



FOUNDATION FOR AUDITING RESEARCH

ANNUAL REPORT

Financial year from 1 January 2021 up
to and including 31 December 2021

Stichting Foundation for Auditing Research
Straatweg 25, 3621 BG Breukelen, the Netherlands

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RESEARCH





“Strengthening the audit profession’s learning curve”

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PREFACE

We are pleased to hereby present the sixth annual report of Stichting Foundation for Auditing Research (“FAR”).

ABOUT STICHTING FOUNDATION FOR AUDITING RESEARCH

Established in 2015, Stichting 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. In a swiftly changing context regarding expectations and demands, FAR facilitates rigorous academic research with practical relevance to the auditing field and to inform public policy making regarding the auditing profession.

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 pursues these objectives by researching the drivers of audit quality, by collaborating with other research institutes internationally, and by sharing its findings through research conferences and masterclasses.

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FAR is aware of its sensitive position, conducting academic research in the context of the auditing practice

FAR conducts its research projects through a unique collaboration between science and practice, resulting in a continuous strengthening of the learning curve of audit professionals and stakeholders in the auditing field. By applying specific protocols and established methods geared towards working with confidential data, the affiliated audit firms and departments provide FAR access to research data including research subjects needed for the research projects defined. With its scientific output, FAR aims to feed auditing education and to sustainably bolster the auditing research community in the Netherlands and abroad.

THE FAR CODE OF INDEPENDENCE APPLICABLE TO ALL FAR RESEARCH AND RESEARCHERS

FAR is an independently operating scientific research institute, committed to delivering excellent academic research, conducted by the best academics within the audit field. FAR is founded to academically inform the development of the audit profession through academic research in collaboration with the affiliated audit firms. FAR is aware of its sensitive position, conducting academic research in the context of the auditing practice, in collaboration with and funded by leading auditing firms. To secure our autonomous position, the FAR Board Members, Staff and Researchers adhere to the FAR Code, encompassing 3 guiding values:



FAR focuses on the audit function at audit firms, businesses, and government bodies

1. Academic

All FAR Academic Research must be rigorous, traceable, objective, and transparent. All FAR Research Projects are therefore commissioned externally to (inter-)nationally and independently operating research teams. The researchers are subject to the ethical and independence principles of the **Netherlands Code of Conduct for Scientific Practice** (Version 2014). All research publications are subject to and comply with the academic journal standards, amongst which double blind peer review.

2. Rigorous

FAR publishes scientific outcomes and findings ‘as is’. FAR publications are intended to provide the audit profession with objective academic research outcomes, regardless of the impact it may have on the profession or audit firms. FAR intends to be the objective source of scientific accurate information to inform the professional development and public policy making regarding audit quality.

3. Autonomous

FAR operates autonomously from its funding partners. The four academic board members and the independent Chair of the board hold the majority of the votes. The board members representing the funding partners hold a minority of the votes.

COOPERATION WITH THE NINE LARGEST AUDIT FIRMS OF THE NETHERLANDS

FAR focuses on the audit function at audit firms, businesses, and government bodies. 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 a minimum grant of EUR 50,000 or more. Other parties wanting to contribute, either by providing research data or financial means, are welcome as sponsors.

The eight largest audit firms in the Netherlands (Deloitte, EY, KPMG, PwC, Baker Tilly, 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 ended their affiliation per 31 December 2020. Flynth joined as per 1 January 2018. This again underlines that FAR is focused on profession-wide research questions, including those in small and medium sized organizations and owner managed businesses. With the nine largest audit firms of the Netherlands providing data access and EUR 1.55 million of financial support annually, FAR is a unique collaboration between practice and science in the auditing profession, both in the Netherlands and globally.

As from 1 January 2021 FAR continues in its 2nd five-year term for the period of 2021 to 2026 with nine affiliated firms.

HIGHLIGHTS FOR 2021

BELOW ARE THE KEY HIGHLIGHTS FOR 2021:

- **January 2021:** The Foundation for Auditing Research and MAB organized a roundtable meeting on Monday 25 January 2021, with various stakeholders to discuss Audit Quality Indicators (AQIs). How do we measure audit quality and who uses such measures?
- **March 2021:** The Monthly Bulletin for Accountancy and Business Economics (MAB) devoted an issue to the Audit Quality Indicators (AQIs), based on discussions from the roundtable meeting.
- **May 2021:** Aimed at enhancing knowledge exchange between academia and practice and academically informing practitioners and (public) policy makers in their continuous improvement efforts with regard to the auditing profession, the Foundation for Auditing Research issued two Calls for Research, our regular yearly call for research projects, this year focused on three specific topics and thematic based research projects, focused on (1) "Audit quality within the corporate reporting and assurance supply chain (eco system)" and (2) "Audit firm Quality Management Systems and audit quality."
- **June 2021:** On Monday 21 June, the annual conference of FAR took place, again in an online setting.

The conference consisted of four sessions, with 'The Human Factor' as the overarching theme: the human influence that can lead to both improvements and deteriorations in auditing. The first three presentations concerned FAR studies. The fourth was about a recent integrity study based on US data. As per June 1st, Mrs. Jeanine Lemstra joined the Foundation for Auditing Research as its Director of Operations, leading the daily operations of FAR.
- **September 2021:** On September 10 and 11, the EARNet 2021 conference was organized. EARNet is one of the important audit research conferences and was organized this year by the VU - albeit virtually. Anna Gold, Philip Wallage and Kris Hardies had the central organization. Joseph Brazel, Anna Gold, Justin Leiby and Tammy Schaefer were named the winners of the Best Paper Award, at the EARNet conference. The winning paper is titled, "Can Audit Committee Support Improve Auditors' Application of Professional Skepticism?" based on their 2018 FAR project.
- **December 2021:** The Netherlands Institute of Chartered Accountants (NBA) organized the webinar 'Continuity: our common interest', on the role of the external accountant in the (dis) continuity of organizations, on December 9, during which results from various parts of the research conducted were shared, including the data analysis conducted by FAR on bankruptcies between 2012 and 2020.
- **Research Grants:** During 2021 FAR has committed €520.000 to various research projects, which are discussed in more detail on page 26. In summary these relate to one PhD project from our PhD program, two new empirical research projects and three additional endowments to ongoing projects.



The mission of FAR continues to be
to enhance the knowledge base of
academics and practitioners in auditing

A photograph of a group of people seated in rows, likely at a board meeting or conference. In the foreground, a woman with blonde hair and round glasses is smiling and clapping her hands. To her right, a man in a plaid shirt is also clapping. Other people are visible in the background, some with their hands raised. The lighting is bright, and the overall atmosphere appears professional and engaged.

BOARD REPORT

AN OVERVIEW FROM THE FAR BOARD

The year 2021 was an important year in transitioning from FAR's sowing to harvesting phase. Despite the challenges presented by COVID-19 restrictions we were able to continue our work through virtual meetings and online collaboration tools. When our foundation started, back in 2015, for a substantial part practice and science were two worlds that were not systematically in dialogue with each other. Fortunately, through FAR we have now managed to ensure that science and practice communicate and cooperate more. Such an initiative is unseen and unprecedented anywhere else in the world and as a result top auditing researchers from all over the world are happy to work with FAR.

Given the fact that we have already been 'in business' for quite some time now, obviously our stakeholders are eagerly waiting to see what we can do with all that research. The first strategic spearhead that we set ourselves at the start of our second five-year term, *speeding-up communication and knowledge dissemination*, as to evidence-inform the professional and public debate and policy making, is taking shape.

Over 30 research projects are now underway. Research production has clearly picked up in the past two years. The first literature reviews and papers have been published. And now, the first projects are starting to evolve that use firm data that were complex to unlock. The second strategic spearhead, *taking fruit of data gathering efforts of the firms, the researchers, and FAR through a proactive data strategy as to be able to answer research questions more efficiently*, is essential in this regard. Therefore, FAR has again invested this year in further developing the data library.

Regarding the third spearhead, *moving towards more coherent and multi-disciplinary research programs or themes and optimize a project-portfolio as to assure timely research data gathering*, this year we focused our Call for Research projects on "Audit quality within the corporate reporting and assurance supply chain (eco system)" and "Audit firm Quality Management Systems and audit quality".

This year, we again organized several masterclasses, and our annual international conference was the first conference that consisted almost entirely of presentations based on FAR research. Moreover, in 2021

we started to regularly review relevant research from outside the FAR and outline what practice can do with that research. We believe that sharing knowledge with the profession is essential.

In the course of 2021, it was discovered that the data transformation tool which is used to ensure that data is properly anonymized had incorrectly transformed certain data points due to incompatibility between US and European decimal notations. After profound investigation it became clear that six research teams had used this data. Fortunately, theirs was work in progress, so that they did not have to withdraw papers already submitted. However, they had to redo their analyses, using correct data, which caused some delays.

On June 1st, Mrs. Jeanine Lemstra joined FAR as its Director of Operations to lead the daily operations and have the responsibility, jointly with the Executive Board and the FAR team, to give substance to this next phase and ensure high-quality, state-of-the-art operational services in support of the FAR's strategy.

We trust that the audit practices, the NBA, politicians, and the press will be able to find FAR even better and that the release of more generated knowledge can be used in practice to improve audit quality.

Finally, I would like to thank all FAR staff for their continued commitment, which remains foundational to successfully executing our mission. We also want to give a special word of thanks to all researchers for their hard work and to Nyenrode Business University for their practical support in 2021.

On behalf of the board of the Foundation for Auditing Research



Prof. dr. Henriëtte Prast

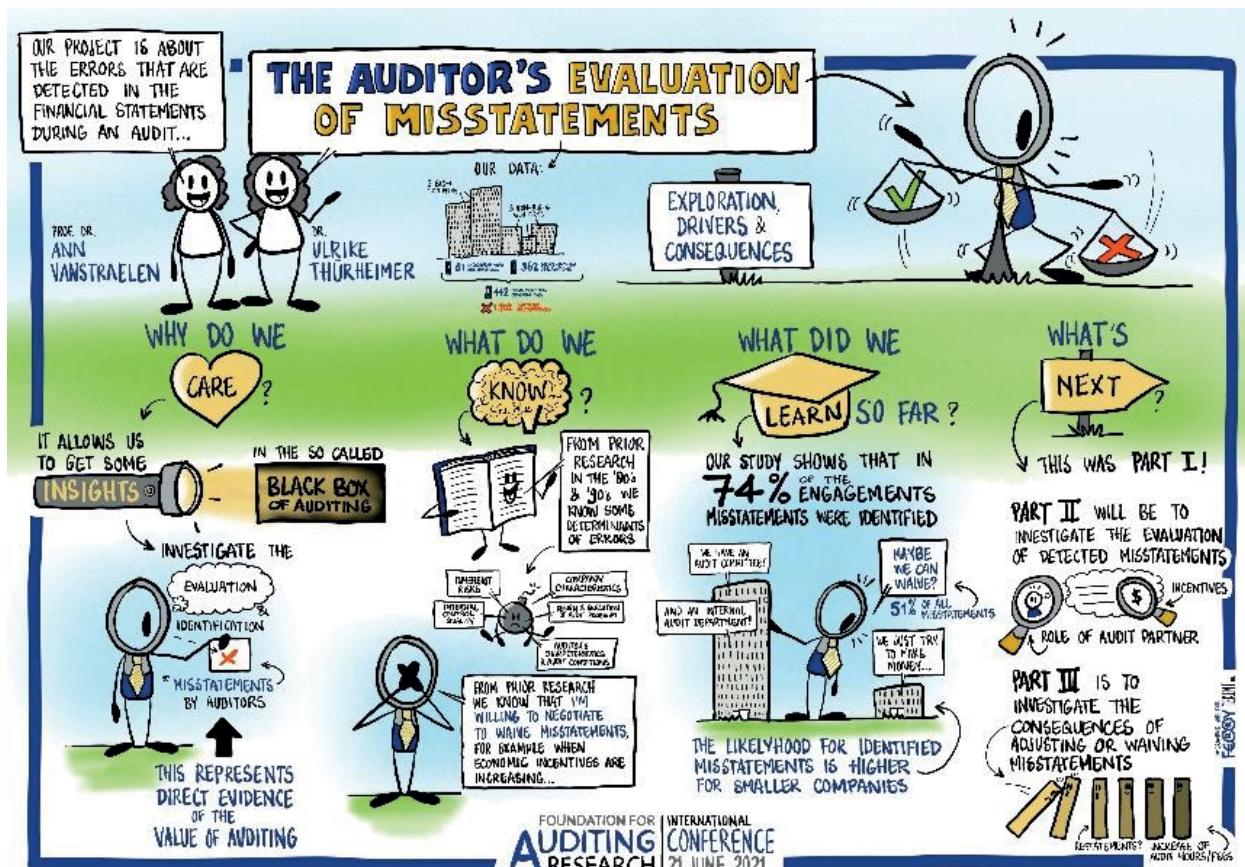
Chair of the board

KNOWLEDGE DISSEMINATION TO ACADEMICALLY INFORM THE DEVELOPMENT OF THE AUDITING PROFESSION

Whilst stimulating knowledge exchange and research aimed at gaining new insights, FAR also focuses on unlocking existing knowledge with the objective to contribute to evidence-informed policy development of the auditing profession.

FAR notices regularly that there is a great need for knowledge. Academics are still sometimes guided by what the media write about auditors. At the same time, auditors sometimes have no idea what has been researched regarding auditing. We therefore devote the annual conference to important topical subjects, through which FAR wants to show both academics and auditors from the field what we already know about

these subjects. Whereas the past few years have been dominated by knowledge creation, we now want to put more emphasis on the dissemination of knowledge. Currently, this is done, amongst others, through our annual conference, Masterclasses, via podcasts, working papers, practice notes, newsletters, and contributions to the professional and public debate on important topics in the profession.





THE ANNUAL FAR CONFERENCE 'AUDITING – THE HUMAN FACTOR'

On June 21, 2021, the Foundation for Auditing Research (FAR) organized its annual conference. Forced by the global health conditions the conference was organized online. That did not stop professionals and practitioners from signing up, for we welcomed 200 audit research enthusiasts, from all over the world. The audience was comprised of 50 percent academic researchers, 35 percent were practicing auditors and the other 15 percent were a mix of regulators, standard setters, and other interested parties.

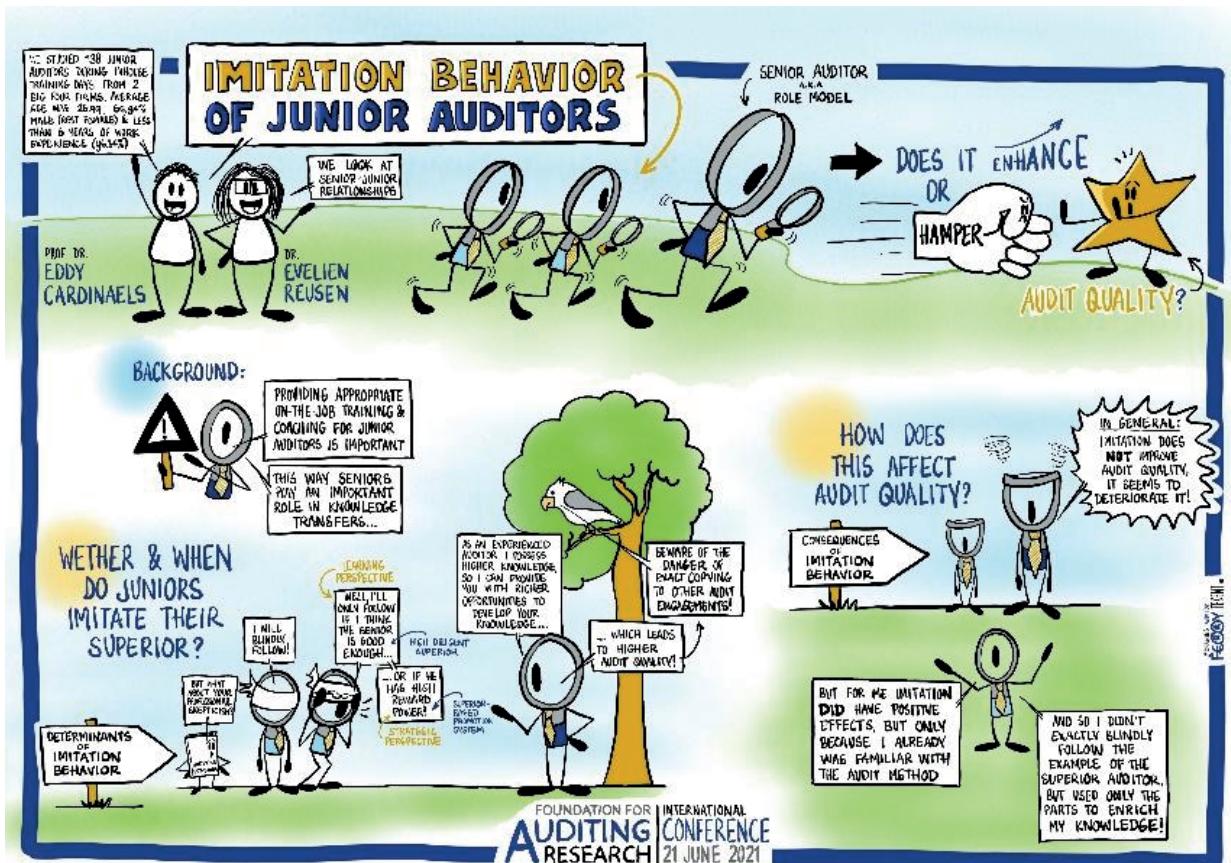
The conference consisted of four sessions. The first three presentations were related to FAR studies. The fourth study was about a recent integrity study, based on American data. The overarching theme of the conference was 'The Human Factor', stressing the important fact that human influence can lead to both improvements as well as deterioration of audit quality.

1. Ann Vanstraelen and Ulrike Thürheimer reported the first findings of their study on audit differences in the Netherlands. The results show, among other things, that almost three quarters of the audits contain audit differences. On average, about four audit differences are found per engagement. The fewest

audit differences are found in the financial services industry. Seventy percent of the audit engagements contain unadjusted audit differences. In 35 percent of the engagements, all audit differences remain unadjusted. More than 50 percent of all audit differences are not adjusted. It is also worth mentioning that 99 percent of the audit differences are classified as unintentional (i.e. errors). Most of the differences consist of factual inaccuracies. The audit engagements without audit differences concern larger companies (including public interest entities), with better governance (presence of internal audit department, supervisory board and audit committee). The presence of audit differences is positively correlated with the duration of the audit engagement, the provision of non-audit services and the tenure of the partner. The variation in the results indicates that the human factor plays an important role.

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It is good to see the bigger picture. It is all about the question how we get from A to B



2. Reggy Hooghiemstra presented a study on the relationship between the extent to which an auditor is embedded in a network and the auditor's compensation. If an auditor has more relationships with other auditors in the office, it leads to greater knowledge, which in turn may lead to higher compensation. Hence, the idea is that a higher salary is an indication of the quality of the work delivered. The findings of this study show indeed that more 'clustering' with other people leads to a higher salary. As a practical implication, it might not be wise to let auditors specialize too early in their careers. This will work against building up a solid network (and thus the acquisition of broad knowledge). Being part of multiple teams has a positive influence on both the network and the knowledge of young auditors. However, too much clustering is also not desirable. It can lead to information overload and excessive coordination costs. The study illustrates how important it is that accounting firms think about the content of the accountant's work at different points in the career, such as specialization.

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We learn from each other. That is inherent to, and necessary in, the audit process

3. On-the-job training and coaching are essential tools for the knowledge transfer from experienced auditors to junior auditors. This is also being recognized by standard setters and regulators. This study, by Eddy Cardinaels and Evelien Reusen, examines whether junior auditors show imitation behavior and whether such behavior has a positive or negative influence on audit quality. Junior auditors are expected to imitate more if they have a 'high-diligent' supervisor who also performs their performance assessment, in contrast with a 'low-diligent' supervisor. The results are encouraging in that junior auditors are not susceptible to blindly imitate a 'bad' role model, but instead they are more likely to imitate the 'good guy' in a fair value estimation task. This effect is even greater if the 'good guy' also performs the assessment of the junior, providing evidence for the effect of promotion incentives. Imitating a diligent superior also leads to higher audit quality, but only if juniors are sufficiently familiar with the task.
4. Shane Dikolli presented a study on measuring the integrity of CEOs (published in The Accounting Review in 2020). According to Dikolli, integrity in the accounting profession has received too little attention in the literature. Although, there is a growing body of research into the way executives

behave verbally during earnings calls with analysts, Dikolli's research team takes a broader view. They examined more than 30,000 letters to shareholders. In the texts of these letters, they analyzed the words used to indicate causality, such as 'because', 'result' and 'based on'. The researchers have mapped out this type of causal construction for a large set of shareholder letters. They then examined statistically to what extent the factors that could logically explain the use of causation words actually do so. The part that is not explained by the formula gives an indication of the integrity. In their study, the researchers look, among other things, at whether the integrity scores are related to the employees' opinion regarding the integrity of the CEOs in question. There appears to be a correlation. An encouraging result of the study is that audit fees go up when the integrity score of the CEO decreases. Also, the integrity score is not related to lawsuits. The conclusion can be that auditors respond adequately to a reduction in integrity. Current information technology offers attractive possibilities to calculate these types of integrity scores, based on large data sets. This information can be an important input for the audit.

ONLINE REPORTS OF THE CONFERENCE

We have published an online report of the conference, which contains summaries of all the FAR project presentations of preliminary research findings with their Q&A sessions, as well as the keynote speech. You can find the full report on the FAR website under **Research & Publications/Publications/Conference Proceedings**. You will also be able to find the full videos and presentation slides, on the website under each of the separate research project pages: **Research & Publications/Research Projects**.

FAR MASTERCLASSES

In 2021 FAR hosted several Masterclasses with researchers that are currently involved in FAR projects. The aim of these Masterclasses is to stimulate knowledge exchange and interaction between science and practice and to share (intermediate) research findings. Due to the persistent Covid pandemic, we were again forced to host these Masterclasses as online events. However, this has proven to be a popular way of sharing knowledge and has received positive feedback as it allows participants from abroad to join in as well, resulting in higher attendance and active discussions, for example in the chat function.

Generally, we welcomed up to 40 participants for each Masterclass, of which a large part were practitioners.

The following Masterclasses were organized:

- Does the private owner-managed firm audit market serve a different purpose? – Prof. dr. Jeroen Suijs
- The drivers and impact of audit committee involvement on audit quality – Prof. dr. Ann Vanstraelen and Prof. dr. Ganesh Krishnamoorthy
- Internal control quality and audit quality – Prof. dr. Christian Hofmann
- Improving the quality of global group audits: do group auditor involvement and component auditor involvement matter? – Prof. dr. Anna Gold and Ass. Prof. Andrew Trotman

Full Masterclass reports, videos and podcasts can be found on FAR's website under: **Events/Past Events**.

MASTERCLASS "DOES THE PRIVATE OWNER-MANAGED FIRM AUDIT MARKET SERVE A DIFFERENT PURPOSE?"

On January 22, 2021, Jeroen Suijs presented an online masterclass concerning his study 'Does the private owner-managed firm audit market serve a different purpose?"

Much existing research in the field of auditing looks at the outcomes of the audit, for example audit quality. In their FAR research, however, Professor Jeroen Suijs and his team look more at the 'production side' of the audit, at the inputs: what services does the auditor perform and how are they linked to the mix of work the auditor performs and to the audit fee?

The basic question underlying the study is whether different types of companies require different audits. And this is particularly about DGA companies versus PIEs. The idea is that the internal and external value of an audit differ between those two groups of companies. The internal value of the auditor's activities is expected to be (relatively) greater for DGA companies than for PIEs. This is also expected to influence the relationship of the internal value with, for example, the 'labor mix'. The first results show that the time spent with PIEs is relatively larger at the end of the year and with DGA companies during the year. Further analyses will follow after all data have been collected. The findings potentially touch on Auditing Standards and the training program.

MASTERCLASS “THE DRIVERS AND IMPACT OF AUDIT COMMITTEE INVOLVEMENT ON AUDIT QUALITY”

On Friday 5 March 2021, Ann Vanstraelen (professor of Accounting and Assurance Services at Maastricht University) presented an online Masterclass on the drivers and impact of audit committee involvement on audit quality. The related FAR-project is executed together with research team members Rogier Deumes, Ganesh Krishnamoorthy, Caren Schelleman and Ulrike Thürheimer.

The preliminary results are promising. Based on the survey responses, analyses show that both audit partners and audit committee members associate the relative power of the audit committee (as opposed to management) and social cohesion within the audit committee to higher audit committee involvement. Interestingly, higher audit committee involvement is significantly correlated with joint audit input, process and output. For example, audit committee involvement is correlated with the level of support the auditor gets from the audit committee and with the overall quality of the external audit. This is particularly relevant when disagreements arise. From an audit partner’s perspective, greater audit committee involvement indicates a lower amount of significant risk and lower materiality. Also, when companies are more profitable and have higher financial leverage, the interaction between audit committee and auditor tends to be more frequent.

To conclude, the level of audit committee involvement is important at all stages of the external audit. Audit committees should fulfill a critical and supportive role in their relationship with the auditor in order to obtain better audit quality. This seems to be in line with the more general notion that there should be cooperation and mutual trust between management, audit committee and the auditor.

MASTERCLASS “INTERNAL CONTROL QUALITY AND AUDIT QUALITY”

On Tuesday May 18th, a FAR Masterclass was presented by Christian Hofmann, Sebastian Kuhn, Jeroen van Raak and Nina Schwaiger. Except for Jeroen (who works at the University of Amsterdam), all presenters are affiliated with LMU Munich in Germany.

The masterclass is based on a related FAR-study by Christian Hofmann and his team. The study is aimed at investigating two related themes: (1) understanding the

relevance of internal control quality for audit quality; and (2) identifying an information channel that (may) allow auditors to more accurately and efficiently assess internal control quality.

The general notion is that financial analysts are highly interested in internal control quality, because that directly affects firm operations, which in turn influence future performance. This is an incentive for the analysts to gain as much information on internal control quality during the analyst meetings. Previous research shows that analysts possess superior information concerning the influence of external determinants (like macro-economic factors) on firm performance, and their internal control quality. In their FAR research project, the research team studies how the analyst knowledge concerning ‘asking the right questions’ can help auditors in assessing fraud risks.

MASTERCLASS “IMPROVING THE QUALITY OF GLOBAL GROUP AUDITS: DO GROUP AUDITOR INVOLVEMENT AND COMPONENT AUDITOR INVOLVEMENT MATTER?”

On Friday November 19th, Anna Gold (Vrije Universiteit Amsterdam) and Andrew Trotman (Northeastern University, D’Amore-McKim School of Business) presented a masterclass on their FAR-study ‘Improving the quality of global group audits: do group auditor involvement and component auditor involvement matter?’ In their study, Gold and Trotman have surveyed component auditors in the Netherlands to identify underlying root causes for the lower quality group audits and drivers of higher audit quality. They look at how engagement characteristics and coordination strategies (as well as communication behaviors) of both the group auditor and component auditor determines the audit quality of group audits, as viewed from the angle of the component auditor. The focus of the study is on group auditor involvement and communication during staffing, planning, fieldwork and review.

The findings of Gold and Trotman suggest that the key problems with group audits are similar to those that were identified by, for example, IFIAR and the PCAOB. These illustrate: the importance of (timely) involvement of the group auditor and assessment of the component auditor competence during staffing; the understanding of the component by the group auditor; and the review of the component audit by the group auditor (surprisingly, few timely review comments received). The component auditors see clear benefits of group

auditor involvement, communication and coordination throughout staffing, planning and fieldwork. These result in increased efficiency and effectiveness of the audit and in some instances even in higher comfort for the component auditor. The first major finding is that the review process by the group auditor is regularly lacking. And the second major finding of the study is the fact that inappropriate work effort may be related to insufficient budgets. According to the researchers, a group effort between group and component auditors, standard setters and regulators is needed, in order to solve these issues.

FAR PRACTICE NOTES

FAR's objective is to contribute to auditing research and thereby helping the auditing profession and auditing education to improve audit quality. This can be done by unlocking what we already know from new or existing research about current issues and questions in practice. FAR Practice Notes are concise notes that bring together rigorous informative research evidence to help auditors, audit firms, policy makers and oversight bodies make informed decisions about auditing in daily practice. FAR published several practice notes in 2021:

- **Can audit committee support improve auditors' application of professional skepticism?** by Anna Gold, Joseph Brazel, Justin Leiby and Tammie Schaefer
- **The measurement of audit quality in the Netherlands** by Tjibbe Bosman
- **Auditing: Lifelong learning** by Bart Dierynck, Kathryn Kadous and Christian Peters
- **Workload allocation process within audit firms** by Eddy Cardinaels, Ruiqiong Zhang, Amin Sofla and Simon Dekeyser
- **De rol van de accountant bij faillissementen** by Tjibbe Bosman

These practice notes can be found on our website under: **Research & Publications/Publications**.

FAR WORKING PAPERS

Several FAR projects have also reached the stage of being able to produce so-called FAR Working Papers. These working papers are the final part of the study and ultimately the aim of the research group is to have these published in reputable journals. In 2021 FAR published the following working papers:

- **Network structure and auditor compensation: Evidence from a bipartite network** by James Zhang, Reggy Hooghiemstra, Floor Rink and Dennis Veltrop. This paper has been presented at the following conferences:
 - EIASM 8th Workshop on audit quality, October 9-10, 2020 (Bocconi, Milan)
 - European Accounting Association (EAA) 37th Doctoral Colloquium (online, 24-25 May, 2021)
 - 2021 European Auditing Research Network (EARNet) PhD Workshop
 - 2022 EAA Annual Congress (Bergen)
- **The imitation behaviors of junior auditors: Does it enhance or hamper audit quality?** Eddy Cardinaels, Kristof Stouthuysen, Evelien Reusen and Viola Darmawan. This paper has been presented at the following conferences:
 - The Annual Conference 2020 of the Foundation for Auditing Research (June 2020).
 - The 2020 European Institute for Advanced Studies in Management (EIASM) Workshop for Audit Quality (September 2020)
 - The 2021 European Auditing Research Network (EARNet) Workshop (September 2021)
 - The 2022 Haskayne and Fox Accounting Conference in Whistler, Canada (June 2022)
 - The 2022 European Auditing Research Network (EARNet) Conference in Sevilla, Spain (July 2022)This paper has also been submitted to JAR
- **Bankruptcy and Auditor's Reporting in the Netherlands** by Tjibbe Bosman, Merel van der Kuip and Wim Janssen.

These working papers can be found on our website under: **Research & Publications/Publications**.



FAR conducts its research projects through a unique collaboration between science and practice in auditing

CONTRIBUTIONS TO THE PROFESSIONAL DEBATE

FAR research must lead to disseminating new academic knowledge and insights, as well as scientifically informing current public debates on the subject of audit quality.

The Foundation for Auditing Research and MAB organized a roundtable meeting on Monday 25 January 2021, with various stakeholders to discuss Audit Quality Indicators (AQIs). How do we measure audit quality and who uses such measures? The Monthly Bulletin for Accountancy and Business Economics (MAB) subsequently devoted an issue to the Audit Quality Indicators (AQIs), based on discussions from the roundtable meeting.

The Netherlands Institute of Chartered Accountants (NBA) organized the webinar ‘Continuity: our common interest’, on the role of the external accountant in the (dis)continuity of organizations, on December 9, during which results from various parts of the research conducted were shared, including the data analysis conducted by FAR on bankruptcies between 2012 and 2020.

Through these meetings and through ongoing knowledge exchange, we trust to have meaningfully contributed to the evidence-informed policy making for the future of the auditing profession.

In that context, included in Appendix 2 is the overview of research publications produced by FAR over 2021. The overview also contains links to the relevant publications.

RESEARCH AGENDA: DRIVERS OF AUDIT QUALITY

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

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

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 continuous improvement of the audit practice as well as the public debate and policy making. In FAR's view, the application of multi-disciplinary and multi-method research approaches enables the audit profession to learn from academic insights gained in other disciplines such as management, leadership, organizational, psychology, sociology, and behavioral research.

In determining the research agenda, FAR takes the perspective of the profession at large and its stakeholders throughout the entire corporate reporting and assurance supply chain. This agenda involves the following two approaches in particular: on the one hand, to unlock academic knowledge 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 organization, management, and culture of audit firms.

Research questions that FAR issues are typically the result of a process where board members collect information on what the types of questions are that audit firms and audited companies 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 topics are subsequently discussed in the board to produce final themes.

Such topics 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, 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 comprises 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.

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FAR believes that research has the potential to identify those factors that influence audit quality in daily practice

The project proposals are initially reviewed by the FAR academic board members. They prepare an advice for the board to decide on each individual project. Subsequently it is communicated to the research teams that their project is accepted as is, should be revised and resubmitted to acquire acceptance, or is rejected.

FAR's research programs can be summarised as follows:

	A - RESEARCH SYNTHESES	B - EMPIRICAL RESEARCH	C - JOINT WORKING GROUP DESIGN ORIENTED PROJECTS
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.	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.	Projects directed by the FAR Academic Board members 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.
RESEARCH SYNTHESIS	Only	Included	Included
EMPIRICAL RESEARCH	Included	Yes	Yes
FIRM DATA NEEDED	Included	Yes	Yes
PROJECT TIMELINE	6 to 12 months	1 to 4 years	1 to 3 years (depending on depth and breadth of the project)
OUTPUTS	FAR Practice Notes, Working Papers, Masterclasses, and conferences. The potential to be published in research synthesis calls of academic top journals.	FAR Practice Notes, Working Papers, Masterclasses, and conferences. The potential for multiple publications in top journals.	Similar like program B and FAR Joint Working Group meetings.

	D - CASE STUDIES	E – AUDITING RESEARCH CHAIR	F – PhD PROGRAM
DESCRIPTION	Case Studies directed by FAR Academic Board members to examine in detail a specific subject or audit case to arrive at a deep and clear understanding of the matter and mechanisms that come into play in the case (e.g., the objectives and rationale behind firms' policy decisions in relation to audit quality enhancements).	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.	The FAR PhD Program is aimed at putting auditing on the Dutch research agenda for generations to come – and with that, strategically strengthen the Dutch auditing research community being able to sustainably inform the development and policy making of the (Dutch) auditing profession – Through the PhD sponsoring program, FAR grants new PhD positions for the full four-year period and on a 50/50% basis (50% financing by FAR, 50% financing by the university) with a maximum FAR grant of EUR 100,000. The PhD topic should be closely related to FAR's research and knowledge dissemination agenda.
RESEARCH SYNTHESIS	Included	Multiple	Multiple
EMPIRICAL RESEARCH	Yes	Multiple	Multiple
FIRM DATA NEEDED	Yes (detailed case information)	Yes	Yes
PROJECT TIMELINE	6 to 12 months	At least 4 years (50/50% FAR/University funding).	4 years
OUTPUTS	FAR Practice Notes, Working Papers, Masterclasses, and conferences. The potential for multiple publications in top journals.	Intermediate: FAR Practice Notes, Masterclasses, and conferences. The potential of multiple publications in academic top journals.	FAR Practice Notes, FAR Masterclasses and conference, the potential for multiple publications in top journals.

DEVELOPMENT OF FAR'S RESEARCH PORTFOLIO

IN 2021

Based on its research objectives and criteria the FAR was able to commit € 520,000 in research funding in 2021. This amount includes gathering of publicly available research data by FAR, predominantly financial statements data, required for most research projects

currently in progress. The total investment in public data gathering amounts to €94.000. The development of our research activities can be summarized as follows – and is further detailed and illustrated per research program in the sections below.

RESEARCH PROGRAM	A						B						C						D						E						F					
Year	2021	2020	2019	2018	2017	2016	2021	2020	2019	2018	2017	2016	2021	2020	2019	2018	2017	2016	2021	2020	2019	2018	2017	2016	2021	2020	2019	2018	2017	2016	2021	2020	2019	2018	2017	2016
Beginning of period	0	1	1	1	1	0	0	25	20	16	12	6	0	2	2	2	2	3	3	2	2	0	0	1	1	1	1	0	0	5	5	3	0	0	0	
Research proposals submitted to FAR	0	0	1	0	1	0	8	13	6	8	11	16	0	0	0	0	0	0	1	0	2	0	0	0	0	0	0	0	2	4	0	0	0			
Research proposals committed to by FAR	0	0	1	0	1	0	4	7	4	4	6	6	0	0	0	0	0	0	1	0	2	0	0	0	0	0	0	0	2	3	0	0	0			
Intermediate results presented	0	1	1	0	0	0	3	6	6	3	3	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0			
Research projects completed	0	1	1	0	0	0	0	2	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		
End of period	0	0	1	1	1	0	29	25	20	16	12	6	2	2	2	2	0	3	3	3	2	2	0	1	1	1	1	1	0	5	5	5	3	0	0	
Completed projects	2	2	1	0	0	0	2	2	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		

An overview of all FAR research A and B and E projects is included in Appendix 1 of this Board Report and on our website: www.foundationforauditingresearch.org.

FAR EMPIRICAL RESEARCH AND RESEARCH SYNTHESES (PROGRAMS A AND B): NEW RESEARCH PROJECTS IN 2021

The Foundation for Auditing Research issued two Calls for Research this year (2021):

1. Call for Empirical Research Project Proposals

2021: Our regular yearly call for research projects this year focused on three specific topics:

- The expectations gap and evaluating Limperg's "theory of inspired confidence" in today's environment
- What is the relation between the auditee's internal controls (and the control statement), including cyber-security controls, related to audit quality?
- Is audit quality related with audit professionals' ability to allocate and manage their time?

FAR is also open to empirical research proposals on other research questions and topics within the research objectives and focus set-out in this call. FAR supports research projects that adopt an interdisciplinary approach by using multiple research approaches and methods. Support that FAR will provide for empirical research projects may include, but is not limited to, access to (proprietary and publicly available) archival data and practitioners for survey research, experiments, interviews and field case/event studies of the nine participating Big 4 and Mid-Tier audit firms. 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 and proactive contributions to FAR's knowledge dissemination strategy such as practice notes, society papers, master classes, and conference presentations.

2. Special Call for "Thematic Research Program"

Proposals 2021: In our "Strategy 2021 – 2025" we identified our ambition to push coherent research and knowledge dissemination by developing a "Themes" approach to our research agenda, as follows:

"Deepening the research agenda to a limited number of coherent themes instead of individual projects. Coherent themes that require more attention and that the FAR board (in stakeholder dialogue) wants to explore and develop. The FAR Audit Research Chair is already an example of this (with audit firm leadership

and culture, team dynamics, and audit quality as the theme)".

With this Call for "Thematic Research Program" Proposals 2021 we invited university auditing research 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. The themes that FAR would like to develop over a period of time currently are:

- Audit quality within the corporate reporting and assurance supply chain (eco system)
- Audit firm Quality Management Systems and audit quality

In total this year, we received nine research proposals, including one empirical research proposal from our five PhD projects and one thematic research proposal. FAR committed to three of these proposals.

FAR believes that it is important that, amongst other criteria, the proposed projects address topical issues of the audit profession, are feasible in terms of data gathering, and that the projects lead to the highest ranked academic publications.

Unfortunately, we had to reject three projects for that reason. Three of the proposals received, including the Thematic Research proposal, were still under revision as per 31 December 2021 because the research teams were invited to revise and resubmit their proposals based on review comments of the FAR Board. In 2022 FAR has committed to one of these revised proposals.

One of the three proposals from 2020 of which the research team was invited to revise and resubmit, was also committed to and one research proposal from 2020 was ultimately rejected, based on review comments of the FAR Board. The final project team that was invited to revise and resubmit their proposal from 2020, decided to withdraw their application.

The research projects committed to in 2021 are (listed by project leaders only):

RESEARCH PROGRAM B – EMPIRICAL RESEARCH PROJECTS

- False positives vs. hit rates: Does the framing of data analytic calibration affect auditor skepticism?
 - X. Li, commitment to her first research project that is part of her PhD project (VU) 2021 investment €22.000.
- Improving auditors' fraud planning judgments through premortem reasoning – Prof. S. Asare (University of Florida) and Dr. I. Verwey (Nyenrode Business Universiteit), 2021 investment € 66.000. Proposal from 2020.
- Auditors' going concern decisions: insights from practice – Prof. dr. M. A. Geiger (University of Richmond), Dr. D. Detzen (VU), Prof. dr. A. Gold (VU and Norwegian School of Economics) and Prof. dr. P. Wallace (VU), 2021 investment € 18.000.
- Auditors aren't cut from the same cloth: Why management controls don't have the same effect for all auditors – Prof. dr. P.M.G. van Veen-Dirks (Rijksuniversiteit Groningen), Dr. L. Bellorabienengräber (Rijksuniversiteit Groningen), Prof. S.K. Widener (Clemson University, USA), 2021 investment € 204.000.

In addition to these projects the board also committed to an extension of the FAR Research Chair for one year for which the FAR grant is €150.000. Additional endowments were made to two ongoing research projects for an amount of €60.000.

FAR JOINT WORKING GROUPS (RESEARCH PROGRAM C)

'Joint Working Group Design-Oriented Projects' (JWG) 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 several JWG Research Summits over several years, with intermediate reports to be defined and delivered each summit. We want to be able to do research on these topics so that we can share new knowledge and direct further research at each consecutive summit. Research Program C has previously seen the launch of the following two JWG's:

- The (future) auditing (partner) business model. This JWG is geared towards research on three (interrelated) focal points: (1) the audit firm business models; (2) audit firm partnership, ownership, and governance models; and (3) the audit profession's earnings model, audit markets, and competition. Related research is ongoing, while several working papers are nearing completion, amongst which research on audit partner performance management and compensation.
- Root cause analysis methods in auditing: what are effective ways to conduct continuous Root Cause Analyses within audit firms? Several RCA JWG meetings provided a "safe haven" for the Root Cause Analysis Working Group meetings of the nine Dutch "OOB" audit firms as to realize sharing of knowledge, skills, and academic insights. This resulted, amongst others, in a FAR practice note on Root Cause Analysis entitled "**Ten considerations for conducting Root Cause Analysis in auditing**". Further initiatives will focus on specific RCA areas such as auditors' going concern judgements and fraud risk analyses.

The FAR board explored the appropriation of the additional contribution of €845.000 from PwC to further strengthen research collaborations between the auditing profession and audit researchers. Amongst other initiatives to be funded through this grant, FAR has established a design oriented joint working group (FAR program C) that will focus on the question of audit innovations and what audits will look like tomorrow. More specifically, this research will focus on how "data science" may affect and aid audit engagements and audit quality. FAR research started out with projects that were focused on internal processes to the audit firms, then FAR moved to external factors, like audit committees. We believe that the next step is to focus on audit innovation research or topics that define what the audit profession will look like in the future.

The proposal for now would be to set up a so-called (temporary) JWG between practitioners and academics with the task of defining the exact topic and questions that this project should answer whether that is audit technology or audit of ESG.

Over 2021 the research topic of "Assurance services in the medium and small business, DGA and family business, and public sector and non-profit market segments" was developed into another JWG, specifically relevant to audit and audit quality in this market segment in two or three consecutive meetings of two hours each (with



interim “homework”). The objective is to arrive at a specific research agenda which FAR then sets out in a “Call for Research” to have scientific research carried out on those defined topics. In doing so, we are making FAR’s 2nd term strategy more concrete by conducting more research specifically relevant to auditing and “tier-based” policy development in this market segment.

FAR CASE STUDIES (RESEARCH PROGRAM D)

Research Program D involves case studies, with the aim to provide an as real as possible description of an audit through which the reader can learn about the considerations made in and mechanisms underlying the oftentimes complex judgement and decision-making process. The case studies should result in a scientific paper and a case study that can be used in classes. FAR earlier initiated two pilot case studies that deal with ‘near misses’: how do the parties involved respond to these near misses, and what measures are taken to prevent possible audit quality issues in the future? A third case study will examine the effect of internal and external audit quality inspection findings on the audit opinion and financial reporting quality. The case studies are ongoing.

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FAR believes that it is important that, amongst other criteria, the proposed projects address topical issues of the audit profession

FAR AUDIT RESEARCH CHAIR (RESEARCH PROGRAM E)

In 2017, the FAR Audit Research Chair program was defined, and we were proud to be able to announce in October of 2018 that leading American researcher and professor Jere Francis had accepted the Foundation for Auditing Research (FAR) Chair in Auditing Research at Maastricht University’s School of Business and Economics for a period of four years. As part of this chair position, Professor Francis will conduct scientific research on the quality of audits. He will also enhance auditing research education in the Netherlands with the help of several PhD students. In 2020 Professor Francis submitted his second project proposal **“Audit firm culture, audit quality and other organizational outcomes”** to the FAR board, which FAR committed to.

This new proposal is a logical extension of the first Audit Research Chair project and will use the same research team. The study builds on the first project by examining the potential effect of an audit firm’s organizational culture on individual auditor attitudes and behavior, audit team performance and audit quality, and other organizational outcomes such as employee job satisfaction/turnover and operating performance. In the initial FAR project, audit partners/managers and their engagement teams are analyzed “as if” they are autonomous units. While the results of this research will be very informative, we also know that audit teams work within the larger context of an audit firm’s organizational structure and context and react to the specific effects of a firm’s internal culture. Thus, the goal of the second FAR Chair proposal, is to extend the analysis of partners/managers and their audit teams, by measuring and assessing the effect of organizational culture on their behavior to better understand why these things happen.

FAR AUDIT RESEARCH PHD PROGRAM (RESEARCH PROGRAM F)

In 2018 FAR also decided to initiate a FAR Audit Research PhD sponsor program (program F) aimed at expanding the base talent pool of future auditing researchers in the Netherlands and strengthening the auditing research community. Through the PhD sponsoring program, FAR grants new PhD positions for the full four-year period and on a 50/50% basis (50% financing by FAR, 50% financing by the university) with a maximum FAR grant of EUR 100,000. The PhD topic should be closely related to FAR’s research and knowledge dissemination agenda. The PhD student can be granted access through FAR to audit firm data, similar to other FAR research teams. The actual future research project(s) is (are) subject to FAR Board review and approval. FAR now supports a total 5 PhD projects of which we are expecting to see output from in 2022:

- University of Groningen – Sander Tiggelaar (Supervisor: Prof. dr. P.M.G. van Veen – Dirks)
- Tilburg University – Christian Peters (Supervisor: Prof. dr. B.C.G. Dierynck)
- Free University of Amsterdam - School of Business and Economics - Xiaoxing Li (Supervisor: Prof. dr. A. Gold)
- University of Amsterdam – Amsterdam Business School – Tjibbe Bosman (Supervisor: Prof. dr. J.F.M.G Bouwens)
- Maastricht University – Iver Wiertz (Supervisor: Prof. dr. A. Vanstraelen)

DATA PROVISION BY THE AFFILIATED AUDIT FIRMS

Since FAR's inception in 2015 we have been organizing our annual conferences and during the last two conferences we have seen the first results of academic research conducted through FAR. This is the result of the initial years of investment in FAR's data gathering infrastructure in collaboration with the affiliated firms.

DATA COLLABORATION: DIRECT CONTACT BETWEEN AUDIT FIRM AND RESEARCHER

FAR conducts its research projects through a unique collaboration between science and practice in auditing. This is a world-wide unique structure where the Dutch auditing profession and more specifically the ten FAR affiliated audit firms are actively sharing data in collaboration with academic researchers. With this data the researchers unlock academic insights relating to audit quality. This helps to inform the public and academic debate relating to the audit profession and helps to improve audit quality.

Based on our experiences over the past years, we were able to work towards an annual "Data gathering cycle" in which researchers, affiliated audit firms and FAR work in a recurring rhythm of project selection and allocation, setting a data gathering and sampling strategy, up to and including actual data gathering. The latter also includes data gathering during audit firms' internal educational programs. The data gathering cycle is further substantiated by a "12 step approach" for data gathering including design, piloting, and validation of data gathered in close collaboration with research teams. Throughout this process, we have been working with the affiliated audit firms to streamline and

systemize their data gathering processes and balancing their data gathering efforts. For example, we focus as much as possible on the firms' existing management information systems for archival data and structurally use existing meeting structures, like the firms' internal training programs, for survey and experimental studies. As well as being mutually stimulating and informative, these efforts strengthened mutual understanding and knowledge exchange on a day-to-day basis. Direct contact with the researchers creates enthusiasm among the audit firms about the relevance of the research question. Firms subsequently invite those researchers to their offices to experience the practical side of data gathering.

RESEARCH DATA PROCESSING SECURITY CONTROLS

Over 2021 FAR again received the ISAE 3000 "Type II" third party-assurance report, on the design, implementation, and operating effectiveness of our system of internal controls over the research data gathering and processing services that FAR and its data management service provider CentERdata provide. This confirms that FAR affiliated audit firms can share (anonymized / transformed) confidential data with FAR researchers and can rely on the existing FAR-CentERdata processes for the



“ As part of this chair position, Professor Francis will conduct scientific research on the quality of audits ”

confidence of their data. We continue to improve our control environment, to enable academic research with real-life audit data while keeping this data safe. This is a world-wide unique structure where the Dutch auditing profession is actively sharing data in collaboration with academic researchers. With these data the researchers unlock academic insights relating to audit quality.

ROBOTIC PROCESS AUTOMATION FOR THE EXTRACTION OF AUDIT INFORMATION

In 2021 FAR was able to benefit from previous investments in enhanced public data gathering through automated data gathering techniques. This way of gathering data is especially useful for research projects with large data requests. FAR continues to consider whether a public data library for general use of FAR research projects is worthwhile to invest in.

Since 2019, FAR has put increasing effort into expanding public data gathering for the audit firms and research teams. Because public data for the complete Dutch audit market is only partially available through regular academic and public databases, FAR has deployed a team of Student Assistants to collect such research data from financial statement reports and other public sources. This is a tedious and complex process which, moreover, is largely done by manual collection.

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Since 2019, FAR has put increasing effort into expanding public data gathering for the audit firms and research teams.

Several innovative initiatives have been taken to scale up the data collection from public sources by automating the process. FAR attained the ability to extract data from PDF's (the form in which annual reports are oftentimes published) and transform that to machine-readable data (for example through “Optical Character Recognition” techniques). While first pilots successfully resulted in additional and reliable research data, FAR continues to further develop, and optimize these techniques so that data can be extracted efficiently and reliably for research purposes.

These innovations have shown its potential advantage for audit practice as well. For example, while working with one of the firms on data gathering, FAR's new techniques helped to optimize reconciliation procedures in the audit of a large asset management company by automatically extracting the financial statement information from source files, saving considerable time and budget, while improving reliability.

FAR'S INVESTMENTS IN RESEARCH DATA GATHERING

To push the data gathering forward, both FAR and the affiliated firms are investing heavily in further strengthening their research data gathering infrastructure. Given the investment of the audit firms in unlocking unique proprietary data, FAR took up the task of gathering of the publicly available data, like financial statements data since 2019. Related costs for purposes of the current committed research projects amount to EUR 94,000 (2020: EUR 108,000).

FAR BOARD AND ORGANISATION

THE FAR BOARD

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. That is, 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.

Our chair is Prof. dr. Henriëtte Prast. Together with managing directors Prof. dr. Jan Bouwens (University of Amsterdam – Amsterdam Business School) and Prof. dr. Olof Bik RA (Nyenrode Business Universiteit) she forms the executive board of the foundation.

The complete board consists of the following persons:

- **Prof. dr. H.M. Prast**, chair of the board
- **Drs. C.H.L.J. Bergmans RA**, board member representing Deloitte (board member since 05-10-2021)
- **Prof. dr. O.P.G. Bik RA**, managing director and academic board member
- **Prof. dr. A. de Bos RA**, board member representing EY (board member since 16-04-2021)

- **Prof. dr. J.F.M.G. Bouwens**, managing director and academic board member
- **Prof. dr. W.F.J. Buijink**, academic board member
- **Drs. M. Hogboom RA**, board member representing KPMG (board member since 20-05-2022)
- **Prof. dr. W.R. Knechel**, academic board member
- **Drs. L. Albers RA**, board member representing Deloitte (board member until 05-10-2021)
- **Prof. drs. E. Eeftink RA**, board member representing KPMG (board member until 20-05-2022)
- **Drs. P.A.J. Hopstaken RA**, board member representing Mazars, as well as, Baker Tilly, BDO and Grant Thornton
- **N.M. Pul RA**, board member representing EY (board member until 16-04-2021)
- **Drs. M. de Ridder RA**, board member representing PwC, as well as treasurer of the board

BOARD MEETINGS AND OTHER CONSULTATIONS AND GATHERINGS

In 2021 five board meetings were held to discuss and decide on, amongst others, FAR's research agenda and programs. Extensive discussions were held on the development of 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.

Data gathering and its related infrastructure and costs were discussed in depth during several board meetings, particularly the amounts invested in research funding in relation to the costs of FAR's gathering of publicly available research data for current research projects as well as FAR's proprietary data library.

This year the FAR board paid specific attention to knowledge dissemination and contributions to the professional development of auditing, and FAR's contribution to the auditing research and education community. In this regard, the board discussed different types of papers to be published, Professional Papers and Society Papers. FAR Professional Papers provide summaries of academic papers, including all academic papers that are written on the latest research on audit quality in non-technical terms and with a summary of its practical implications. They can be in either Dutch or English with a summary in the other language. Professional Papers are meant to disseminate knowledge on audit quality to professionals and policymakers.

FAR Society Papers use scientific evidence to discuss current policy and practical issues relevant for the auditing profession and its stakeholders. In doing so, they provide a theoretical underpinning for proposed solutions to these issues. During several board meetings a number of these papers were presented and discussed to determine their relevance to audit practice. The aim has very much been, and will continue for 2022, to make more progress in effectively reaching the audit profession with the increased output of the FAR research projects in a format and language that allows easy access.

In May the FAR board had their formal self-evaluation, in line with our Articles of Association. All questionnaire results were collated by an independent person and results were subsequently discussed during a special board meeting. The evaluation gave the FAR board several useful insights that have been taken onboard for process improvement.

Furthermore, the board reviewed all the eight submitted research proposals and revised proposals from 2020 and decided on the commitments thereof.

Finally, the board explored the appropriation of the additional contribution of €845.000 from PwC to further strengthen research collaborations between the auditing profession and audit researchers. PwC confirmed that the appropriation of the additional grant is at the discretion of the Board of FAR. Amongst other initiatives to be funded through this grant, FAR has established a design oriented joint working group (FAR program C) that will focus on the question of audit innovations and what audits will look like tomorrow. More specifically, this research will focus on how "data science" may affect and aid audit engagements and audit quality. Furthermore, we are planning to organize a regular dinner party (*diner pensant*) in The Hague, to which politicians, among others, will be invited to share their ideas on audit quality and the societal role of the auditor.



“ This increase reflects the growth of research and knowledge dissemination activities of FAR ”

FINANCIAL RESULTS

FAR's financial income primarily consists of contributions of the affiliated audit firms of € 1.55 million (2020 € 1.55 million) on the basis of committed research projects and approved office costs.

The available research budget (€ 790,000) was spent largely on selected research projects and the data library. A comprehensive analysis of actual costs versus budget is included in paragraph 6.1. Costs for research projects are recognized as an expense in the statement of income and expenses and as a liability on the balance sheet as unconditional commitments for these amounts were made to research teams. There are two main components for research projects costs, being endowments to research teams as well as the investment in FAR's gathering of publicly available research data for current research projects and in the data library. An updated management estimate of the research commitment resulted in a revaluation of existing commitments for an amount of € 88,000 (release) (2020: € 66,000 increase).

In addition, an amount of € 581,000 (2020: € 486,000) is recognized as project-related research costs. This increase reflects the growth of research and knowledge dissemination activities of FAR, more specifically an increase in (personnel) costs focused on knowledge dissemination and in general data management due to the expansion of FAR's support capacity in data gathering. This includes additional personnel costs with regards to the hiring of a Director of Operations as per June 1st, 2021 for the part related to research related activities and knowledge dissemination more specifically.

The general costs, including board costs and the general working organization, amount to € 290,000 (2020: € 214,000). This is higher than budgeted (€ 253,000) mainly due to increased costs of (financial and personnel) administration, the financial audit, and certain legal expenses.

As FAR is maturing to a full professional organization, including the hiring of a Director of Operations, the (general) cost ratio increased to 18.4% (2020: 13%), which is higher than FAR's initial target of 15% of total income. The remaining balance of income and expenses for 2021, in the amount of a surplus of € 56,000, is allocated to the continuity reserve.

Funding through invoicing will only take place if there is a liquidity requirement as the research projects progress, or to cover the approved and budgeted office costs. This means that FAR has limited unused financial resources. FAR has appointed its former external auditor, RSM Netherlands Audit B.V., to audit the 2021 financial statements. The original reason for the change to Flynth Adviseurs en Accountants is no longer valid, namely the change of auditor with the NBA where our financial administration was done at that time. After NBA announced that they could not continue with FAR's financial administration, because it is not part of their core business, FAR's financial administration was moved to FIT Administraties B.V.

We have taken good notice of the observations made by the external auditor in 2020 and have acted upon their main observation by implementing a time registration system as per 1 July 2021. This will further enhance our internal documentation of actual project activities by FAR staff and will further support the estimated allocation of such costs to future research commitments.

OUTLOOK FOR 2022

RESEARCH: EXPECTED OUTPUT 2022

There are several noteworthy publications forthcoming in 2022. We expect two working papers in relation to the topic of “Professional Skepticism”. There will be several masterclasses, podcasts and publications on various themes, such as going concern and continuity as well as talent retention in audit firms. In relation to our PhD program there will be several brown bag sessions and seminars where PhD students can present their projects.

THE 2022 INTERNATIONAL FAR CONFERENCE

With the COVID-19 restrictions starting to lift, we were once again able to host our FAR 2022 Conference live in Breukelen, on June 20 and 21. The theme this year was “**Inside out and Outside in**”.

For details of the conference, including the after movie and the summary report, please visit the FAR website under: **Events/Past Events**.

FAR SEMINAR AUDIT CULTURE AND BEYOND

We also hosted a special FAR event “Audit Culture and Beyond”. The seminar was held on the morning of the inaugural lecture of the FAR Audit Research Chair, Prof. dr. Jere Francis in Maastricht on September 15.

We organized this seminar to honor the work Jere Francis has done, and still does, in auditing and to underline how his most recent research agenda on culture and audit quality is again taking issue with important questions society and academics have.

For a summary of the seminar and the inaugural address, we refer to the [article on Accountant.nl](#)

FINANCIAL OUTLOOK

The general contributions from affiliated audit firms and other third parties for the coming year is expected to total a maximum of € 1,630,000 million (2021: € 1,572,000). Taking account of the research related costs (budgeted at € 555,000) on the one hand and the general office costs (budgeted at € 285,000) on the other, the maximum research budget for the coming year amounts to approximately € 825,000.

When FAR was formed, preference was given to a transitional model based on a coordinating office organization. Although FAR will be further investing in its professional organization in 2022 the aim is still to keep the working organization to a minimum by cooperating

as much as possible with the affiliated research groups and the audit firms. Despite FAR’s ambitions and growth of activities, due to which our cost ratio increases above our initial target of 15% of income, we pursue a cost ratio that is stable over the coming years.

BOARD AND DIRECTORS

Prof. Dr. Olof Bik RA, Scientific Board Member of the FAR Board and in that capacity also Managing Director of the FAR, has made the move from Nyenrode Business University to the University of Groningen as of September 1, 2022. There he has been appointed Professor of Audit & Assurance in the Department of Accountancy at the Faculty of Economics and Business Administration. The FAR Board warmly congratulates Olof with this new position, in which he will continue to contribute to research and knowledge development of the auditing profession and accountancy education in the Netherlands.

Olof has come to the conclusion that he cannot properly combine his extensive administrative duties at FAR with his new responsibilities in Groningen. At the request of the FAR Board, Olof will stay on until January 1, 2023, to ensure continuity and a good handover. The FAR Board is very grateful to Olof for the good work he has done in the establishment and expansion of FAR since 2015 and will bid him farewell as a member of the FAR Board in an appropriate manner.

Unfortunately, as per September 1st, 2022, our Director of Operations, Jeanine Lemstra decided to take on another challenge. To maintain continuity, FAR has chosen to hire an ad interim Director of Operations, Frank Verdouw, while considering a more permanent solution.

Breukelen, November 2022

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

sgd Prof. dr. O.P.G. Bik RA

Managing director and academic member of the board

sgd Prof. dr. J.F.M.G. Bouwens

Managing director and academic member of the board

sgd Prof. dr. H.M. Prast

Chair of the board

FINANCIAL STATEMENTS

Financial year from 1 January up to and including 31 December 2021

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1. BALANCE SHEET AT THE END OF THE FINANCIAL YEAR

(after appropriation of the balance of income and expenses)

<i>Amounts in TEUR</i>		31-12-2021	31-12-2020
ASSETS	Ref.		
Receivables	1	2,581	2,710
Cash	2	407	481
TOTAL ASSETS		2,988	3,191
LIABILITIES			
Equity	3	1,166	1,110
Long term liabilities			
Research commitments	4	767	960
Short term liabilities			
Research commitments	4	814	914
Current liabilities	4	241	207
LIABILITIES		1,055	1,121
TOTAL EQUITY AND LIABILITIES		2,988	3,191

2. STATEMENT OF INCOME AND EXPENSES

Amounts in TEUR		Actuals 2021	Budget 2021	Actuals 2020
	Ref.			
INCOME	5			
Financial contributions 'Big 4'		1,200	1,200	1,200
Financial contributions 'Next 6'		350	350	350
Donation Stichting Accountantsfonds		-	-	100
Research Contributions		22	-	0
TOTAL INCOME		1,572	1,550	1,650
EXPENSES	6			
Research-related costs		581	500	486
Costs of research projects		733	790	862
Revaluation of research related costs		-88	0	66
<i>Total project costs</i>	6a	1,226	1,290	1,414
Office costs		169	150	104
Board costs		69	73	71
Other operating costs		52	35	39
<i>Total general costs</i>	6b	290	258	214
TOTAL EXPENSES		1,516	1,548	1,628
OPERATING RESULT		56	2	22

Amounts in TEUR		Actuals 2021	Budget 2021	Actuals 2020
APPROPRIATION OF THE BALANCE OF INCOME AND EXPENSES:				
Addition or usage to continuity reserve		56	2	22
Addition or usage to reserve for restricted use		-	-	0
		56	2	22

3. ACCOUNTING PRINCIPLES

3.1. OBJECTIVES AND ACTIVITIES

3.1.1. GENERAL

Stichting Foundation for Auditing Research (hereafter: FAR) has its registered office at Straatweg 25 in Breukelen.

Its objectives are among other things 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.

To achieve its objectives, FAR initiates (often multi-year) research projects based on 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, 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 organizing conferences and masterclasses and by publishing professional articles. Furthermore, FAR focuses on unlocking existing scientific insights for audit practitioners.

To this end, FAR obtains financial contributions from the affiliated audit firms and donors, initially for a period of five years up to and including 2020. In addition, affiliated audit firms have undertaken to provide access to data. In 2020 FAR assured its extension for another five-year period up to and including 2025 under the same terms and conditions as the initial period.

3.1.2. FAR RISK ASSESSMENT

Every year FAR prepares an overview of the main risks that have been identified as critical to achieving its purpose and goals. These are named and classified according to expected impact and likelihood of occurring. Management has put in place mitigating actions for all risks identified below.

RISK CATEGORY	RISK	RISK APPETITE	IMPACT	LIKELIHOOD
STRATEGIC RISKS	Inability to timely publish meaningful results	Low	High	Medium
	Reputational damage through partner association	Low	High	Medium
OPERATIONAL RISKS	Inability to attract, develop and retain talent	Low	Medium	High
	Data security risk	Low	High	Medium
	Inability to ensure effective allocation of funds to research	Low	Medium	Medium

To manage these risks several measures have been implemented. There is a clearly defined 12 step process from start to publication for all research projects. Around this process a control framework has been designed with mitigating controls for all aspects of data gathering, sharing and publication. Each year an independent auditor reviews the design, existence and operational effectiveness of these controls and provides a full (ISAE 3000) report with their findings. A summarized overview of the outcome of this report is published on the FAR website. In every board meeting the board is informed on how research projects are progressing. Once a year the board reviews and approves the overall financial budget and plan for the year ahead which includes a target for both research activities and other expenses.

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, Dutch Accounting Standards], 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 2021, the comparative figures relate to the year 2020. The liabilities are presented in long term and short-term liabilities on the face of the balance sheet, in addition to the notes. The financial statements have been prepared in units of thousand euros, small rounding differences may occur. 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 amortized 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 3 months.

3.2.4. LIABILITIES

Current liabilities are accounted for at fair value on initial recognition. After initial recognition, current liabilities are valued at amortized 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

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

3.3.2. EXPENSES

The total grants for committed research projects, also if they cover multiple years, are recognized 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). FAR simultaneously recognizes the estimated expected (internal and external) costs (other than the commitments to research teams) directly associated with the execution of the research projects to which those commitments relate. These include expected personnel costs with regards to project specific data management, project monitoring, and communication, based on an estimate of time needed for these activities.

The general costs are recognized in the period to which they relate. 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. Related costs are charged to FAR on a not-for-profit basis but include a risk premium as well as coverage for employer costs like social charges. These costs (including VAT) are allocated to research related projects costs or general expenses based on activities concerned as registered through time registration (as from July 2021). In 2021 a Director of Operations was hired and employed directly by FAR. In 2021 an average of 4.3 FTE of staff has been charged to FAR, which expenses are accounted for under the related activities of research related activities, costs of research projects, and general expenses.

FAR is not recognized as an enterprise for VAT purposes and is therefore not liable to pay VAT on the contributions of the affiliated firms, or able to reclaim VAT paid.

4. NOTES TO THE BALANCE SHEET

1. RECEIVABLES

Amounts in TEUR		31-12-2021	31-12-2020
	Ref.		
Accrued income:	(a)		
Still to invoice to 'Big 4' firms		2,145	2,045
Still to invoice to 'Next 6' firms		278	240
		2,423	2,285
Debtors	(b)	54	395
Prepaid expenses		21	30
Other receivables		83	-
		2,581	2,710

a. 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 the period 2016 – 2021 and the additional grant from PwC in 2019. These contributions are payable by the firms during the term of the projects and in line with their progress (as detailed under 4a). No provision is considered needed.

The non-current part of the accrued income as of year-end amounts to TEUR 845 (31-12-2021 TEUR 1,000).

b. Debtors

Debtors include an amount of TEUR 54 of contributions invoiced to and to be received from accon avm audit B.V. as per termination of their affiliation to FAR per 31 December 2020. In 2021 FAR and accon avm audit B.V. reached an installment plan, including guarantees, allowing accon avm audit B.V. to pay their remaining balance in 12 monthly payments. No provision is considered needed.

2. CASH

Amounts in TEUR		31-12-2021	31-12-2020
Current account at financial institution		407	481
		407	481

The cash is at FAR's free disposal.

3. EQUITY

Amounts in TEUR		Balance on 31-12-2020	Movements 2021	Balance on 31-12-2021
	Ref.			
Continuity reserve	(a)	265	56	321
Reserve for restricted use	(b)	845	-	845
		1,110	56	1,166

a. Continuity reserve

Guiding principle is that no reserves are allowed to be made without a pre-defined purpose. The money received must be managed responsibly.

To ensure that FAR will be able to also meet its obligations in the future, the board has created a continuity reserve in 2016. In determining the level of the continuity reserve, FAR follows the guidelines of the Fundraising Institutions Association (Goede Doelen Nederland). The guidelines permit a maximum reserve of 1.5 times the annual organizational costs (including costs of staff, accommodation, administration, and board). As per 31 December 2020 the continuity reserve amounted to EUR 265,000, which equals 1.05 times the expected organizational costs 2021 (EUR 253,000).

Considering the increase in operations we propose that the surplus from 2021 results appropriation (EUR 56,000) is added to the continuity reserve. The continuity reserve would then amount to EUR 321,000 as per 31 December 2021. The 2022 budgeted organizational costs are EUR 290,000. The continuity reserve would than equal 1.11 times the organizational costs and is considered adequate at this moment in time.

b. Reserve for restricted use

In addition, the reserve for restricted use based on the additional grant in 2019 from PwC allows for an additional budget of € 845,000 for 2021 and further.

FAR is grateful to PwC for this additional contribution to further strengthen research collaborations between the auditing profession and audit researchers. PwC confirmed that the appropriation of the additional grant is at the discretion of the Board of FAR. Amongst other initiatives to be funded through this grant, FAR has established a design oriented joint working group (FAR program C) that will focus on the question of audit innovations and what audits will look like tomorrow. More specifically, this research will focus on how “data science” may affect and aid audit engagements and audit quality. It is considered that data science offers tools and techniques that affect how audit engagements are designed and audit evidence can effectively and efficiently be gathered. The reason is that data science techniques potentially enable audits to be performed more efficiently and/or more effectively – and with that enhance audit quality. In 2022 this joint working group will work out a more developed research agenda with a meaningful practical and academic contribution on such important innovation for and developments in the profession.

4. RESEARCH COMMITMENTS AND CURRENT LIABILITIES

a. Research commitments

The research commitments comprise accrued project costs (including expected personnel costs) with regards to the financial grants relating to the research projects committed and the expected research and project costs directly associated with these projects. Research commitments have a long-term and short-term part, presented as follows:

<i>Amounts in TEUR</i>		31-12-2021	31-12-2020
Research commitments – long-term		767	960
Research commitments – short-term		814	914
		1,581	1,874

Total research commitments can be detailed as follows:

<i>Amounts in TEUR</i>	Balance as of 31-12-2020	Costs of research projects	Usage	Revaluation of research related costs	Balance as of 31-12-2021
Endowments to research teams	1,408	444	-578	-15	1,259
Project-specific data management	84	11	-37	-30	28
Data gathering and management	96	40	-39	5	102
Public data gathering by FAR	112	5	-24	15	108
Project management and monitoring	77	9	-14	-14	58
Project reports and communication	97	11	-33	-49	26
Total	1,874	520	-725	-88	1,581
Thereof committed in 2016	26	0	-9	2	19
Thereof committed in 2017	407	160	-210	-2	355
Thereof committed in 2018	428	0	-197	-18	213
Thereof committed in 2019	498	50	-186	-51	311
Thereof committed in 2020	515	0	-100	-19	396
Thereof committed in 2021	0	310	-23	0	287

Expected usage of research commitments

<i>Amounts in TEUR</i>	Exp. usage 2021	Exp. usage 2022	Exp. usage 2023	Exp. usage 2024	Exp. usage 2025+
Endowments to research teams	1,259	623	412	149	75
Project-specific data management	28	14	9	3	2
Data gathering and management	102	56	29	16	1
Public data gathering by FAR	108	81	23	4	0
Project management and monitoring	58	29	23	5	1
Project reports and communication	26	11	2	7	6
Total	1,581	814	498	184	85
Thereof committed in 2016	19	19	0	0	0
Thereof committed in 2017	355	201	116	38	0
Thereof committed in 2018	213	105	59	37	12
Thereof committed in 2019	311	193	63	54	1
Thereof committed in 2020	396	228	166	2	0
Thereof committed in 2021	287	68	94	53	72

The non-current part of this liability as of year-end amounts to TEUR 767 (31-12-2019 TEUR 960).

Revaluation of projects amounts to TEUR 88 release (2020 TEUR 66 increase). This decrease is driven by a remeasurement of costs per hour for hours allocated to research projects by FAR staff.

b. Current liabilities

Current liabilities as of year-end amounting to TEUR 241 (31-12-2020 TEUR 207) mainly comprise costs payable in relation to the working organization and management fees.

5. NOTES TO THE STATEMENT OF INCOME AND EXPENSES

5. INCOME

As per December 31, 2021 nine audit firms are affiliated to FAR, being Deloitte, EY, KPMG, PwC, and (collectively) Baker Tilly, BDO, Grant Thornton, Mazars (all four from 2017), and Flynth (as from 2018). Jointly, FAR's funding primarily consists of a maximum of TEUR 1,550 of funds that are committed by and received from the audit firms based on 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 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.

Over 2021 FAR invoiced research contributions of other third parties for an amount of EUR 22,000.

6. EXPENSES

6a. Project costs

Amounts in TEUR	2021	2020
<i>Research-related costs:</i>		
Representation costs	3	-
Research agenda and selection of proposals	-	63
FAR conferences and master classes	123	44
Attendance of research conferences	2	2
General data management	273	225
General research project assistance	180	152
	581	486
<i>Costs of research projects:</i>		
Endowments to current year new research projects	234	305
Additional endowments to existing research projects	210	-
Project-specific data management	11	55
Data gathering and management	40	100
Public data gathering by FAR	94	108
Project management and monitoring	9	30
Project reports and communication	11	37
	609	635
<i>Data library costs</i>	124	227
<i>Revaluation of research related costs:</i>	-88	66
Total project costs	1,226	1,414

6b. General costs

General costs are specified as follows:

Amounts in TEUR		2021	2020
	Ref.		
<i>Office costs:</i>			
Financial administration		28	10
Executive management support		142	94
		169	104
<i>Board costs:</i>	(I)	69	71
<i>Other operating costs:</i>			
Communication		4	12
General operations		46	20
Other		2	7
		52	39
Total general costs		290	214

I. 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, academic 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:

Amounts in TEUR	2021	2020
Total board fees paid (including TEUR 22 non-deductable VAT in 2021, TEUR 22 in 2020)	139	133
Board fees recognized under direct research-related costs	-/- 72	-/- 63
Expenses for travel, stay and board meetings	2	1
Board costs recognized under general costs	69	71

6.1. ANALYSIS OF ACTUAL 2021 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 TEUR 520 (2020: TEUR 635) in research grants and related expenses for four new and two existing empirical research projects this financial year. Included in this amount are the costs of gathering publicly available research data, predominantly financial statements data, required for most of the research projects currently in progress as well as the data library. This amounted to an investment of TEUR 94 (2020: TEUR 108). In addition, an amount of TEUR 124 (2020: TEUR 227) was spent on data library costs, bringing the total costs for research projects to TEUR 733. (Budget TEUR 790)

An updated management estimate of the research commitment resulted in a revaluation of TEUR 88 (decrease) (2019: TEUR 66 increase).

An amount of TEUR 581 (budget: TEUR 500) is recognized as research related costs. This reflects the growth of research and knowledge dissemination activities of FAR, more specifically an increase in (personnel) costs focused on knowledge dissemination and in general data management due to the expansion of FAR's support capacity in data gathering. This includes additional personnel costs with regards to the hiring of a Director of Operations as per June 1st, 2021 for the part related to research related activities and knowledge dissemination more specifically. The general costs, including board costs and the general working organization (including the related work by the newly hired Director of Operations), amount to TEUR 290 (budget: TEUR 258). This is higher than budgeted mainly due to increased costs of (financial and personnel) administration and one-off additional expenses related to the financial audit and legal expenses.



6.2. EVENTS AFTER THE BALANCE SHEET DATE

There are no events after the balance sheet date.

6.3. PROPOSED RECOGNITION OF BALANCE OF INCOME AND EXPENSES FOR THE FINANCIAL YEAR 2021

The FAR board has approved to allocate the remaining balance of income and expenses for 2021, in the amount of TEUR 56, to the continuity reserve. This has been recognized in the financial statements.

The financial statements were adopted by the FAR board in Breukelen in November 2022:

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

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

sgd drs. C.H.L.J. Bergmans RA
Board member representing Deloitte

sgd Prof. dr. A. de Bos RA
Board member representing EY (board member since 16-04-2021)

sgd drs. M-A. Hogeboom RA
Board member representing KPMG (board member since 20-05-2022)

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

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



OTHER INFORMATION



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INDEPENDENT AUDITOR'S REPORT

To: the board of directors of Stichting Foundation on Auditing Research

Report on the audit of the financial statements 2021 included in the annual report

Our opinion

We have audited the financial statements 2021 of Stichting Foundation on Auditing Research based in Breukelen.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Stichting Foundation on Auditing Research as at 31 December 2021 and of its result for 2021 in accordance with the 'RJ-Richtlijn 640 Organisaties zonder winststreven' (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 2021;
2. the profit and loss account for 2021; and
3. the notes comprising of 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 on 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.

Report on the other information included in the annual report

The annual report contains other information, in addition to the financial statements and our auditor's report thereon.

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.

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.

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RSM Netherlands Accountants N.V. is een onafhankelijk lid van het RSM netwerk en handelt onder de naam RSM. RSM is de handelsnaam van elk bij het RSM netwerk aangesloten kantoor. Het RSM netwerk is een samenwerkingsverband van onafhankelijke accountants- en advieskantoren, die ieder voor eigen verantwoordelijkheid werken. Het RSM netwerk bestaat in geen enkel rechtsgebied als afzonderlijke rechtspersoon. Op alle opdrachten zijn onze algemene voorwaarden van toepassing, die op verzoek kosteloos worden toegezonden. RSM Netherlands Accountants N.V. is

Management is responsible for the preparation of the other information in accordance with RJ-Richtlijn 640.

Description of responsibilities regarding the financial statements

Responsibilities of management and the board of directors for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the 'RJ-Richtlijn 640 Organisaties zonder winststreven' (Guideline for annual reporting 640 'Not-for-profit organisations' of the Dutch Accounting Standards Board). Furthermore, management is responsible for such internal control as management 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, management is responsible for assessing the entity's ability to continue as a going concern. Based on the financial reporting framework mentioned, management should prepare the financial statements using the going concern basis of accounting, unless management either intends to liquidate the entity or to cease operations or has no realistic alternative but to do so.

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

The board of directors is responsible for overseeing the entity's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit engagement 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 scepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included among others:

- 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 entity's internal control;
- evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

- 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 entity'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 an entity 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 those charged with governance 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.

Hoofddorp, December 19, 2022
RSM Netherlands Accountants N.V.

Digitaal ondertekend door:
Wilfred Castricum
19 december 2022 15:42 +01:00...



Drs. W.J.O. Castricum RA

APPENDIX 1: DETAILED OVERVIEW OF FAR'S RESEARCH PROJECTS COMMITTED TO IN 2021

(Please see FAR website for all FAR projects)

TITLE	WHAT?	WHY?	WHO?
PROJECT NUMBER <i>2021B01</i>	<p><i>False positives vs. hit rates: Does the framing of data analytic calibration affect auditor skepticism?</i></p> <p>In this proposal we posit that, in settings where analytic tools are very well calibrated (false positive rates are lower or hit rates are higher), expressing these rates to audit staff will improve their responses to fraud red flags identified by such tools and, in turn, their skeptical actions (vs. not expressing the rates). However, under conditions where analytic tools are effective, but not as well calibrated (false positive rates are higher or hit rates are lower), we expect that the framing of the rate of calibration will impact auditor skepticism when an analytic tool identifies a fraud red flag.</p>	<p>The emergence of new audit data analytics (ADA) in the audit environment allows auditors to gain deeper insights into their clients' data, but simultaneously creates unique challenges for auditors when exercising skepticism.</p>	<p>Xiaoxing Li <i>PhD student, Vrije Universiteit of Amsterdam</i></p> <p>Prof. dr. A. Gold <i>Professor of Auditing, Vrije Universiteit of Amsterdam</i></p> <p>Dr. J. Brazel <i>Professor, North Carolina State University</i></p> <p>Dr. T. Schaefer <i>Assistant professor, University of Missouri-Kansas</i></p>
PROJECT NUMBER <i>2021B02</i>	<p><i>Improving auditor's fraud planning judgements through premortem reasoning</i></p> <p>The purpose of this project is to evaluate the efficacy of premortem reasoning in fraud planning judgments. Specifically, we examine whether asking auditors to use this reasoning approach will improve their fraud planning effectiveness without compromising audit efficiency.</p>	<p>Auditors have difficulties planning an audit engagement to detect their client's fraudulent financial reporting. At the same time, there is an emerging consensus across jurisdictions that auditors can and should do more in terms of detecting material fraudulent financial reporting (fraud) to narrow the gap between society's expectation and what auditors can and must deliver.</p>	<p>Prof. S. Asare <i>KPMG Professor in accounting, University of Florida</i></p> <p>Dr. I. Verwey RA <i>Professor Accounting, Auditing and Control, Business Universiteit Nyenrode</i></p>

TITLE	WHAT?	WHY?	WHO?
<p><i>Auditors' Going Concern Decisions: Insights from Practice</i></p> <p>PROJECT NUMBER 2021B03</p>	<p>We aim to fill the gap in the literature by conducting in-depth interviews with experienced auditors, thereby aiming to (i) unpack auditors' GCO decision-making process, (ii) identify key factors that lead auditors to issue, or forego, a GCO, and (iii) establish future research opportunities.</p>	<p>Decisions regarding going concern opinions (GCO) are among auditors' most important judgments, as GCOs impact the client company, financial statement users, financial markets, and auditors themselves. However, evaluating management's assertion that an entity will continue as a going concern is also one of the most challenging tasks that auditors perform.</p>	<p>Prof. M.A. Geiger <i>Professor of Auditing and Accounting, University of Richmond</i></p> <p>Prof. dr. A. Gold <i>Professor of Auditing, Vrije Universiteit of Amsterdam</i></p> <p>Prof. dr. P. Wallace <i>Professor of Auditing, University of Amsterdam, and Vrije Universiteit of Amsterdam</i></p> <p>Dr. D. Detzen <i>Ass. Prof. of accounting, Vrije Universiteit of Amsterdam</i></p>
<p><i>Auditors aren't cut from the same cloth: Why management controls don't have the same effect for all auditors</i></p> <p>PROJECT NUMBER 2021B04</p>	<p>Even though audit quality is known to be key to reporting quality, the capital market, and the society at large, auditing firms have persistent problems with ensuring a consistently high job performance of auditors, and, thus, audit quality. With three distinct, but interconnected research projects, we contribute to the knowledge about ways to increase audit quality.</p>	<p>Despite the importance that auditing firms attach to ensuring audit quality, they still struggle with how they can better provide this quality to their clients as well as to the capital market and society in general (Verschoor, 2018; Wyatt, 2004). Auditing firms find that it is challenging to motivate auditors to improve audit quality, especially given the complex nature of many auditing tasks</p>	<p>Prof. dr. P.M.G. van Veen-Dirks <i>Prof. of accounting, Rijksuniversiteit Groningen</i></p> <p>Dr. L. Bellora-Bienengräber <i>Ass. Prof. of accounting, Rijksuniversiteit Groningen</i></p> <p>Prof. S.K. Widener <i>Professor, Clemson University</i></p>

APPENDIX 2: OUTPUT LIST OF REALIZED FAR PUBLICATIONS IN 2021

(Please see FAR website for all publications)

REALIZED CONTRIBUTIONS AND ACTIVITIES		
FARview #19 with Jonas Vandennieuwenhuysen on ' Het accountant selectieprocess '	24 December 2021	https://foundationforauditingresearch.org/en/news/farview-19-with-jonas-vandennieuwenhuysen-podcast-in-dutch/
Presentation to EC by Tjibbe Bosman on ' Root cause analysis going concern ' for the NBA	15 December 2021	https://foundationforauditingresearch.org/files/results-root-cause-analysis-going-concern-15-12-2021.pdf
Practice Note - Society paper on ' De rol van de accountant bij faillissementen ' by WP Tjibbe Bosman RA MSc	9 December 2021	https://www.nba.nl/dashboard/maatschappij/onderzoeker-tjibbe-bosman-over-de-rol-van-de-accountant-bij-faillissementen/
FAR Research Paper: ' Bankruptcy and Auditor's Reporting in the Netherlands ' by WP Tjibbe Bosman RA MSc, Merel van der Kuip MSc, Dr. Wim Janssen	9 December 2021	https://foundationforauditingresearch.org/files/papers/bankruptcy-and-auditors-reporting-in-the-netherlands-manuscript.pdf
FAR Brown-Bag Seminar - Junior Faculty - Young Profs in Auditing	3 December 2021	https://foundationforauditingresearch.org/en/event/far-young-academic-brown-bag-seminar-29/
FARview #18 with Eddy Cardinaels and Simon Dekeyser on ' Workload allocation process within audit firms '	26 November 2021	https://foundationforauditingresearch.org/en/news/farview-18-with-eddy-cardinaels-and-simon-dekeyser-podcast-in-dutch/
FAR Online Masterclass by Anna Gold and Andrew Trotman on ' Improving the quality of global group audits: do group auditor involvement and component auditor involvement matter? '	19 November 2021	https://foundationforauditingresearch.org/en/event/online-far-masterclass-by-prof-dr-a-gold-and-ass-prof-a-trotman-on-improving-the-quality-of-global-group-audits-do-group-auditor-involvement-and-component-auditor-involvement-matter-30/
FAR Mazars Update session by Prof. dr. Olof Bik RA	8 November 2021	https://foundationforauditingresearch.org/files/far-mazars-update-session-20211108-ano.pdf
FARview #17 with Tjibbe Bosman on ' Audit firm culture dimensions, audit quality and office growth '	25 October 2021	https://foundationforauditingresearch.org/en/news/farview-17-with-tjibbe-bosman-podcast-in-dutch/

REALIZED CONTRIBUTIONS AND ACTIVITIES

FAR Literature Review: " Engaging auditors' innovation mindset to mitigate goal conflict and improve audit effectiveness with data analytics: thinking outside of the box" by Prof. dr. Anna Gold, Ass. Prof. Tina Carpenter, Prof. Margaret Christ	18 October 2021	https://foundationforauditingresearch.org/files/literature-review-2019b02.pdf
FAR Brown-Bag Seminar - Junior Faculty - Young Profs in Auditing	17 September 2021	https://foundationforauditingresearch.org/en/event/far-young-academic-brown-bag-seminar-26/
FAR Literature Review and practice note: ' Workload allocation process in audit firms ' by Prof. dr. Eddy Cardinaels, Ruiqiong Zhang, PhD student, Dr. Amin Sofla, Ass. Prof. Simon Dekeyser	20 July 2021	https://foundationforauditingresearch.org/files/papers/literature-review-2019b03-01.pdf https://foundationforauditingresearch.org/files/papers/practice-note-2019b03-01.pdf
FAR Literature Review: ' Management control in auditing firms and its implications for managing coexisting objectives ' by Sander Tiggelaar, PhD student, Prof. dr. Paula van Veen-Dirks, Dr. Sakshi Girdhar, Prof. Breda Sweeney	16 July 2021	https://foundationforauditingresearch.org/files/literature-review-tiggelaar-van-veen-dirks-girdhar-sweeney.pdf
FAR Working Paper: ' The imitation behaviors of junior auditors: Does it enhance or hamper audit quality? ' by Prof. dr. Eddy Cardinaels, Prof. dr. Kristof Stouthuysen, Dr. Evelien Reusen, Viola Darmawan, PhD student	2 July 2021	https://foundationforauditingresearch.org/files/20210621-far-conference-cardinaels-et-al-imitation-behavior-of-junior-auditors-final-version-1.pdf
FARview #16 with Iver Wiertz on ' Virtual audit teamwork '	2 July 2021	https://foundationforauditingresearch.org/en/news/farview-16-with-iver-wiertz-podcast-in-dutch/
Society paper: ' Denken als een adviseur '	28 June 2021	https://foundationforauditingresearch.org/files/society-paper-denken-als-een-adviseur.pdf
FAR Pre-print: ' Robotic Process Automation for the Extraction of Audit Information: A Use Case '	28 June 2021	https://doi.org/10.2308/CIIA-2020-043
FAR Brown-Bag Seminar - Junior Faculty - Young Profs in Auditing	25 June 2021	https://foundationforauditingresearch.org/en/event/far-young-academic-brown-bag-seminar-25/
FARview #15 with Tjibbe Bosman on ' Robotic Process Automation for the Extraction of Audit Information: A Use Case '	24 June 2021	https://foundationforauditingresearch.org/en/news/farview-15-with-tjibbe-bosman/

REALIZED CONTRIBUTIONS AND ACTIVITIES

FAR's 2 nd Online Conference entitled ' Auditing – The Human Factor '	21 June 2021	https://foundationforauditingresearch.org/en/event/open-for-registration-far-international-conference-auditing-the-human-factor-24/
FAR Literature Review: ' Learning in the auditing profession: A framework and future directions ' by Christian Peters, PhD student	4 June 2021	https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3496805
FAR Practice Note: ' Accountancy: Een leven lang leren ' (NL) Prof. dr. Bart Dierynk, Prof. Kathryn Kadous, Christian Peters, PhD student FAR Practice Note: ' Auditing: Lifelong learning ' (ENG) by Prof. dr. Bart Dierynk, Prof. Kathryn Kadous, Christian Peters, PhD student	4 June 2021	https://foundationforauditingresearch.org/files/papers/peters-tilburg-phd-final-version-en.pdf https://foundationforauditingresearch.org/files/final-version-nl-practice-note-nl.pdf
FAR Online Masterclass by prof. dr. Christian Hofmann on " Internal control quality and audit quality "	18 May 2021	https://foundationforauditingresearch.org/en/event/online-far-masterclass-by-prof-dr-christian-hofmann-on-internal-control-quality-and-audit-quality-23/
FAR Professional paper: Hoe leren goed te leren?	31 May 2021	https://foundationforauditingresearch.org/files/papers/hoe-leren-goed-te-leren.pdf
FAR Literature Review and Practice Note - ' The measurement of audit quality in the Netherlands ' by WP Tjibbe Bosman RA MSc	12 April 2021	https://foundationforauditingresearch.org/files/papers/bosman-2021-mab-literature-review.pdf https://foundationforauditingresearch.org/files/papers/lq2-far-practice-note-the-measurement-of-audit-quality-in-the-netherlands-20210401.pdf
Other Publications: Audit firm culture: Recent developments and trends in the literature	7 April 2021	https://doi.org/10.1080/09638180.2020.1846574
FAR Professional Paper: Fouten of Fraude	1 April 2021	https://foundationforauditingresearch.org/files/papers/fouten-of-fraude.pdf https://foundationforauditingresearch.org/files/papers/error-or-fraud(2).pdf
FAR Online Masterclass by Ann Vanstraelen: ' The drivers and impact of audit committee involvement on audit quality '	5 March 2021	https://foundationforauditingresearch.org/en/event/online-far-masterclass-by-prof-ann-vanstraelen-and-prof-ganesh-krishnamoorthy-on-the-drivers-and-impact-of-audit-committee-involvement-on-audit-quality-22/

REALIZED CONTRIBUTIONS AND ACTIVITIES

FAR Practice Note: “ Can audit committee support improve auditors’ application of professional skepticism? ” by Prof. dr. Anna Gold, Prof. Joseph Brazel, Dr. Justin Leiby, Tammie Schaefer PhD	3 March 2021	https://foundationforauditingresearch.org/files/papers/far-practice-note-bgl-10-02-21def-2018b04-gold.pdf
FAR Working Paper: ‘ Network structure and auditor compensation: Evidence from a bipartite network ’ by James Zhang, Prof. dr. Reggy Hooghiemstra, Prof. dr. Floor Rink & Dr. Dennis Veltrop	24 February 2021	https://foundationforauditingresearch.org/files/papers/working-paper-network-structure-and-auditor-compensation-14-09-2020-hooghiemstra.pdf
FARview #14 with Sebastian Kuhn on ‘ Internal control quality and audit quality ’	4 March 2021	https://foundationforauditingresearch.org/en/news/farview-14-with-sebastian-kuhn/
FARview #13 with professor Jeroen Suijs on ‘ Does the private owner-managed firm audit market serve a different purpose? ’	23 February 2021	https://foundationforauditingresearch.org/en/news/farview-13-with-professor-jeroen-suijs-podcast-in-dutch/
FAR Online Masterclass by Jeroen Suijs: ‘ Does the private owner-managed firm audit market serve a different purpose? ’	22 January 2021	https://foundationforauditingresearch.org/en/event/online-far-masterclass-by-prof-dr-jeroen-suijs-on-does-the-private-owner-managed-firm-audit-market-serve-a-different-purpose-20/
FARview #12 with Professor Mark Peecher on ‘ Assessing and addressing fraud risk based on earnings calls ’	21 January 2021	https://foundationforauditingresearch.org/en/news/farview-12-with-professor-mark-peecher/

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The Foundation for Auditing Research aims to enhance the knowledge of what makes a good audit today and to continuously improve audit practices. In a swiftly changing context regarding expectations and demands, FAR facilitates rigorous academic research with practical relevance for the auditing field. 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 pursues these objectives by researching the drivers of audit quality, by collaborating with other research institutes internationally, and by sharing its findings through research conferences and masterclasses.

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