

Justification of the Institutional Approach to Audit

G. Chekavinskaya

Department of Economic Theory, Accounting and Analysis
Vologda State University

Russia

galina.chekavinskaya@mail.ru

Abstract— The article deals with the analysis of the possibility and necessity of using new approaches in accounting and auditing in Russia, one of which is the institutional approach, which should be used as a form and method of audit research. Within the framework of the development of the theory of the research method, the category "approach to research" is analyzed on the basis of the substantiation of the special role of the aspect approach along with the system and conceptual one. The evolution of audit studies based on the institutional theory based on the works of foreign authors from the United States, Great Britain, Australia, France, Canada, Germany and Ukraine is analyzed. The audit problems and the crisis situation in the audit activity of the Russian Federation, which justify the need for the development of a new institutional theory of audit, are identified.

Keywords— *audit; institutional approach; institutional paradigm of audit; evolution of the research of auditing; auditing problems; new institutional theory of auditing.*

I. INTRODUCTION

An interdisciplinary discussion of audit and economic theory brought institutional economics to the fore. D. North emphasized the importance of interdisciplinarity in the study of economic systems: "Understanding the functioning of the economic system requires consideration of a very complex intricate interactions between society and the economy" (D. North, 1997. PP. 143 – 144) [1].

At present, the institutional approach in Russia is represented, first of all, by the new institutional economic theory and economic sociology (V. M. Efimov, 2015. PP. 6-49) [2]. The importance of a new approach to macroeconomics, which is also based on the application of institutional methodology, is emphasized by R. M. Nureyev: "the methods of institutional economics are used to develop a wide range of problems – from the organization of tenders for the use of limited resources to the assessment of the impact on the social welfare of new laws (regulatory impact assessment)" (R. M. Nureyev, 2013. P. 10) [3].

The purpose of the study is to present arguments that justify the need to apply the institutional approach in explaining auditory theory and practice.

II. INSTITUTIONAL APPROACH AS A FORM AND METHOD OF RESEARCH AUDIT

The broader interdisciplinary discourse noted in Nureyev's work, containing essential argument that the use of methods of both traditional institutionalism and neo-institutionalism

with a wide range of their directions can be considered relevant for the development of systems (R. M. Nureyev, 2013. P. 13) [3].

The latter include the theory of property rights, the theory of transaction costs, the theory of contracts, theory of public choice, new economic history, economic theory of law, economic theory of criminal and law enforcement activities, economics of the firm, economic theory of contracts, theory of human capital, economic theory of organizations, economics of growths.

A very important argument for the use of the institutional approach in research is O. S. Sukharev's conclusions: "It is the institutions that create a certain level of uncertainty in the system. The task of effective management is precisely the ability to remove or reduce the high uncertainty, ensuring the achievement of the planned results" (O. Sukharev, 2012. P. 34) [4].

The incompleteness and imperfection of information and specification of property rights in the audit business, the market mechanism of audit and the variety of other markets, the constant exchange and the transaction costs that arise in this case, which increase the importance of economic and social institutions – are the signs that the methodology of the institutional economy should be applied in explaining the audit theory and practice.

Uncertainty destroys any economic system that is already vulnerable to crises and economic imbalances. Audit firms are struggling for market dominance, which determines significant transaction costs, and firm rules and mechanisms of enforcement (institutions) will help to reduce them, and therefore in the audit role of institutions should be properly evaluated.

There are other opinions. The priority of the system paradigm is emphasized by T. V. Petrenko. She notes the fact that "the institutional theory, supplemented by evolutionary views, is not able to cover the considered economic phenomena as the whole" (T. V. Petrenko, 2012. P. 27) [5].

T. V. Petrenko believes that the reason for this statement is the belief that only the system paradigm will allow to analyze objective laws of economic development, to highlight the relationship on the logically based methodology, reasoned and sufficiently complete categorical apparatus.

Theory and methodology are the next levels of scientific knowledge after the paradigm. For the purpose of any research

it is necessary to distinguish two types of theory: the theory of the subject of the research (specific problem, the resolution of which requires research) and the theory of the research method.

Highlighting two types of theory, the team of authors headed by Z. V. Bragina (Z. V. Bragina, 2016. C. 16) [6] categorize as the first type "some general unconditional knowledge", and as the second type - "knowledge for research".

The second type of theory is essentially a theory of methodology as a research procedure, which has a different from the general theory structure and contains:

1. Past knowledge – as typical, and conservative - as its complete or incomplete database.

2. Theory - how to find a solution to the problem outside of any subject area.

3. Development of such knowledge, which allows to solve the task, i.e. justification of the sequence of actions" (Z. V. Bragina, 2016. P. 17). Many scientists use the category "approach to research", make the name of a specific approach in the title of their scientific works.

The categorical form of this term is most accurately disclosed in (Z. V. Bragina, 2016. P. 26) [6]: "The approach is the perspective of the study, it is the starting point, from which the study begins and which determines its direction relatively to the goal". It should be noted that the approach to the study is formulated only after the designation of the purpose, object and subject of the study. Then the methodology is selected that includes the definition and formulation of guidelines and limitations.

"The aspectual approach is the choice of one facet of the problem on the basis of relevance, or on the basis of accounting for the resources allocated for the study" (Z. V. Bragina, 2016. P. 26) [6]. The system-related approach is also important, it involves taking into account all aspects of the problem, determining the nature of the relationship between aspects, properties and characteristics, the main and essential, the implementation of the principles of interconnection and integrity.

E.g., the problem of confidence in audit can have a historical aspect, logical, qualitative, quantitative, model, structural, functional, economic, socio-psychological, legal, institutional, complex, systemic, etc.

In our opinion, as a method of solving various economic problems, the institutional approach is used in integration with other approaches: neoclassical, economic and juridical, political-economic, socio-philosophical, evolutionary, hierarchical, civilizational, reproductive, corporate, conjunctural, cluster, ethno-economic, processual, sociodynamic, spatial, agent-oriented. There are variations of institutional approaches: the structural-institutional, process-institutional, motivational and institutional, sinergetik-institutional.

In some works give a clear structure of approaches to the theory of audit, which arose due to the use of the method of

analogy. In Alekseeva's work (I. V. Alekseeva, 2010) [7] it is proposed to consider three groups and six types of approaches used in the theory of accounting. Approaches are assigned to specific theories of audit: personalist theories (tax, legal, ethical, behavioral), materialistic (economic) theories (economic approach, which is divided into macro- and microeconomic and socio-corporate), neutral theory (structural approach).

It should be noted that the author does not consider the possibility of applying an institutional approach to the theory of audit, and does not take into account the fact that the proposed approaches are built into the not most common in comparison with the classical theories of adequacy, controlling and consulting classification theories of audit.

Previously, we gave evidence of the advantages of applying the institutional approach in the study of auditing activity of the Russian Federation, justified the need for the continued existence of audit institution in Russian (G. A. Chekavinskaya, 2013) [8]. We also determined the directions of formation of institutional environment of innovative development of regional audit activities, and developed stages of institutional development audit (G. A. Chekavinskaya, 2012) [9].

But the science of auditing is dynamic, and the interest of the institutional approach as a form and method of its research continues, but logically true, sufficient, proven arguments supporting the thesis that "the institution of audit matters" and "the structure of the institution of audit is clearly defined" is still not enough. Let's try to fill this gap.

III. EVOLUTION OF AUDIT STUDIES BASED ON INSTITUTIONAL THEORY: FOREIGN AND RUSSIAN EXPERIENCE

Foreign researchers note that the study of the field of audit has traditionally been conducted within the framework of the agency theory, abstracted from the institutional environment (Pilcher R., Gilchrist D. and Singh I., 2011) [10]. Australian scientists (D. G. Mihret, K. James and J. M. Mula, 2010) [11] argue that neoclassical economic theories were the main reason for limited research in the field of internal audit.

The authors criticize the assumption that organizational phenomena are conditioned only by the maximization of individual personal interests, and they confirm that human behavior cannot be distracted from social attitudes. In our opinion, the proposal (D. G. Mihret, K. James and J. M. Mula, 2010) [11] to use institutional theory for audit research in developed and developing countries is objectively and evolutionarily proven.

Some authors recommend to apply new institutional theory when studying the issues of audit regulation (Ch. Bake, J. Bédard and Ch. Hauret, 2014) [12]. They consider the audit regulation on the example of the USA, France and Canada since the adoption of the Sarbanes-Oxley Act in 2002 in the USA.

The authors interpret the growing apparent similarity in regulatory structures for mandatory audit in the three countries

as a result of external pressure from global capital markets for standardized regulatory procedures.

However, this obvious similarity may also be a form of "decoupling" in which subjects in the institutional field of professional regulation, under pressure from powerful external forces, seek to increase their legitimacy while maintaining internal flexibility and a certain ability to resist external influences in the institutional sphere.

Based on the findings of Prof. R. Scott from Stanford University (USA) (Richard W. Scott, 2008) [13], it can be stated that the profession of auditor adheres to the institutional model, but this model changes over time and requires examination. E.g., institutional analysis allows authors from the UK (H. Elbardan, M. Alic and A. Ghoneim, 2016) [14] to make a new qualitative conclusion about the motivation of changes in the practice and structure of internal audit functions in the implementation of planning systems in enterprises.

Investigating the regulation of audit in Germany, (L. Lohlein, 2016) [15] applies the theory of agents, studies models of institutional interaction in audit. The chapter 3 of his dissertation is devoted to the issues of institutional service of audit, its structure and institutional violations. The author substantiates the prevention of possible institutional destruction of the profession of auditor on the example of Germany.

Scientists from Australia and the UK (P. Boolaky and T. Soobaroyen, 2017) [16] recognize that the development of audit policy, practice and standardization internationally is influenced not by narrowly economic factors, but by a wide range of institutional factors. Analyzing audit problems, they consider Russia to be a part of the group of countries with non-equivalent translation of audit standards along with Macedonia, Montenegro, Slovakia, Slovenia, Serbia, the Greek Republic and Poland.

Their research is based on the institutional approach, and its application in the audit is based on the premise that organizations are able to respond to pressure from the institutional environment (the mechanism of coercion).

An important basis for the classification of institutional factors of the audit sphere is presented by E. A. Petrik (E. A. Petrik, 2013) [17]. Her work structures the components of the audit institution in Ukraine: science, profession, training.

For Russia, the study of audit on the basis of institutional theories is a relatively new research direction. E. M. Gutzait [18], V. T. Chaya [19], V. I. Petrova, V. V. Pankov [20], N. W. Kim, S. M. Bychkova, N. V. Fabisovich, L. A. Chaikovskaya [20], P. P. Baranov [21], E. Y. Itygilova [22], N. A. Kondrashova [23] challenge problems and try to find solutions in this sphere. But the structure of the "institutional theory of audit" in the scientific discourse is used by very few and primarily due to the fact that certain elements of the theory need to be improved.

The dynamics of the development of a common methodology for institutional research are presented in the work of A. E. Shastitko: "After summing-up of the first results of the operationalization of the concepts of Coase in the

collection of scientific articles (1987), dedicated to the 50th anniversary of the article "The Nature of the Firm" (Williamson, Winter, 2001), institutional research has assumed much greater scale. If in the 1990s there were reviews of the methods and results of the institutional economy (Eggertsson, 2001; Furubotn, Richter, 2005), in the 2000s anthology of the new institutional economic theory was published (Menard, Shirley, 2008)" (A. E. Shastitko, 2016. P. 97) [24].

In the 1990s scientists from post-socialist countries began to take the works of the classics of institutionalism into deliberation: T. Veblen, W. Mitchell, J. Commons, G. Mugala, D. North, D. Hodgson, A. Toynbee. However, there were no attempts to systematize the institutional approach in Russian Economics until 1998.

In 2001 R. Nureyev (R. M. Nureyev, 2001) [25] called for the development of new research areas. In the first place, he put forward an analysis of the transformation of institutions in post-Soviet Russia and in other peripheral countries on the basis of the theory of institutionalism. In 2010, E. M. Gutzait actively encouraged to move from traditional economic to economic and sociological approach to the audit.

The audit in the institutional projection in Russia is represented by a few authors, e.g., E. Y. Itygilova and N. A. Kondrashova (E. Y. Itygilova, 2015; N. A. Kondrashova, 2012) [22] [23]. The interests of the majority are concentrated on the study of individual audit instruments from a methodological point of view (audit risk, materiality, audit evidence, analytical procedures, audit sampling, etc.). The prefix "institutional...", unfortunately, does not carry the necessary semantic load, i.e. aspect approach is not implemented. In addition, methodological innovations of institutional economics are poorly taken into account in the field of audit (for example, the system interpretation of institutions and the possibility of their measurement).

The debate on the audit as a problem institution, which does not perform its natural function in the current conditions of the crisis, is presented in the works of P. Baranov: "The present day does not require special evidence of the existence of a deep systemic crisis of audit as an institution that protects the economy and society from information risk..." (P. P. Baranov, 2016. P. 43) [21]. The chief auditor of the Bank of Russia (V. P. Goreglyad, 2017) [26] calls the audit institute of protection of property rights. He notes that "the development of the category of control as a tool of neoinstitutionalism is reflected in the theory of "principal-agent" (V. P. Goreglyad, 2017. P. 7) [26]. These and subsequent arguments are consistent with the beliefs of T. Kun: "The new theory appears as a direct reaction to the crisis" (T. Kun, 1977. P. 107) [27].

Analyzing the statistics of the audit market, E. M. Gutzait (E. M. Gutzait, 2016) [18] reveals a trend of decreasing interest of business entities to institute voluntary audit and the audit institution as a whole.

The studies of K. K. Arabyan (K. K. Arabyan, 2016) [28] can be considered multidimensional in the field of audit. He uses evolutionary approach in the study of audit processes, address the issues of regulatory and legal regulation of audit

activities, in the institutional aspect he analyzes its essence and role in the system of economic relations, raises the problem of ensuring the quality of audit. "Institutional field" in relation to internal control practices is studied by the research team headed by V. V. Pankov (V. V. Pankov, L. A. Chaikovskaya, V. L. Kozhukhov, 2015) [20].

Unfortunately, there are plain borrowings (A. V. Lyapkina, 2016) [29]. E.g., associate Professor of the Chuvash state University A.V. Lyapkina, actively "justifies" the institutional aspects of the audit, rewriting them from the papers of E. Y. Itygilova, while referring to financial support of RFBR (Project №16-06-00450 Director: N. V. Voskresenskaya "The transformation of legal regulation of accounting and accountability in ensuring economic security of the state").

In the works of some authors there is a clear distinction between legal and institutional support of various economic phenomena, i.e., control, accounting, audit, which is debatable, and reflects, most likely, the general methodological approach to the study and the object interpretation of the institute.

A twofold feature of the Russian model of audit is presented in the works of M. A. Azarskaya from the standpoint of institutional theory and the legal framework regulating audit activities (M. A. Azarskaya, 2015) [30]. Herewith M. A. Azarskaya calls the audit applied science, linking the objectives of the study first and foremost with the theoretical grounding for the model of the development of the audit.

There is a practice of recognizing the application of the institutional approach in research in areas related to auditing. The legislative bodies of the Russian Federation (Russian Audit Chamber) note the existence of institutional aspects of external and internal control and in the construction of methods for assessing the effectiveness of anti-corruption programs distinguish the legal, institutional and economic direction (S. V. Stepashin, 2012) [31]. V. T. Chaya and N. S. Asanaev propose methodology of the institutional approach in management accounting (V. T. Chaya and N. S. Asanaev, 2015) [19]. The authors prove that the application of the institutional approach allows to obtain standardized accounting models. Assessment of the effectiveness of the concept of institutional completion is of particular interest of the authors. Fundamental work in the field of institutional accounting theory is a monograph of V. N. Zhuk (V. N. Zhuk, 2013) [32].

Analyzing theoretical problems of convergence of financial accounting systems in different countries with IFRS, the collective of authors headed by N. Kamordzhanova recognizes the application of the institutional approach in the study of economic phenomena, as reflected in the definition of the convergence process (N. A. Kamordzhanova, A. V. Selezneva, Yu. Yu. Smolnikova, 2016. P. 20) [33] and implemented through the study of the system of norms, rules and capabilities of IFRS (N. A. Kamordzhanova, A. V. Selezneva, Yu. Yu. Smolnikova, 2016. P. 39) [33].

Analyzing the mechanism of decision-making in the sphere of budget policy, D. L. Komyagin (D. L. Komyagin,

2014) [34] consistently considers the components of such a mechanism: institutional (public authorities, organizations and public institutions, participants in the process), legal (legal norms of normative legal acts), instrumental (means and methods of implementation), ideological (general desire of policy, mission). In our opinion, based on the analogy, this determines the possibility of applying this classification in determining the audit policy.

IV. CONCLUSIONS

Audit as an economic system can and should be examined using a new theory of research method. We have defined the arguments and revealed the methodological possibilities of applying the institutional approach in the audit.

Among the three classical research approaches in economics (aspectual, system-related and conceptual) in modern conditions, aspectual approach becomes the most relevant. Aspectual approach is associated with the analysis of the object from a certain point of view, through a system of specific views and the disclosure of one of the parties of the object.

Without denying other approaches, we put forward the institutional audit paradigm with the priority of neo-institutionalism - the study of institutions through the processes of influence on the decisions of economic agents and the application to the economic audit system of the fundamental tools related to the human model. The system approach will be used in the analysis of the institute of audit.

The essence of the "institutional paradigm" in the audit study is revealed through the methodological possibilities of the institutional approach: the expansion of the subject boundaries of the theoretical space, the transition to new levels and areas of research, structural restructuring in the knowledge of audit, the creation of prerequisites and conditions for new forms of interdisciplinary synthesis, the elimination of methodological gaps in the science of audit, institutional analysis removes the problem of "black boxes", as knowledge moves from the macro level to the micro level.

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