</b>	<b>-</b>	<b>0</b>	<b>672</b>	<b>528</b>	<b>361</b>	<b>160</b>	<b>128</b>	<b>1,849</b>

The non-current part of this liability amounts to € 1,177,000.

Reassessment of research projects committed in 2015-2016 (€ 60,000) is related to additional funding needed and are recognised as an expense in the statement of income and expenses in 2017.

Adjustments of timing of project commitments (€ 42,000 for the 2015-2016 projects) is related to timing differences of actual payments on research commitments compared to the original project forecast.

*b. Other accrued costs*

Other accrued costs amounting to € 113,000 mainly comprise costs payable in relation to the working organization and management fees.

## **5. NOTES TO THE STATEMENT OF INCOME AND EXPENSES**

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### **5. Income**

The affiliated audit firms have committed themselves to pay an annual financial contribution not exceeding € 1,500,000 for an initial period of five years from inception (with an interim evaluation after the initial two-year period). As per December 31, 2017 nine audit firms are affiliated to FAR, being Deloitte, EY, KPMG, PwC, and (collectively) Accon AVM, Baker Tilly Berk, BDO, Grant Thornton, and Mazars. Thus, the FAR's funding primarily consists of funds that are committed by and received from the audit firms on the basis of the committed research projects and approved budget. In this context, the audit firms undertake at the time of the commitment to pay the contributions to cover the approved multi-year research projects for their entire duration, so as to enable research teams to complete the research for which they obtained the FAR's approval. The affiliated audit firms are invoiced for committed contributions as the research projects progress that is, at the moment when the project costs have been incurred, taking account of the cash position required to cover the general office costs.

In addition, Stichting Accountantsfonds and the FAR entered into a donorship agreement effective from 1 January 2016. Under this agreement, Stichting Accountantsfonds makes an annual contribution of € 100,000 for a period of five years.

### **6. Expenses**

*a. Project costs*

	<b>2017</b>	<b>2015-16</b>
	<i>x € 1,000</i>	<i>x € 1,000</i>
<i>Research-related costs:</i>		
Research Agenda and Call for Research Proposals	12	15
Review and selection of proposals	59	63
General data management	21	18
FAR conferences and master classes	32	20
Attendance of research conferences	3	3
General research project assistance	58	6
	<b>185</b>	<b>125</b>

	<b>2017</b> <i>x € 1,000</i>	<b>2015-16</b> <i>x € 1,000</i>
<i>Costs of research projects:</i>		
Endowments to research teams	844	765
Reassessment of prior research commitments	60	0
Project-specific data management	34	36
Data gathering and management	144	182
Project management and monitoring	40	25
Project reports and communication	48	30
	<b>1,170</b>	<b>1,038</b>
<b>Total project costs</b>	<b>1,355</b>	<b>1,163</b>

The costs of the research projects are related to committed research projects (as detailed under 4a) and can be specified as follows:

	<b>2017</b> <i>x € 1,000</i>	<b>2015-16</b> <i>x € 1,000</i>
Committed research projects 2015-2016	60	1,038
Committed research projects 2017	1,110	0
<b>Total costs of research projects</b>	<b>1,170</b>	<b>1,038</b>

*b. Office costs and overhead*

		<b>2017</b> <i>x € 1,000</i>	<b>2015-16</b> <i>x € 1,000</i>
	Ref.		
Formation costs		0	7
Secretariat and administration		21	34
Consultancy fees		14	9
General management support		51	28
Board costs	(I)	69	107
Communication		26	23
<b>Total office costs and overhead</b>		<b>181</b>	<b>208</b>

The FAR does not employ any staff. For its working organization, FAR entered into a service level agreement with Nyenrode Business Universiteit which includes human resources, housing, ICT, and other activity based facilities. The related costs are charged to FAR on a not-for-profit basis and are allocated to research related projects costs or general expenses based on activities concerned.

#### *1. Board costs*

The board costs comprise the fees paid to the chair of the board, to the institutions providing the other two members of the executive board (also academic board members) and to the (other) academic board members. In addition, board members are reimbursed for expenses incurred, including expenses for travel and stay. Part of the board costs are recognized under direct research-related costs. This can be detailed as follows:

	<b>2017</b> <i>x € 1,000</i>	<b>2015-16</b> <i>x € 1,000</i>
Total board fees paid (including € 20,000 non-deductable VAT in 2017, € 29,000 in 2015-16)	125	183
Board fees recognized under direct research-related costs	-/- 59	-/- 88
Expenses for travel and stay	3	12
<b>Board costs recognized under general expenses</b>	<b>69</b>	<b>107</b>

#### **7. Analysis of actual 2017 figures against budgeted figures**

Based on its research objectives and criteria (and considering that access to data is at least equally valuable for academic research) FAR was able to commit € 1,170,000 in research grants (of the maximum available research budget of € 1,250,000) for six empirical research projects, one research synthesis, two case studies, and one FAR auditing research chair during this financial year. This amount includes € 60,000 with regards to reassessment of commitments needed for previously committed projects.

Due to FAR's growth of activities and, related to that, the professionalization of the working organization, the research related costs were € 34,000 higher than budgeted (€ 151,000). This is related to FAR's efforts with regards to data gathering support and knowledge dissemination activities (like the FAR conferences). On the other hand, total general office costs and overhead were € 17,000 lower than anticipated mainly due to lower costs in relation to management support and travel and stay of board members. Taking account of the creation of the reserve for restricted use of € 64,000 for research projects still to be committed in 2018, the committed contributions were realised in full, resulting in total income of € 1.6 million.

## 8. Events after the balance sheet date

There are no events after the balance sheet date.

## 9. Proposed recognition of balance of income and expenses for the financial year 2017

The FAR's board has approved that the balance of income and expenses for 2017, in the amount of € 64,000, will be allocated in full to the reserve for restricted use for research project funding still to be committed in 2018. This has been recognised in the financial statements.

The financial statements were adopted by the FAR's executive board in Breukelen on 28 June 2018:

sgd dr. O.P.G. Bik RA  
*Managing director and  
academic board member*

sgd Prof. dr. J.F.M.G. Bouwens  
*Managing director and  
academic board member*

sgd Prof. dr. H.M. Prast  
*Chair of the board*

The financial statements were also approved by the other members of the FAR's governing board at the board meeting held in Breukelen on 28 June 2018:

sgd Prof. dr. W.F.J. Buijink  
*Academic board member*

sgd Prof. drs. E. Eeftink RA  
*Board member representing KPMG*

sgd N.M. Pul RA  
*Board member representing EY as  
per 28 August 2017*

sgd drs. P.A.J. Hopstaken RA  
*Board member representing Mazars, BDO,  
Baker Tilly Berk and Grant Thornton*

sgd Prof. dr. W.R. Knechel  
*Academic board member*

sgd drs. M. de Ridder RA  
*Board member representing PwC*

sgd drs. L. Albers RA  
*Board member representing Deloitte as per 23 February 2018*



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## **INDEPENDENT AUDITOR'S REPORT**

To: the Board of Stichting Foundation for Auditing Research

### **A. Report on the audit of the financial statements 2017 included in the annual report**

#### **Our opinion**

We have audited the financial statements 2017 of Stichting Foundation for Auditing Research, based in Amsterdam.

In our opinion the accompanying financial statements give a true and fair view of the financial position of Stichting Foundation for Auditing Research as at 31 December 2017, and of its result for 2017 in accordance with the Guideline for annual reporting 640 "Not-for-profit organisations" of the Dutch Accounting Standards Board.

The financial statements comprise:

1. the balance sheet as at 31 December 2017;
2. the statement of income and expenses for 2017; and
3. the notes comprising a summary of the accounting policies and other explanatory information.

#### **Basis for our opinion**

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

We are independent of Stichting Foundation for Auditing Research in accordance with the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **B. Report on the other information included in the annual report**

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of the board report.

Based on the following procedures performed, we conclude that the other information is consistent with the financial statements and does not contain material misstatements.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

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By performing these procedures, we comply with the requirements of the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

The board is responsible for the preparation of the other information, including the board report in accordance with the Guideline for annual reporting 640 "Not-for-profit organisations" of the Dutch Accounting Standards Board.

### **C. Description of responsibilities regarding the financial statements**

#### **Responsibilities of the executive board and members of the Board who are not members of the Executive board for the financial statements**

The Executive Board is responsible for the preparation and fair presentation of the financial statements in accordance with the Guideline for annual reporting 640 "Not-for-profit organisations" of the Dutch Accounting Standards Board. Furthermore, the Executive Board is responsible for such internal control as the board determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the Executive Board is responsible for assessing the foundation's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Executive Board should prepare the financial statements using the going concern basis of accounting unless the board either intends to liquidate the foundation or to cease operations, or has no realistic alternative but to do so.

The Executive Board should disclose events and circumstances that may cast significant doubt on the foundation's ability to continue as a going concern in the financial statements.

Members of the Board who are not members of the Executive Board are responsible for monitoring the process of financial reporting of the foundation.

#### **Our responsibilities for the audit of the financial statements**

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgement and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the foundation's internal control;
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board;
- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the foundation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a foundation to cease to continue as a going concern;
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures; and
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

Amsterdam, June 28, 2018

RSM Netherlands Accountants N.V.

was signed drs. W.J.O. Castricum RA

### **The Foundation**

The Foundation for Auditing Research offers the unique opportunity to bring about cooperation between researchers and audit firms for exchange in the search for the drivers of audit quality and the root causes of audit quality failures.

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