

Foundation for Auditing Research: Call for “Thematic Research Program” Proposals 2021

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Introduction

With this Call for “Thematic Research Program” Proposals 2021 the Foundation for Auditing Research (FAR) invites departments and scholars to submit a proposal for a research program geared towards audit research themes that require an interactive dialogue and knowledge exchange between practice and science to develop a coherent series of empirical research projects. A FAR Thematic Research Program should add to achieving FAR’s objectives of stimulating in depth, relevant, and coherent audit quality research, increasing knowledge dissemination, and strengthening the auditing research faculty and community in the Netherlands through support of research financing and data access. This note introduces FAR and provides some guidance regarding the thematic research program 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 “Thematic Research Program” Proposals

In this call, FAR invites University Auditing Research Departments to submit proposals for a “Thematic Research Program”. The themes that FAR would like to develop over a period of time currently are:

1. **Audit quality within the corporate reporting and assurance supply chain (eco system).** Audit quality is an inseparable part of the entire corporate reporting and assurance supply chain. For example, in recent papers we have seen that auditors are not always able to convince the auditee when the firms makes a potential mistakes in their treatment of relevant events. Hence, auditing is an economic service in a “collaborative effort” – an economic service wherein the relevance of auditing is in the joint production of reliable corporate information. This raises questions like: How decisive is a good relationship with the auditee for audit quality? What is the role of “those charged with governance” at the auditee on audit quality? Isn’t the auditor’s knowledge and collaboration with the auditee – rather than independence – that actually drives audit quality? We know little of how these dynamics in the “ecosystem” evolve and interact in relation to audit and financial reporting quality.
2. **Audit firm Quality Management Systems and audit quality.** Many research projects are still focused on the dynamics within the specific audit team. It may be good if several projects focused on the issues that the firms should pay attention to when setting up the quality management / control system (QMS). For example:
 - a. Factors that influence the effectiveness of OKB / hot reviews.
 - b. AQIs which should be monitored (as a minimum) at office level to identify risks of non-compliant files in a timely manner.
 - c. Centralization versus decentralization of quality controls and their impact on audit quality.

Please note that FAR will be able to commit to one “Thematic Research Program” this year.

While FAR’s intention is to develop both or additional themes, it may be that FAR will (re-)issue this year’s and / or extended call(s) in the year(s) to come.

Guidance for proposal applications

The application criteria and profile can be detailed as follows:

1. The FAR “Thematic Research Program” is geared towards audit research topics that cannot be captured in FAR’s regular singular empirical research projects, but that require an interactive dialogue and knowledge exchange between practice and science to develop a coherent series of empirical research projects. FAR therefore expects the Principal Investigator (i.e., the Program Chair) to develop the theme in close collaboration with the audit practice in the Netherlands as to assure both the academic and the practical contribution of the theme.
2. To stimulate knowledge exchange between academia and practice, the Principal Investigator is invited to install and chair a “Joint Working Group”² with a mix of academic and practitioner delegates (with organizational support by FAR). The academics would generally comprise the multidisciplinary research team that the Principal Investigator wishes to compose. The audit practitioners in the JWG may comprise, for example, the five FAR Firm Board members and / or the Heads of Audit of the nine affiliated audit firms the firm board members. This meeting structure will provide the Principal Investigator with direct access to and high-quality interaction with the executive levels of the audit firms to inform his / her research. In addition, the Principal Investigator is invited to meet and collaborate with the FAR Liaisons of the affiliated audit firms.
3. A FAR “Thematic Research Program” is expected to result in a coherent series of related empirical research projects (FAR Research Program B projects³) to be developed under the program. FAR anticipates committing to potentially three of such projects. Each sequential B-project and release of related funding and support for data (see below) is dependent on progress on previously funded projects and subject to FAR Board approval separately over time.
4. The maximum funding FAR attaches to a “Thematic Research Program” would be EUR 600,000 for a period of four to five years. FAR expects at least an additional 1/3rd university co-funding (i.e., EUR 300,000 on top of the FAR grant). While all funding is to be directly project related, the FAR grant would consist of two parts:

² FAR’s “Program C” structure: C-projects are our design oriented joint working group projects for the more pervasive, all-encompassing practical questions and dilemmas, 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.

³ <https://foundationforauditingresearch.org/en/research-publications/research-projects/>

- a. Funding of base research “infrastructure” at commencement to create structured research time amounting to EUR 300,000 (plus university co-funding). This sponsoring is intended to “create” pure research time for the Principal Investigator and PhD student(s)⁴; additional research time is allocated by the Department under its normal rules.
 - b. Funding for each of the potentially three related empirical research projects amounting to EUR 100,000 each (plus university co-funding), which funding FAR will release upon approval by the FAR board of each project over time.⁵
5. 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, the Principal Investigator and research team will get access through FAR to audit firm data, similar to other FAR research project teams. Such access may include, but is not limited to, access to (proprietary and publicly available) archival data that it collected from audit firms. Participating audit firms have also agreed to cooperate with survey research, interviews, experiments, and field case/event studies. Longitudinal and cross-sectional research could be of specific relevance to study the effectiveness of interventions taken in the firms and the profession. Research is preferably to cover multiple industries, including listed and non-listed companies, public sector, and owner-managed-businesses. 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 access to data will be subject to agreement on a detailed data gathering request and plan per each related research project that will be initiated and discussed as to make sure that FAR can meet the data requirements.
6. A FAR “Thematic Research Program” is expected to contribute FAR’s research and knowledge dissemination agenda as FAR strongly believes that academics should share and discuss their findings to inform professional and public policy making. Such activities and milestones relevant to a specific Thematic Research Program (and each of the related empirical research projects) would include, but are not limited to, the following:
 - a. Contribution to FAR’s knowledge dissemination strategy through society papers, practice notes, master classes, and other channels considered appropriate for the Research

⁴ FAR connects sponsoring to new (Dutch) PhD students in auditing (i.e., future audit research faculty). Therefore, a FAR “Thematic Research Program” sponsoring includes the recruitment or involvement of a number of PhD students.

⁵ 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 and students. Office space and overhead costs will not be funded by FAR.

- Program. Such dissemination is expected to occur on a regular basis for the start the program.
- b. Production of FAR working papers that are publishable in the highest possible journals. In addition, each of the related empirical projects are to start with a “Research Synthesis” (FAR research program A)⁶.
 - c. Adaptation of existing and future research to the Dutch market specifically. Such work should result in papers that can be distributed to interested parties within the Netherlands (in Dutch and English).
 - d. Teaching and professional education materials.
7. FAR supports “Thematic Research Programs” 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 research program that includes researchers with a diverse background, be it in methods, and/or in research focus. 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.
8. The FAR “Thematic Research Program” is furthermore geared towards expanding the research pool in the Dutch auditing research community. Therefore, the Principal Investigator 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 field (provided that institutional knowledge is present). FAR invites Audit Research Departments to recruit and select potential Principal Investigators who are capable to take ownership and develop the full potential of a theme with a multidisciplinary team. While FAR does not intend to impose undue constraints on recruitment, potential candidates for Principal Investor for a FAR “Thematic Research Program” would have a strong track record of publication in world class journals (including, but not limited to, *JAE*, *JAR*, *TAR*, *CAR*, *AOS*, *RAST*, and *AJPT*). The Principal Investigator is encouraged to seek collaboration with one or more talented junior researchers at his/her discretion (e.g., PhD students, assistant

⁶ 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.

professors, etc.). For international scholars, collaboration with at least one person employed at a Dutch university is highly recommended and preferred. Given the central role of the Principal Investigator to develop the “Thematic Research Program” FAR will have some involvement into the recruitment and selection process. This involves, amongst others, that the Principal Investigator will be invited to present his / her proposal to the FAR Board as part of the selection process.

9. A FAR “Thematic Research Program” will be subject to annual review by the FAR Board based on FAR’s regular progress monitoring towards to be agreed upon milestones and deliverables over a multi-year period.

Application procedure

To apply for a FAR “Thematic Research Program” you are invited to submit a written proposal to the Scientific Committee of FAR before September 15th, 2021. An application should entail an outline on how to develop the theme and the related empirical research projects and the research team the Principal Investigator composes. The first of these research projects should be concretely developed, which can be finetuned in collaboration with practice in a first Joint Working Group meeting(s). Such an application should contain a clear and substantiated statement on the willingness and commitment of your Department to co-sponsor the program.

The Scientific Committee will evaluate the proposals and make a recommendation for support to the Board of FAR. During the admission process, FAR may ask you to elaborate on their application. The Principal Investigator will be invited to present his / her proposal to the FAR Board as part of the selection process. The decision regarding support will be made by the Board before December 31st, 2021 (FAR will subsequently reach out to you regarding the actual recruitment and selection process).

Please send your application form, including appendices, to Olof Bik and Jan Bouwens at info@foundationforauditingresearch.org. Applicants will receive a confirmation of their submission. Please do not hesitate to contact us if you have any enquiries. We sincerely hope you are willing to consider applying.