



Microeconomics

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**FORMATION OF AUDIT
DEVELOPMENT PARADIGMS**

Abstract

The evolution of audit and its laws is studied. The paradigms are defined which reflect the process of formation and development of audit research. It is concluded that the system of theoretical knowledge is becoming more sophisticated and adequate to the needs of practice, so at present the process of evolutionary audit development can not be considered complete.

Key words:

Audit, paradigm, theory of auditing, audit techniques, auditing science, auditing.

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Introduction

The processes of formation of national auditing and its harmonization with the international practice lead to awareness of the necessity to create stable reference points when choosing the paradigms of its development.

In modern philosophical understanding the paradigm is the original conceptual pattern, the model of problems formulation and their solution, application of research methods prevailing in science over a historical period [1].

At the moment the scientists research the evolution processes, hence many of them do not consider the audit to be a science and ignore its development.

In our opinion, the audit is the science each stage of development of which is described by certain paradigm.

This given paper studies the historic development of the auditing science, determines its regularities and substantiates the changes of paradigms which indicate the formation of new stages of facts cognition, and intellectual revolution in the development of the auditing theory.

Development of the Auditing Science

The auditing practice history is more than 150 years, though the auditing science started its active development in late 19th century. The auditing science preceded a series of stages of its historic development, and the study of the latter is needed for its further improvement.

The English researches contributed much into the development of auditing theory and auditing methods. They developed and offered the questionnaires enabling to significantly reduce labor intensity of checks.

The first audit ideologist and theoretician was the English scientist Laurence Dickce, who in 1882 clearly defined the auditing as the work connected with the confirmation of correct and objective balance based on checking documents and stock count. L. Dickce concept consists in revealing of intentional and unintentional errors that could be made in financial statements [2]. The scientist's research gave a start to empiric level of scientific stage of the auditing.

Later the concept of L. Dickce was developed in the works of A. Watson, W. Foster, I. Sherr, and R. Goddard.

Under the influence of the British practice there arose the auditing in the USA. However, the rates of business development in the USA significantly differed from the British; therefore, the British methods were not applicable in the USA, since the British check style needed much time and tools.

The American audit because of the specification of super rapid growth rates of American business in late 19th – early 20th centuries required more rapid tempos of audit taking, and respectively – more advanced auditing technologies.

To meet the practical auditing requirements the theoretical researches were started enabling the auditing to pass to a new, high quality level.

Theoretical stage of scientific thinking in auditing is connected with the name of the American R. Montgomery, who developed the ideas, principles, and postulates, also formulated the conceptual apparatus and developed a new scientific concept that originated the beginning of auditing science.

The progressive scientific views of R. Montgomery in 1912 were highlighted in the book «Auditing: Theory and Practice», that in subsequent issues and re-issues got the title as «Montgomery's Auditing».

R. Montgomery's merit was that he distinguished between the concept of general audit and audit of financial statements, developed six basic principles to check the balance, established the use of tests during the audit, introduced the concepts of auditing and many other things, that became the basis for design of the auditing theory and auditing science in general [3].

The U.S. auditors started practicing R. Montgomery's proposals to apply the «test audit», to compile information about the activities of a business partner firm in order to verify transactions. They began to consider the interests of investors, devote more time to assessing the assets and liabilities, and refused from the prevailing in the English practice detailed revision.

Later, in the second half of the 20th century a significant contribution to research in the field of auditing made Americans R. Mautz and H. Sharaf, who in 1961 in the book «Philosophy of Auditing», which stood seventeen editions, formulated eight postulates of auditing [4].

The idea of formulating the auditing postulates proved fertile, and therefore over time, new postulates arose. One of them was proposed by American D.K. Robertson, and another one by the Dutch scientist Th. Limperg.

Important for the development of audit science is the monograph by D.K. Robertson «Audit», which examined the factors that determine the need for audit and provided reasonably substantiated basic audit functions. The research developments made by D. Kю Robertson argued that the audit as a system is at the stage of scientific thought, on the transition stage from empirical to theoretical level [5].

The need for a theory of auditing is reflected in the writings of Englishman R. Adams. His achievement is the development of the concepts of auditing [6].

In early 70-ies of the 20th century the formation of auditing standards started in the USA, which had a significant impact not only on auditing practice, but also on its theory. Scientific research in auditing has become more formalized, as they began to develop, based on certain restrictions.

Audit science is multifaceted, and therefore it should not be limited to a set of rules set out in its postulates, concepts and standards. In this regard, M. Scherer and D. Kent in the 1983 publication expanded the limits of research and in new ways viewed the tasks of the audit. In their view, the task of auditing should consist not only in report confirmation, analysis of its adequacy and effectiveness of internal control detection, as it was previously thought, but also in testing of the effectiveness of the company, which depends on the quality of management [7].

The development of this theory was the behavioral approach, according to which the objects of auditing was the behavior of managers, and, respectively the appropriate incentives that determine their behavior.

The 90-s of the 20th century are characterized by considerable extension of the audit in most European countries, and its occurrence in Ukraine.

The emergence of auditing in our country was a result of fundamental changes in the economy associated with its market transformation. Regarding this issue there are several points of view directly opposite these of the scientists. Some theorist auditors believe that building of a national audit began, metaphorically speaking, not from the «foundation», but from the «roof» that is, it was not accompanied by requirements respectively the possibility of its existence, namely: implying private property, democratic freedoms and the socialization of production and capital. In the opinion of others, the audit could be created only from «below», i.e, by the will of circumstances, not according to the decision of state authorities. However, we believe that every problem always has several sides. The problem of formation and development of auditing science is not the exclusion. At that, the controversial issues arose not because of poor understanding of theoretical problems, but because of contradictions which are in the fundamentals of the history and the process of formation of modern auditing

As for the moment, the active development of auditing science is observed in Ukraine, which is demonstrated by a series of researches of the following scientists: F. Butynets, H.Davydov, M. Kuzhelnyi, A. Kuzminskyi, O.Petryk, V. Rudnytskyi, V. Savchenko, V. Sopko, and others.

In particular, in one of the first scientific papers, a collective monograph «Audit: Practical Manual» well-known national scientists and experts A. Kuzminskyi, N. Kuzhelnyi, O. Petryk, W. Savchenko, and others started the process of scientific research in the field of auditing [8].

Professor F. Butynets in his papers defined and substantiated theoretical aspects of audit; also he offered a general chart of auditing theory and practice within the system of interrelated methodical aspects [9]. Though Professor F. Butynets made a great contribution to the development of audit theory he views the audit as a field of science on economic control.

The first in the history of audit development in our country who admitted the audit a science was Professor W. Rudnytskyi. He expressed a very important idea that the audit should be viewed in two following manifestations: as a separate economic science, and as a practice [10].

Professor O. Petryk in his monograph «Audit: Methodology and Organization» first studied the arising and evolution of the auditing as a science and as a profession. The conclusion is made here that the process of development of the audit theory has not been yet completed, and therefore the scientific view of the audit has been constantly changing [11].

It is good to note that any knowledge becomes a science only when it faces serious and complicated challenges. The science arises from the emergence of problems, and the latter according to etymology are tasks.

The tasks provide for the availability of at least two situations, namely: one which is real, existing, and the other one – desirable. To make the science useful (applicable), the auditors should learn to understand and solve their tasks implying them as problems.

H. Davydov in his monograph «Audit: Theory and Practice» made an attempt to meet the problems of auditing from the position of a science

We consider that the named scientific research is very important for the formation of auditing theoretical principles and for charting the lines of its further development [12].

While analyzing the researches of national scientists and experts in the field of auditing in general, we note that many of them believe that the audit as a science has already come into being, and this science has the future but there are a number of controversies and unresolved issues that require further scientific study.

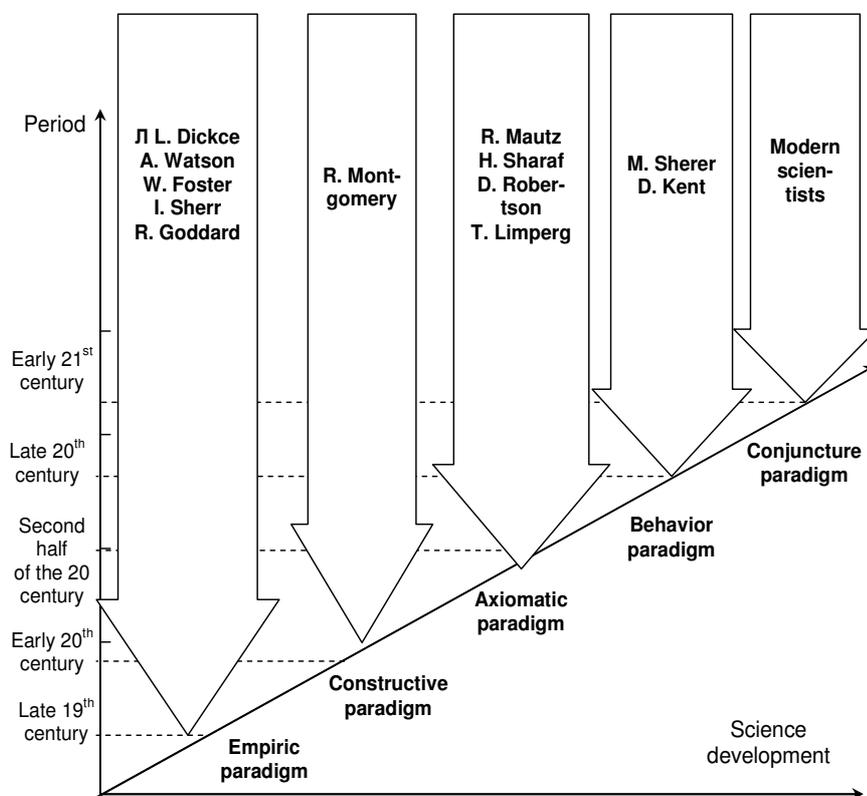
At the moment one of the problems which require a keen attention is a process of different sciences symbiosis to promote the emergence of new scientific directions in auditing, including the following: marketing audit, taxation audit, ecological audit, quality audit, personnel audit, strategic audit, etc.

Penetration of audit in other areas suggests the need for the development and use of synergistic approach to the audit research objects. This indicates a new phase in the development of the auditing science where the theory is formed on the basis of the needs of a market economy.

Conclusions

Summing up the above mentioned we will determine five paradigms which reflect the process of making and developing the auditing science (see fig. 1).

Figure 1.
Paradigms of auditing science



As the figure shows the evolution of the auditing science is determined by the replacements of the following paradigms:

1) **empiric paradigm** signifying the beginning of the empiric level of the scientific stage in auditing, initiated by L. Dickce

2) **constructive paradigm** related to R. Montgomery's development of the construction of auditing theory and the auditing science as a whole

3) **axiomatic paradigm**, that influenced the formation of the auditing science on the basis of the formulated principles not requiring the proof (axioms) of postulates (R. Mautz, H. Sharaf, D. Robertson, Th. Limperg) and international standards of the auditing ;

4) **behaviorist paradigm**, which according to M. Sherer and D. Kent's opinions directed the development of the auditing science into the area of studying of an enterprise efficiency that depends upon the behavior of managerial personnel, and is defined by appropriate stimuli;

5) **conjuncture paradigm**, which formulates the auditing science accounting for the needs of a market economy, and encouraging the emergence of new scientific areas resulted by the symbiosis of different sciences.

Not only paradigms of the science regulate the auditing but also the practice produces significant impact on the development of the auditing science, making its corrections. Therefore, we consider that the infancy of the auditing science has already been completed, though the process of the development when the system of theoretical knowledge is becoming more perfect and adequate with the practical needs has been under way so far.

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