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## INSTITUTIONAL APPROACH IN AUDIT

**Анотація.** Стаття присвячена дослідженню критеріїв інституціонального підходу, в аналізі аудиторської діяльності, а також інституціонально закріплених способів та механізмів їх регулювання.

**Ключові слова:** інституційний підхід, аудиторська діяльність, інституційне середовище.

**Аннотация.** Статья посвящена исследованию критериев институционального подхода в анализе аудиторской деятельности, а также институционально закреплённых способов и механизмов их регулирования.

**Ключевые слова:** институциональный подход, аудиторская деятельность, институциональная среда.

**Annotation.** Article is devoted research of criteria institutional approach to analyze the audit and institutional fixed ways and mechanisms of its regulation.

Nowadays the market of auditing services is being considered as huge specialized market segment having its own economic and informative value. Scientific novelty is in estimation of the institutional conceptions use in auditing, distinguishing the features of the institutional approach to researching the audit as a science.

The purpose of the research is to substantiate and use the institutional approach criteria for the estimation of auditing activity. The tasks of the research are:

- to prove the advantages of institutional approach criteria introduction into analysis of auditing activities;
- to define the cause-and-effect relationship outcomes in changing of auditing performance indicators
- to substantiate the necessity of further development of auditing institution.

The institutional approach criteria have been researched in the article as well as analysis of public accountant activity and institutionally fixed methods and mechanisms of its regulating.

Due to institutional nature the problem of setting structural rules and limitations for public accountant activity, determining persons and organizations actions in relation to the results of public accountant activity is being decided automatically.

The following stages of economic development in public accountant activity need to be distinguished:

1. Factor stage in development of public accountant activity. The economy of audit develops as a result of "cheap" factors use of production and natural resources (taking into account functioning of public institutes, state of infrastructure, macroeconomic indices, labor resources condition).

2. Effective stage in development of public accountant activity. Products quality and volume of processed ones is growing, and competitiveness is being defined by the state of higher education system, commodity market efficiency and market of audit, financial market development degree, technological updating and market volumes.

3. Innovative stage in development of public accountant activity is constrained with using of innovations and NT. The competitiveness in the sphere of audit at this stage is preconditioned by the degree of improvement in business-environment and innovations (institutional approach).

Thus, the major task of state bodies nowadays is conversion to innovative stage of development in audit.

**Key words:** institutional approach, audit activities, the institutional environment.

**Problem setting.** Nowadays the market of auditing services is being considered as huge specialized market segment having its own economic and informative value. According to the clause 3 of the Law of Ukraine "About public accountant activity", auditing (public accountant services) is entrepreneurial activity including its organizational and methodological audit provision, practical implementation of public accountant verifications (audit) as well as delivering other accounting services. Scientific novelty is in estimation of the institutional conceptions use in auditing, distinguishing the features of the

institutional approach to researching the audit as a science.

**Recent researches and publications analysis.** The application of institutional methodology for researching the problems of audit has been realized with reference to papers and ideas of domestic scientists that working in the frameworks of institutionalism such as A.A. Auzana, V.M. Kollontai, A.M. Oliinika, A.Ye. Shastitko. Methodology and essence of institutional approach have been worked out in the papers of such well-known foreign scientists as J. Akelrofa, T. Veblena, D.Norta, R. Rikhtera, J. Khojsona and others.

**Formulation of the article objectives.** The purpose of the research is to substantiate and use the institutional approach criteria for the estimation of auditing activity.

**The tasks of the research** are:

to prove the advantages of institutional approach criteria introduction into analysis of auditing activities;

to define the cause-and-effect relationship outcomes in changing of auditing performance indicators

to substantiate the necessity of further development of auditing institution.

**Basic research material statement.** The concept of "institutionalism" itself includes two aspects: "institutes" representing the norms, customs of behaviors in society and "institutes" as fixing the norms and customs as laws, forming organizations and establishments. The essence of institutional approach is not to be limited only by the analysis of purely economic categories and processes, but to include in it the institutes and take into account out of economic factors either.

The institute of auditing should be considered as the whole set of formal and informal norms, rules and standards determining the frames for cooperation of different subjects as for their auditing activities [3]. The formal element includes the rules fixed at the normative level for regulating auditing activities as well as technical standards related to the processes of realization in auditing verifications. The informal element is determined by the availability to different unrevealed unformalized factors and assumptions effecting the very procedure of auditing and final opinion of public accountants.

The institute of auditing is a complex of fundamental conceptions, norms, rules and standards that form key content of public accountant activity, and mechanisms regulating their practical realization [4]. Application of the institutional approach socio-economic processes studying is being conditioned by some reasons:

some researchers general neoclassical approach criticism as for economic processes analysis, based on superfluously abstract and static conceptions;

taking into account some historical factors effecting on farm processes development;

possibility to explain evolutionary changes in economy;

necessity in conducting interdisciplinary researches based on economics with other sciences integration as well as expansion of theoretical representation of the economic systems.

Institutional approach in auditing characterizing alongside with its representation as a type of control, had been also applied by R. Adams. The quotations from translation of his book "Audit Fundamentals" clearly testify it: "Audit of extremely popular profession, being in demand among many people these days. Audit of can be defined as the activities for providing society with service in need to confirm visible likelihood of financial statements having been published by enterprises having limited liability"[1].

These very exact words by Adams are used to the conclusion having been made: on the modern stage audit attained such level of development, that the necessity of its existence and development had been absolutely recognized by society. Moreover, audit, having been distinguished as the type of control and sphere of professional activity of accountants into a separate superstructure profession, presently serving as an instrument for adjusting "chains of trust" between social groups in society. And this very function of audit possesses institutional nature.

Having passed in the process of the historical development the evolutionary chain "a control form - a type of accountants activity - profession", audit had been transformed into the institute and science, that presently execute in society its far not second-rate role. Taking into account crossing the processes of society division into the institutes having their own peculiarities and characteristic signs, it is being supposed in the context of development of this profession, that audit is a public institute, where the conflict of parties' interests directly or indirectly participating in economic relationships and including: at procedural level - verification of different objects possessing characteristics needed to estimate authenticity and correspondence; on effective one - reducing of informative risks of parties,

assistance to developing relations between different subjects based on principles of trust and absolute honesty- for customers and parties being checked, to reach economic and social effect as well as economic and professional and scientific - for those representing this institute [2].

Audit is being considered both as practical activity and a science when introducing institutional approach. The former is related to entrepreneurial activity for audit conducting as well as giving concomitant services to economic subjects.

M.V. Fabisovich considers that institutional environment includes cooperation of different subjects in relation to public auditors activity (their organizational and economic relations) [4].

Adjusting of any type of special professional activity envisages the forming of certain institutional structures, putting in order and limiting relations that arise in the course of this activity. Having this aim any institutionally restrained regulating means and mechanisms possessing their own nature but being acted in the same direction and be mutually complementary can be used.

Correspondingly, it is possible to distinguish the following institutional means being applied for institutional auditing:

- political means - being formally independent of audit in practice and being the ground for serious criticism from the side of western specialists. Additional limiting requirements forthcoming as for the terms and forms for audit realizing of is the good example of regulating.

- legal means are classical method of audit adjusting being based on the whole set of formally fixed norms, provisions and standards. The key role in the legal adjusting is being realized by the law on public accountant activity and public accountant standards obligatory implementation of which is being considered as a distinguishing sign and obligatory term of legitimacy of public accountant activities.

- economic means –can be considered as the most widely spread instruments for adjusting probable economicsanctions for non-following audit legislation or violation of terms of public accountant agreements. In addition, public

accountants are in general as well as professionally responsible to unlimited amount of users of public accountant conclusions for substandard audit, uppermost in case of revealing by the latter the facts, being not represented in public accountant reports, or intentionally being not represented in public accountant report.

- ethic means being the most "weak" in practice as the mean of adjusting. The analysis of basic auditing trends in the world shows that increase of personal and corporate responsibility for the results of the conducted verification taking place everywhere is being observed; this process is related to the necessity of forming by auditors their own professional opinion and making decisions in various situations. Thus, public accountants bear the professional responsibility, that is determined by their obligations in relation to economic subjects being checked by them and other interested persons not to mention socially legal aspect.

From the point of view of its structure the institute of audit can be considered as a complex of basic conceptions, norms, rules and standards determining basic content of public accountant activity as well as the set of institutional mechanisms that determine their activation in practice. A role, being played by auditor in modern society is, foremost, in making decision on legitimate set of rules, taking alternative actions and probable technical decisions as well as scopes of audit realization as professional activity.

**Conclusions.** The institutional approach criteria have been researched in the article as well as analysis of public accountant activity and institutionally fixed methods and mechanisms of its regulating.

Due to institutional nature the problem of setting structural rules and limitations for public accountant activity, determining persons and organizations actions in relation to the results of public accountant activity is being decided automatically.

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Thus, the major task of state bodies nowadays is conversion to innovative stage of development in audit.

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