

Development of the Audit Theory Based on Identification of Its Institutional Paradigm

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Abstract— The article deals with the development of the theory of audit based on the proof of the hypothesis that the institutional paradigm of audit exists. The process of changing the paradigm of audit science is substantiated. Institutional theory of audit based on the works of foreign authors from the United States, Great Britain, Pakistan, the Netherlands, Libya, Malaysia. The design of the institutional approach of audit research, which includes three areas: philosophical, methodological and institutional analysis, is expanded. The conceptual structural scheme of the audit institution based on the system methodology of G. B. Kleiner, taking into account the established limitations, is presented. The scientific provisions of the institute of audit as an object, environment, process and project are substantiated.

Keywords— *audit; institutional approach; institutional paradigm of audit; evolution of the research of auditing; auditing problems; new institutional theory of auditing; structure of the audit institution; conceptual framework of audit institution, audit institution as an object, environment, process and project.*

I. PROBLEM STATEMENT

The set of methodological approaches to audit research gives grounds to believe that there is a process of paradigm change in the economic science of audit, the essence of which is "recognized by all scientific achievements, which for a certain time give the scientific community a model of problem statement and their solutions" (T. Kun, 1977. P. 11) [1].

The paradigm in the methodology of science is associated with the initial conceptual scheme, the model of problem statement and ways of solving them, research methods, values, technical skills and means that prevail during a particular historical period in the scientific community and have become a scientific tradition.

The paradigm allows to clarify, recognize, develop and specify the essence of things and situations. The "paradigm theory" formulates the problem, guarantees "the existence of a certain solution", but also requires efforts aimed at "the development of the paradigm" (T. Kun, 1977. P. 50) [1].

By classifying experimental activities, T. Kuhn highlights "the empirical work that is undertaken to develop a paradigm theory in order to resolve some remaining ambiguities..." (T. Kun, 1977. P. 49) [1].

The conclusion of T. Kun that "the formation of the

paradigm and the emergence of a more esoteric type of research on its basis is a sign of maturity of any scientific discipline" (T. Kun, 1977. P. 30) [1]. According to Kun, the concept of the development of science is a change of paradigms, while there are signs of the pre – revolutionary situation in science. In our opinion, these features are presented in the modern audit.

The purpose of the study is to identify the institutional paradigm of audit and on this basis to develop its theory.

II. "OTHER KNOWLEDGE" ABOUT AUDITING KNOWN ABROAD

Institutional aspects of the existence and development of knowledge about audit are not fully examined, there is a scientific problem - the need to obtain clearly stated parameters of new scientific knowledge about audit required by society, formed in the scientific theory, the truth of which must be proven by the test. Without their comprehensive and in-depth analysis, we cannot reason on the fundamental nature of modern Russian audit.

Modern audit to a wide extent, from the author's point of view, is a form of administrative and economic control over the development of territories (G. A. Chekavinskaya, 2013) [2].

In Russia, it has long been forbidden to apply "other knowledge" about auditing known abroad. This caused a crisis in auditing, as the essence of "other knowledge" would allow to develop and find solutions to audit problems through the prism of determining the impact of institutions on the behavior in society, as well as to assess the emergence, change and measurement of institutions.

In Russia, the theory of audit was within the framework of laws and standards, little study was made of the nature of audit and its diversity, and research procedures were not diverse. "Other knowledge" is a view of audit as a science and practice from the point of application of institutional theory.

In the 1960-1970s, the institutional views in the world began to change significantly, primarily in the United States. The evolution of the institutional audit environment in the US has determined the development of the Russian audit. Presented characteristic of the decision-making process in the context of active and passive accounts and audit reports

reflects the rules of the early American audit (William H. Bell, 1928) [3].

In our opinion, in some studies (James T. Johnson and J. Herman Brasseaux, 1960) [4], in the evaluation of the system of rules and institutional environment of auditing in the US in the 1960-ies the elements of the concept of methodological institutionalism were implemented more soundly. An attempt to explain the institutional status of the audit by means of postulates and standards was made by American scientists (R. Mautz and H. Sharaf, 1961) [5] in their work "Philosophy of audit".

Foreign studies of the institutional field of audit continued: in 1980, American scientist (W. A. Wallace, 1980) [6] examined applications of economic rules and norms of audit in free and regulated markets; in 1982, American scientist (R. Antle, 1982) [7] analyzed the activities of the auditor as an economic agent and published his research in the journal of accounting science.

The development of the theory can be traced in the article (R. Watts and J. Zimmermann, 1983) [8] "Agency problems, audit and theory of the firm, some evidence". The application of institutional theory to audit to study its crisis state in 1991 was proposed and tested by American authors (T. Fogarty, J. B. Helan and D. L. Knutson, 1991) [9].

The importance of the implementation of the institutional audit approach in the framework of the application of the theory of agents has been confirmed in 2005 by the Institute of chartered accountants of England and Wales and supported by the Institute of chartered accountants of Pakistan through a literal translation of the transcript of the Forum's Audit Quality, which noted that the study of the relationship principal-agent in the audit is very important for understanding directions of development of the statutory audit, its usefulness and purpose (Institute of Chartered Accountants of Pakistan, 2006) [10], which stimulated international discussion about the role of the audit.

Following the concept of methodological institutionalism in the study of audit is also observed in the works of scientists from the USA and the Netherlands. They view audit as a different management practice and attribute it to the recognition of public interest (R. Hayes, R. Dassen, A. Schilder and Ph. Wallage, 2005) [11].

More recent foreign publications differently interpret the application of institutional theory in audit. In the work of authors from Libya and Malaysia (Kh. A. Endaya and M. M. Hanefah, 2013) [12] there are three theories, which, in their opinion, are the basis of effective internal audit: the theory of agents, institutional theory and communication theory.

The authors argue that it is institutional theory that explains how organizational structures and practices are formed through changes caused by external forces that affect both individuals and organizations. These include laws and regulations (forced isomorphism), selection of other organizations (mimetic isomorphism), advisory or professional bodies (normative isomorphism).

III. INSTITUTE OF AUDIT: FROM TERMINOLOGY TO THEORY

The audit system can be considered as a part of the state, which aims to transform all other areas by means of independent verification and confirmation of the reliability of accounting (financial) statements, taking into account the performance of preventive functions as well. A special feature is that such a system requires scientific and methodological justification at the state level. For example, when allocating the levels of support for the sphere of state activity Malevsky emphasizes: "Solving its applied tasks in the fight against crime, each state should have not only its institutional and legal framework, but also the appropriate scientific and methodological support..." (G. Malevsky, 2012) [13].

Paradigm uncertainty in the field of audit notes (V. T. Chaya, 2013) [14], revealing a negative trend away from specific issues of development of audit activities in Russia to general issues and the lack of a coherent theory of audit and audit activities and the conceptual framework for their development. As a result, (M. V. Melnik and R. P. Bulyga, 2015) [15] call audit one of the most difficult types of professional activity. They analyze the reasons of non-performance by auditors of their role during the world economic crisis and offer measures for the profession to let it of the stagnation. In our opinion, the concept of reformation and the new audit paradigm of the XXI century, proposed by the authors (M. V. Melnik and R. P. Bulyga, 2015) [15], is of particular value.

Previously, we proposed the design of the institutional approach to the studies of the audit (G. A. Chekavinskaya, 2013, 2014) [16] [17] [18] [19]. We identified the author's theory of the research methodology of the audit, including three directions (G. A. Chekavinskaya, 2016) [20].

1. Philosophical - defines the criteria for the analysis of the grounds for the application of the institutional approach, reveals the status of the approach in the general institutional theory, determines the strategy of the institutional approach, including the choice of actual problems (Why apply? What for apply?).

2. Methodological - forms general scientific status, special methodological and theoretical functions of the institutional approach (How will we be applied? What benefits will we get?) The methodological direction reinforces the advantages of interdisciplinary audit study and is justified at the level of analysis of shadow relations (M. V. Golovko, 2011. PP. 63-67) [21].

3. Institutional analysis involves the use of methods based on the ideas and provisions of the institutional theory and the receipt of specific scientific conclusions - the original conceptual framework (paradigm). Institutional audit analysis is a research program that studies the relationship of knowledge about audit and its organizational and institutional context in terms of actual historical specificity. Selecting the audit as the subject of the analysis, we reflexively address the subject of organizational forms and institutions of audit, the issues addressed in their specifics and genealogy, heuristic productivity and limits of the methodology used for analysis in the field of audit.

Researchers V. M. Efimov and V. S. Avtomonov call institutionalism and the historical school more concrete canon of economic science. They note the reference point for direct practical application, taking into account the spatial and temporal specifics, the relationship with other social sciences, the presence of their own philosophy, theory and practice. Pragmatic philosophy of John Dewey can be considered as the basis of institutionalism (V. M. Efimov, V. S. Avtomonov, 2016) [22]. The new audit study is consistent with Dewey's view that all institutions are essentially reasonable, if we "discover and adhere to their original meaning" (V. M. Efimov, 2015) [23].

Based on the philosophical judgments of J. Dewey V. M. Efimov makes a very important conclusion: "a pragmatic approach to the economy is to consider it as a stream of activity of the people involved in it. In the flow of economic activity the following four levels can be identified: 1)cognitive; 2)institutional; 3)power; 4)resource and technology" (V. M. Efimov, 2015) [23]. It is emphasized that the institutional level is important when the mechanism of economic activity and the changes taking place in it are studied (V. M. Efimov, 2015).

In his work O. S. Sukharev supported the priority of institutional analysis in the study of economic changes: "if the neoclassic studies the essence of economic phenomena, the problem of choice in the aspect of the distribution of preferences and income, the institutional economy is primarily interested in how and why public institutions operate, to what extent they determine the allocation of resources and income and how they determine human behavior in specific historical conditions. But the problem is that the views on the nature and essence of the institution, the process of inheritance of institutional features, the definition of the relationship of institutions and needs "differ even among recognized leaders of the institutional movement" (O. S. Sukharev, 2013. P. 4) [24] and it remains unclear "how to present the Institute in the form of thinking and stereotypes" (O. S. Sukharev, 2013. P. 11) [24].

Here are some essential formulations of the institute. The classic D. North's definition of institute is "Institutions are "the rules of the game" in society, or, more formally, a human-made restrictive framework that organizes relationships between people" (D. North, 1997. P. 18) [25]. Evolutionary types of the category "institute" are analyzed in the Inshakov's and Frolov's monograph (O. V. Inshakov, D. P. Frolov, 2007) [26]. Those types are norms and rules, organizations and institutions, bodies and relations, communities and statuses, routines and rituals, customs and traditions, way of thinking and behavior.

Structural addition is received by category of institute in definition of A. A. Auzan: "Institute is a rule or a set of rules having the external mechanism of coercion of individuals to execution" (A. A. Auzan, 2011. P. 32) [27]. Modern scientists do not deny the interpretation of institutions as rules and organizations, but the system interpretation of the institute is recognized as the up-dated: "if institutions can be calculated, why not measure them? But this requires a systematic approach to institutions. The approach is of particular

importance in the transition situation: what is taken as a given in a stable state ceases to be such in the transition" (B. A. Yerznkyan, 2016) [28]. We have not ruled out such a systematic approach in the past, considering the institutional approach in the audit as a kind of complex and systematic approach on the basis of close interaction of the researcher with representatives of different sciences (audit, economic theory, institutional economics) in the field of audit problems (G. A. Chekavinskaya, 2016. P. 284) [20].

According to the system methodology (G. B. Kleiner, 2012. P. 14-46) [29] institutions are treated as objects, environments, processes and projects, and the main paradigms of the economy – this is neoclassicism ("object" paradigm (1920-1980 biennium)), institutional economics ("environmental" paradigm (1920-1990 biennium)), evolutionary theory ("process" paradigm (1980-2000 biennium)), system economy ("system" paradigm (late 1990-x to the present)). System interpretation of the institute following G. B. Kleiner (G. B. Kleiner, 2012. P. 14-46) [29] is recognized by B. A. Yerznkyan (B. A. Yerznkyan, 2016) [28], who instead of treating institutions as rules, organizations etc., offers to identify and study the system.

In our opinion, the appeal to paradigms is aimed at overcoming fragmentation and inconsistency in the economic science of audit. The audit profession and the audit market require the development and implementation of urgent measures to improve them, which according to the Ministry of Finance concept should be implemented by 2021. Eliminating methodological settings (G. B. Kleiner, 2012. P. 14-46) [29] in the sphere of audit, we offer the author's concept of the institute of audit as the basis of economic behavior, within which the scientific theory of audit should be developed, as well as its provisions stated in the Draft Concept for the further development of audit activities in the Russian Federation, approved by the audit Council on June 23, 2016:

1.The institution of audit as an object is a system of organizations that jointly generate regularity of social behavior (economic institutions: the state, state and non-state institutions, organizational and legal structures, state and private enterprises).

2.The audit institution as an environment is a system of rules that structure social interactions. According to North (D. North, 1997) [25], the existence of rules of the game (restrictive framework) already emphasizes the importance of institutional environment (norms, traditions, schemes, rules of behavior, algorithms, matrices of individual behavior, motives of behavior, habits, moral and legal norms).

3.The Institute of audit as a process is a system of ideas about audit as a game of rules in time and space. Here it is necessary to study the mechanisms and devices in the management structures, to identify costs in the field of joints of technological processes of audit and transactions. In our opinion, a process study of the audit will help to understand its nature (competition, economic phenomena and mechanisms, public opinion, institutional audit mechanism).

4.The audit institution as a project is the result of interaction of the audit institution as an object, environment

and process. This definition is based on the proposal (B. A. Yerznkyan, 2016) [28] to treat the system as a means of solving the problem (the project) and to include ideas and beliefs in the project – the basis of informal norms. And this way ideas and beliefs form an ideology. In our case, the project is the "draft Concept for further development of audit activities in the Russian Federation, approved by the audit Council on 23 June 2016". This is a significant new addition, developing the existing system of already known scientific knowledge about audit.

In contrast to the institutional audit concept (N. G. Kondrashova, 2012. P. 206-210) [30] we examine the institution of audit as a system that includes requirements for the institution of audit as an object, environment, process and project.

In our opinion, it is not quite reasonable to single out the "audit institution" itself as a separate element of the institutional concept, since the author (N. G. Kondrashova, 2012. P. 206-210) [30] already includes the formulation of the institutional concept in the definition of the institute of the audit. In addition, following this methodology (G. B. Kleiner, 2012) [31], we perceive the interpretation of the audit institution as an environment as a broader concept that combines the first two elements of the institutional concept of audit of N. D. Kondrashova: 1) the institute of audit as "a set of fundamental concepts, norms, rules and standards that define the main content of audit activities" and 2) the institutional environment of audit as "a set of fundamental concepts, norms, rules and standards that define the main content of audit activities." The conclusion is that the rules themselves and the relationship with respect to their implementation should be a cumulative element of the concept.

IV. CONCLUSIONS

In our view, the institution of audit is not just a set of normative guidelines or institutions. The institute of audit as a project (a means of solving the problem) can be correlated with the concept of "institutional system", "institutional structure", "institutional environment", "institutional mechanism", the generally accepted interpretation of which does not exist for the field of audit. Here are the author's positions:

The institutional structure of audit describes the institution of audit as an object, regulates and limits the relations in the course of audit activities; it is a system of audit entities.

The institutional environment of audit is a set of economic, legal, political and social norms that coordinate the organizational and economic relations of various entities in the course of audit activities. Currently, the institutional environment of audit is actively formed and changing.

The institutional audit mechanism is the institution of audit as a process, methods and ways of using the norms, rules and standards of audit in practice. This is a way of establishing order, stability and following the rules of the economic mechanism, as well as ensuring the reproduction of adequate manifestations of the external environment of institutions.

It should be noted with regret that the developers of the Draft Concept of further development of audit activity in the Russian Federation, approved by the audit activity Council on June 23, 2016, do not provide clear criteria for the design of the audit institution in the Russian Federation, equate the term "audit activity" and "audit institution". The definition of the **audit institution itself** is not given, which gives grounds for its ambiguous interpretation. The Concept contains statements that "... by 2016 in the Russian Federation, an audit institution has been established and is functioning, which corresponds mainly to the modern internationally recognized model of organization and regulation of audit activities." But there are not enough evidence of such compliance.

If we follow the scientific direction, the proposed structure of the institute of audit is reliable and can be analyzed in this interpretation by analogy with the institute of "economic family" - a tetrad developed by G. B. Kleiner (G. B. Kleiner, 2012) [31], which includes four economic systems of different types (objects, environments, processes and projects). But it is necessary to take into account the established (G. B. Kleiner, 2012) [31] restriction on fruitful cooperation between pairs of interactions: "object-environment", "environment-process", "process-project", "project-object" (Fig.1).

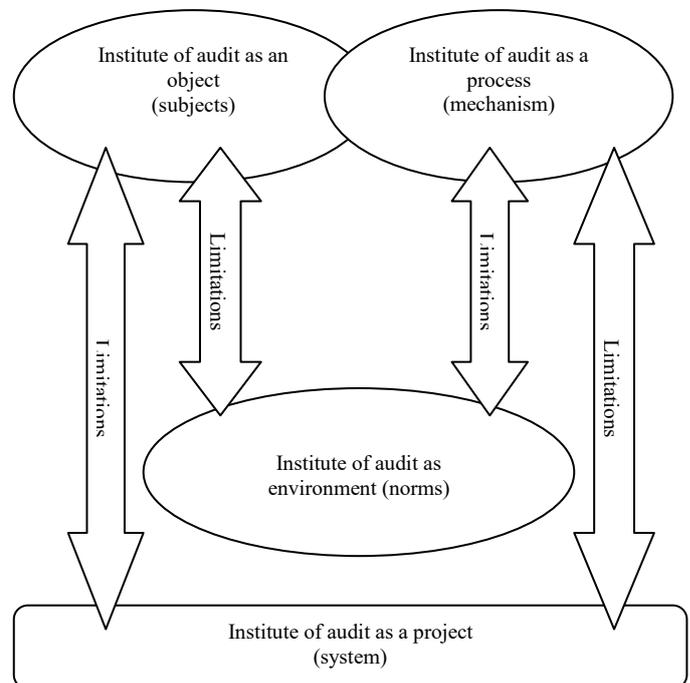


Fig. 1. Conceptual scheme of the audit institution from the standpoint of system economic theory
Source: compiled by the author on the results of the study

The essence of the "institutional paradigm" in the audit study is revealed through the methodological possibilities of the institutional approach. The application of the institutional approach allows to examine the audit as a holistic phenomenon, expressed in the construction of "institute of audit as the object-institute of audit, as environment-institute

of audit, as process-institute of audit as the project". Moreover, the function of the element "institute of audit as a project", in our opinion, is associated with the modification of the audit policy of Russia through the improvement of the mechanism of providing collective benefits, and the projected effective institutional audit system is able to ensure economic growth.

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