

Executive Summary – Paper 3

Paper 3 Piloting a Potential New Approach to Knowledge Transfer in Audit Standard Setting

Reference: Hoang, K., Luo, Y. and Salterio, S.E. (2020). **Evidence-Informed Audit Standard Setting: Exploring Evidence Use and Knowledge Transfer in Development of the Group Audit Standard.** Under review for publication.

Objectives: We apply a rigorous design science research (hereafter DSR) approach that fully operationalizes, in the audit domain, a research synthesis modeled on knowledge transfer best practices:

1. To demonstrate that a research team, under normal academic operating conditions, can create an evidence-based research synthesis to address a practical audit standard setting issue (i.e., efficient creation).
2. To show that the research synthesis is effective at knowledge transfer in the audit standard setting domain and results in perceived value added to the standard setting process (i.e., effective transfer).
3. To provide evidence about whether the process can be carried out in a timely fashion consistent with the demands of the audit standard setting process (i.e., efficient production).

Key takeaways:

1. **We (the academic research team) employ a simulation with the intended solution users (standard setters) to develop and evaluate a research synthesis prototype for a specific instance of a practice issue. We follow the guidelines in evidence-based management literature for rapid production of research syntheses.**
 - We chose our simulation setting based on documentary evidence of IAASB deliberations on a specific group audit standard setting issue in 2002-2004, where we find no mention of extant academic research (or any other systematically collected evidence) in the IAASB’s deliberations over this issue.¹
 - We recruited a former national auditing standard setter with significant, high level IAASB experience to independently commission a diverse group of three former standard setters to act with him as the standard setting task force to liaise with the research team.
 - We produce the synthesis in real-time and complete the simulation within the typical 10-12 weeks between standard setters’ meetings.
2. **Our simulation is a “proof of concept” that:**
 - Our research team could work with standard setters to:
 - define a precise question based on the practice issue, and
 - establish joint expectations about what research evidence might be available and how such evidence might be useful to standard setters.

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- We could synthesize the relevant academic evidence into a format that the standard setters perceived as useful and understandable (see the group audit issue synthesis and its supporting appendix behind Tab 3).
- Standard setters believed the synthesized research evidence (all of which was available at the time of the initial decision) would have been useful and likely have influenced the standard setting deliberations on that particular issue if communicated at that time.
- Supporting the utility (and potential transferability) of the research synthesis approach, the standard setters suggest several current standard setting issues that could benefit from the synthesis approach.

Notes about our research approach:

1. The DSR approach enables us to produce and analyze evidence about the research synthesis's efficiency and effectiveness for transferring academic knowledge about a "real world" problem to "real world" standard setters (i.e., its "pragmatic validity" in DSR terms).
2. A goal of design science is to advocate for change where there is a gap between the desired outcome and the current state of the world. In this spirit, one objective of this project was to demonstrate that audit academics and standard setters could adapt the research synthesis approach from other evidence-based disciplines to auditing and by extension potentially financial accounting. While our former standard setters were initially skeptical about the prospects for a successful output from the simulation, by the end of the process, they expressed strong beliefs that this research synthesis approach to academic knowledge transfer would be effective in the audit setting. Further, they made concrete suggestions about other issues in audit standard setting where they believe standard setters would benefit from the research synthesis. These suggestions provide further evidence that this proposed solution could generalize beyond our specific instantiation.
3. By designing and executing the simulation with expert participants in an audit standard setting context, we have validated the practical usefulness of the research synthesis with lead users in the field. Our findings provide rich and nuanced contextualization for how audit academics and standard setters could collaborate in practice to co-create research syntheses on key issues.

ⁱ We employ a specific group audit standard setting issue identified during the IAASB deliberations during its first attempt to revise the "group audit" standard (ISA 600, then known as "Using the work of other auditors"). The issue centered on the IAASB's initial 2003 exposure draft that allowed two options for group auditor involvement in a subsidiary (or a "component") audit where another auditor audits that subsidiary (i.e., "sole versus divided responsibility"). We suggest that this issue is a "typical" instantiation of a setting where academic knowledge transfer could occur.