

Foundation for Auditing Research: Call for Empirical Research Project Proposals 2021

May 2021

Introduction

With this Call for Empirical Research Project Proposals 2021 the Foundation for Auditing Research (FAR) invites scholars to submit a proposal for research projects that provide academics and/or practitioners insights into audit phenomena. This note introduces FAR and provides some guidance regarding the research proposals FAR would like to receive.

What is FAR?

Established in 2015, the Dutch Foundation for Auditing Research (FAR) aims to enhance the knowledge of what makes a good audit today and to academically inform audit practices in their continuous improvement efforts. To this end, FAR facilitates original, relevant, and rigorous academic research that (a) adds to the practical insight for sustainably strengthening auditing practices and education, (b) is of such quality that it can be published in the reputable international auditing and accounting journals, and (c) is executed by the best international, multi-disciplinary research teams (contributing to the strengthening of the research infrastructure in the Netherlands and abroad).

FAR research is aimed at disseminating new academic knowledge and insights, as well as scientifically informing ongoing debates about the subject of audit quality. FAR conducts its research projects through a unique collaboration between science and practice of the auditing profession and stakeholders in the auditing field. By applying specific protocols and established methods geared towards working with confidential data, the nine affiliated audit firms provide FAR access to research data including (proprietary and publicly available) archival data and research subjects for surveys, experiments, or interviews needed for the research projects defined. With its scientific output, FAR aims to feed auditing education and sustainably bolster the auditing research community in the Netherlands and abroad. FAR disseminates this knowledge to practitioners and standard setters, regulators, and other stakeholders for practical development and improvement.

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

Research objectives and focus

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

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

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

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

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

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

Call for Empirical Research Projects

FAR empirical research projects generally have a project timeline of one to four years (depending on the scope of the research project) and include a research synthesis at the start (see guidance for proposal applications) and proactive contributions to FAR's knowledge dissemination strategy such as practice notes, society papers, master classes, and conference presentations.

In this call, FAR invites scholars to submit proposals for empirical research projects (FAR Research Program B: <https://foundationforauditingresearch.org/en/research-publications/research-projects/>) for the following three topics selected for this year and included in Table 1.

[SEE TABLE 1 ON NEXT PAGE]

Although priority is given to these three topics, FAR is also open to empirical research proposals on other research questions and topics within the research objectives and focus set-out earlier on page two of this call and that would comprise research throughout the entire corporate reporting "ecosystem" as well as research focused on audit firm management controls or speaking to audit and assurance innovations.

<i>Topics 2021 call for empirical research projects (program B)</i>	<i>Topic and illustrative questions to further inform (but not limit) the research proposal (based on the questions from practice)²</i>
<p>The expectations gap and evaluating Limperg’s “theory of inspired confidence” in today’s environment.</p>	<p>To successfully design a study geared towards audit quality it would be conducive to learn what are the key success factors for society to conclude that their expectations are met or are missed. What would be the public’s expectations of the audit profession and their trust in audit firms in the Netherlands in relation to societal risk tolerance and the cost of audit, considering that audit is a credence good? Once these factors have been identified it is important to know why society arrives at its conclusion and how the profession may better address real expectation gaps. Potential topics are: what are potentially effective measures the profession could take to reduce the expectation gap if we take the current assurance standards and level as a given? Would that require different standards? Or should auditors focus and meet societal expectations of an audit? What is the role of individual auditors and audit firms in this regard? What is the role of communications and public relations (this would include Audit communication, including AQI’s)?</p>
<p>What is the relation between the auditee’s internal controls (and the control statement), including cyber-security controls, related to audit quality?</p>	<p>From the SOX introduction we learned that auditors and auditees may differ in their opinion of the operating effectiveness of internal controls. We would like to understand how firms design their internal controls, how auditors evaluate the operating effectiveness of these controls, and based on the outcomes thereof, how audits should evolve relative to corporate accounting and control systems in the broadest sense. One avenue to advance our knowledge pertains to data science technology that can be used to identify whether controls are operating effectively, for instance process mining. Please note FAR current research projects on internal controls for incremental contribution (e.g., https://foundationforauditingresearch.org/en/research-publications/projects/2017b03-auditor-judgment-on-internal-control-quality-and-audit-quality-prof-dr-bedard/ and https://foundationforauditingresearch.org/en/research-publications/projects/2019b01-internal-control-quality-and-audit-quality-prof-dr-hofmann/).</p>
<p>Auditors’ time management capabilities and time pressure coping strategies.</p>	<p>Is audit quality related with audit professionals’ ability to allocate and manage their time (i.e., their level of time control) given inherent time-budget and deadline pressures within the profession? And if so, what time-management coping strategies may effectively support auditors’ time control and alleviate time-pressures impact on audit quality?</p>

² These are for illustration and are not intended to be leading.

Guidance for proposal applications

FAR supports research projects that adopt an interdisciplinary approach by using multiple research approaches and methods. This, for example, means that FAR would encourage a leading auditing / accounting academic to submit a project that includes researchers with a diverse background, be it in methods, and/or in research focus. Such projects would attract special attention of the review board. The rationale behind this is that FAR believes that the multi-dimensional /-theory /-disciplinary projects that potentially evolve from such teams, while embedded within institutional knowledge, would provide novel insights into the working van auditing and the into the context in which audit comes about and how they are used. Such studies by independent research groups may have a project timeline of 1 to 4 years (depending on scope of the research project). Research is preferably to cover multiple industries, including listed and non-listed companies, public sector, not-for-profits, and owner-managed-businesses.

A strong focus of the program is to expand the knowledge of how audit works in practice and which factors affect their working. To that end, support that FAR will provide for successful applications of empirical research projects may include, but is not limited to, access to (proprietary and publicly available) archival data that it collected from audit firms.³ Participating audit firms have also agreed to cooperate with survey research, interviews, experiments, and field case/event studies. FAR would expect applicants to pay specific attention to the data gathering plan at this stage already as to gauge the level of effort at the affiliated firms. Please note that final acceptance of research project proposals and commencement of the research in the field will be subject to agreement on a detailed data gathering request and plan that will be initiated and discussed for those projects that FAR (conditionally) accepts as to make sure that FAR can meet the data requirements.

In turn, FAR strongly believes that academics should share and discuss their findings to inform professional and public policy making. Therefore, all FAR research projects start with a FAR “Practice Note” and a “Research Synthesis” (FAR research program A). The idea of a FAR **Practice Note** is that academics discuss what they already know from new or existing research about current issues and questions in practice, are geared to academically inform the current professional and public debate with regard to the audit profession in the Netherlands and have an expected completion timeline of **3 months** after commencement of an empirical project. FAR Practice Notes are concise

³ Over the past years FAR started a large number of archival studies using data from audit firms. In order to optimize data collection it is therefore that priority may be given to finish data collection for the projects that have commenced already before starting (large) archival data gathering efforts required from the audit firms for incoming projects.

notes (a brief research synthesis of maximum 2,000 words, preceded by a 200 words executive summary) that aim at informing stakeholders, and make practical recommendations relevant to audit practitioners, audit firm management, standard setters, regulators, or other stakeholders to the auditing profession. A FAR **Research Syntheses** is intended to unlock what we already know from science (in accounting and in other fields) about a specific question and potential interventions that can be suggested to strengthen audit quality and have an expected completion timeline of **6 to 9 months** after commencement of an empirical research project. A FAR Research Synthesis should have the potential to be published in one of the leading accounting journals.

While FAR does not intend to impose undue constraints on meaningful research, some of the criteria that will be used to determine successful applications for support include:

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

Application Procedure

Research groups in accounting and auditing are invited to submit a written proposal to the Scientific Committee of FAR **not later than September 15th, 2021**. The Scientific Committee will evaluate the proposals and make a recommendation for support to the Board of FAR. The final decision regarding support will be made by the Board. During the admission process, FAR may ask the research groups to elaborate on their data needs. Such a request may be necessary to ensure the appropriate support

from participating audit firms and *does not in itself signal that the project will be accepted*. The Board may conditionally select the projects and notify all applicants accordingly. FAR will subsequently work with the selected applicants towards a final research proposal. Application forms may be downloaded from the FAR website: <http://www.foundationforauditingresearch.org/>.

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

What may FAR funds be used for?

While FAR will support the research groups in gaining access to public data and the appropriate data from the participating audit firms, FAR is, under certain conditions, also prepared to fund research projects financially should the research group wish to be funded. Research groups may submit research proposals that include expenses for both established academics and PhD candidates. In the case of established scholars, FAR funds are intended to be used to acquire release time at their home university. Such funds can be used at different universities and internationally if appropriate. In addition, funding may include coverage of travel costs (up to € 6,000 a year per core team member to visit designated international conferences and the like) and / or support for research assistants.

When PhDs are included, the home university must demonstrate a clear willingness to provide joint support for the student (i.e., FAR support is not intended to cover 100% of the cost of a doctoral student). In cases that includes PhDs, FAR funding can be awarded for a period of one to five years, or until the student completes his or her thesis, whichever comes first and depending on the nature of the project. Project funding may include salary and travelling costs that a student typically has to make. In addition, FAR may cover 5% of the salary costs of the supervisor for each student he/she supervises (for the period concerned). The university may claim a maximum of 25% of the project related salary costs to cover other project-related costs. Office space and overhead costs will not be funded by FAR.

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

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