

Foundation for Auditing Research: Call for Empirical Research Project Proposals 2023:

Topic I: Audits in the mid-size segment

December 2022

Introduction

With this Call for Research Project Proposals 2023 the Foundation for Auditing Research (FAR) invites scholars to submit a proposal for research projects that provide academics and/or practitioners insights into auditing by Mid-size audit firms. This note introduces FAR and seeks to provide some guidance regarding the research proposals FAR would like to receive.

This **call I** is on auditing in the mid-size segment. The call is the result of a joint working group of academics and practitioners and seeks to investigate: (1) Audit and Assurance Services for Owner-Managed Businesses, (2) Audits of Less Complex (and / or Smaller) Entities, (3) Learning Climate in Mid-size Audit Firms, (4) Tier-based Market Response on Audit Regulation. In Table 1 we further elaborate on potential research questions.

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.

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).

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.

Call for Research Projects on Audit Innovation

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 research projects (FAR Research Program B: <https://foundationforauditingresearch.org/en/research-publications/research-projects/>) for the following four topics selected for this year and included in Table 1.

[SEE TABLE 1 ON NEXT PAGE]

Table 1: description of the research areas and research questions on auditing in the mid-size segment

Topics 2023 call for research projects on auditing in the mid segment (program B)	Topic and illustrative questions to further inform (but not limit) the research proposal (based on questions from practice)
1. Audit and Assurance Services in the Owner-Managed Businesses [OMB] segment	<p>What do stakeholders expect from the “economic service” of the audit in the OMB segment (where ownership and management are not separated)? Also in this context:</p> <ul style="list-style-type: none"> a. Who are the stakeholders – and what do they expect? b. What are commercialism and professional identity (or pride) in relation to audit quality and the value / reputation of the audit firm? c. How do audit and advice (vs audit-only) relate to one-another in relation to audit quality in the OMB segment?
2. Audit of Less Complex (and / or Smaller) Entities	<p>Audit for smaller / “less-complex entities”: what is the effect on the organization of the auditee that (based on the size criteria for mandatory audit laid down in Dutch corporate legislation) makes the step from voluntary to the mandatory audit? Also in this context:</p> <ul style="list-style-type: none"> a. What is the “quality of the auditee” in the context of the audit of “less complex entities”. b. Do the “costs” outweigh the added value of “full scope” audit – or are “different services & different standards for different purposes” justified (e.g., compilation activities, voluntary audit, free market forces, etc.)? c. Does the “risk” for the auditor outweigh the added societal value of an audit? What is the auditor’s professional potential instruments (in assurance and compilation services) for such entities’ audits (for example, in the continuum of audit-related services: what is the societal value of the “compilation statement”)?

<p>3. Learning Climate in Mid-sized Audit Firms?</p>	<p>What are conditions for (mid-sized) audit firms for “error-climate”? Is there a better learning environment compared to other (larger) firms? What is the effect of audit regulation?</p> <p>a. Errors in the Mid-Market segment may be less consequential and/or visible. Does this result in more opportunities for the emergence of a “learning organization”? In other words: Is it the “institutional context” (large versus mid / small segment) that is detrimental for a “learning climate” to emerge?</p> <p>b. What role do culture, leadership, and team dynamics play in this? How do other professions in a comparable institutional context do that (e.g., the medical professions, aviation, etc.)?</p> <p>c. Effect of “learning organization” on audit quality? Ratio accepting mistakes and taking responsibility for the work done?</p>
<p>4. Tier-based Market Response on Audit Regulation</p>	<p>What are the market responses to (recent changes in) audit regulation and consequences thereof for mid-sized audit firms and their auditees (e.g., “downstream” effects of de-selecting clients by larger firms on the quality and risk profile of client portfolios in the Mid-Market audit segment?</p> <p>Are the firms de-selecting “risky clients”? If negative effect, what possible effect does a “auditor appointment / designation obligation” have in this? What is the auditor's repertoire of actions in terms of risk appetite and mitigating or compensating audit procedures?</p>

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.² 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 **9**

² 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.

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

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, MIS, Management Science, 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 1 March, 2023**. The FAR board will evaluate the projects and will seek the advice of academic reviewers to decide on the project proposal. 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 Frank Verdouw 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**