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Book review “Audit – sources and institutionalization”¹ **By Evgeniy Nikolov Stoyanov**

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The author of the presented book (published in the form of a monograph) is a professor in economics with PhD in accounting, control and analysis of economic activity. He is a lecturer in: Burgas University "Asen Zlatarov", Agricultural University - Plovdiv and University of agribusiness and rural development - Bulgaria. His scientific research is in the field of audit and its application in various areas which is reflected in over 60 publications in Bulgaria and abroad. Prof. Evgeniy Stoyanov is one of the prominent Bulgarian scientists in that field having original ideas in his work presented on a number of conferences, seminars and scientific forums.

The monograph “Audit – sources and institutionalization” consists of an introduction, eight chapters, conclusion, references and a glossary of abbreviations used. It will be shortly presented and analyzed below as a book of special interest in the development of scientific thought in economics and management.

1. Topicality and importance of the issues studied

One of the main problem areas in research of theory and practice of accountability and good financial management at the beginning of the XXI century is the realization of an effective audit. Despite diverse efforts and registered significant results, the achievements can not be defined as satisfying public expectations in terms of both structural and formal integrity and ideological and conceptual completeness. This situation is largely due to the fact that the efforts of the professional and scientific community by the end of the 80s of the last century were aimed at creating standards and not to establishing their applicability and increase in their mass implementation. The analysis of this trend proved that problems arise at different levels and have different nature.

The status and accountability and the related audit in principle register difficulties caused by the promotion of intangible factors of organizational success as leading. At the organizational level specialized and institutionalized organizations lose part of their prestige and social significance because of low applicability of their product, i.e. poor realization. At the national (state) level negative economic trends develop and go deeper due to low effective financial management provoking also loss of public confidence. Globally (supranational level) financial and economic crises emerge in the bases of which lie well hidden results, fictitious accounting, studios auditing and manipulated opinions.

The practical development of this multi-layered problem area related to accountability and audit put before the economic and management science the need to rapidly rethink the contents of the instruments of accountability and auditing, and practices that affirm it. A conclusion is drawn that the existing formulations in this regard do not serve adequately the needs of the practice and the expectations of society. As a result of closer ties with the practice professional institutes quickly realized the problems and

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focused their efforts in this direction. Because of their specificity, the research was aimed mainly on the instrumental level, the result of which was the "canonized" system of international standards. As a result of its commitment to public expectations, justified by the declared interests of the modern state analyzing the problems, on the one hand it materializes their dedicated efforts in creating and development of regulations to ensure objectivity and institutionality, and on the other – it develops its characteristics of a fundamental, constituent institution, which improves conditions for the optimal functioning of the system of financial control institutions and their international integration.

Described in a wider scope processes in the development of the problem area of the effective financial management highlights the problems of modern audit and forms the basis for the actuality of the topic of the book "Audit – sources and institutionalism". Due to the specific topic, the author forms its image on the basis of systematization of known facts and sources in the field, while not ignoring the opportunity to analyze emerging trends possessing potential for future improvement.

The actuality of the theme of the monograph in a private plan is justified by the need to join the Bulgarian research and management practices to two leading trends of the development of accounting and auditing. The first trend is associated with the development and improvement of objectivity and optimum credibility in reporting the results. That is the key role of audit to provide a maximum correct and informed opinion, imputing to the public the necessary confidence in the proper and correct implementation of its declared interests. The second trend is associated with the development of the relationship between institutionally presented concepts state - control and trust. The consolidation of the potential of the three factors enables the audit to obtain the necessary institutionality and its publicly represented institutions represented expressing confidence in the current effective financial management to guarantee a predictable and prosperous future.

2. Subject and object of study

As an immediate object of study is defined widening circle of financial and accounting sources ensuring realization of the audit which forms and structures the socio-economic environment presupposing its institutionalization.

The subject is the process of institutional improvement of the audit and the purposes of the book examples of Bulgarian audit are selected.

3. Aim and tasks of the monograph

The aim of the study is on the basis of the systematization and analysis of existing theoretical works, legislation and practical experience in the field under investigation to bring contribution to the deepening the institutionality in the audit and improvement of mechanisms for effective institutionalization of the system of organizations realizing it

The objectives of the monograph are achieved by solving the following tasks:

First. Analyzing and summarizing existing studies for the development of accountability and the expanding circle of deliberately separate sources, reflecting the operations and actions by economic reality and construction of the author's view on the trends and prospects of their development and possible widening application.



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Second. Analyzing and summarizing the existing theoretical works, regulations and reinforcing practices forming perceptions of auditing and justifying concepts and structuring of the author's opinion on the guidelines for their development and in particular by socio-intellectual environment for the development of institutionality.

Third. Analyzing and summarizing all social mechanisms that create optimal conditions for establishing a system of audit institutions and their application in the Bulgarian financial and control sphere.

4. Main hypothesis and limitations of the study tools

At the beginning of the investigation a main hypothesis is set according which in the conditions of every economic crisis the accountability naturally changes putting another challenge to audit concerning its normative application and formal and institutional improvement whereby an opportunity is provided through the acquisition of a new higher institutionality and appropriate building of institutions to establish and preserve public confidence about the effectiveness of current and future purposes of economic development.

Based on a preliminary study of the object a series of problems has been registered that may arise certain restrictions as: qualities of accountability, maturity level of society, state of the legal basis, perception of control, particularly audit, and others.

In the process of the study have used a wide range of relatively less common but also specific methods are used. Among the common methods forefront possess scientific analysis and synthesis, comparative and historical method, induction and deduction, etc. Group of the more specific methods includes such as: method of functional modeling, methods for analyzing relationships and dependencies, methods of diagnosis in priorities, etc.

5. Chapter One. Development and organization of information with financial and accounting nature

The purpose of the first chapter is through the comprehensive analysis of the deepening trends of the global economic system in general, and in particular radically changed financial function of the modern organization, to substantiate evidences that information with financial and accounting character is constantly developing and improving and this whole process is the logical result of the growing information needs of society and the introduction into use of newer and more innovative sources of information.

The review of trends in economic development and the associated changes finding expression in the state and development of accountability provide objective conditions to form the following conclusions:

First. Rapid socio-economic development determines the formation of new, constantly evolving needs of society for specialized financial and reporting information. The reasons for this trend may be mentioned on one hand general economic factors of reality, and on the other - internal organizational ones. That gives rise to new criteria by which to create, organize and structure different and more comprehensive specialized information.

Second. Conceptually different approach to building new data sets proves that reality itself is undergoing significant changes as a whole and in particular as structured in separate units, i.e. all this is interpreted as a sufficient challenge to rethink the process of improvement both in functional and in formal



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plan. Organizational functionality tolerate the enormous impact of the new and key factors for organizational success which predominantly possess intangible character². In this sense, the new content determines the specific directions of the transformation for organizational forms being also perceived as adequate solutions of organizational architecture³.

Third. Although economic reality and actual practice have proven the importance of accounting as a primary mechanism or leading classification system and transformation of primary information on past economic events and government decisions on disposition of resources led to the quantitative and qualitative changes ownership, the new reality and changed object structure in the direction from material to immaterial prerequisites for inclusion of new models and to financial reporting process as defined management information models, but with a certain control character. The process of their inclusion on the basis of their potential consolidation make it possible information framework itself be interpreted as an active form of exercising a controlling influence on all levels and in every moment.

6. Chapter Two. Peculiarities in common reporting systems

The purpose of the chapter is through a critical review of the proposed evidences to justify the understanding that besides the common and standardized changes in the development of accountability highly specific are also observed and developing tailored to the characteristics of the objects which at some stage create opportunities and conditions for both adaptation and upgrade of the international system of standards. The process of harmonization of accounting provides a wider scope for expression and optimization of maximum objectivity, transparency, authenticity and relevant specifics.

The second chapter derives several conclusions:

First. Despite the deepening of globalization in all areas and processes in society, prerequisites and conditions exist in the development of accountability that determines the existence of certain differences between countries and within their samples. Academics seek the reasons for differences in factors with exogenous nature such as the legal system, the development of the property and the related rules of power, management and control, while analysts give priority to increased need for objectivity in reporting. The question which position is correct remains underrated because the important thing is that the accountability, as an objective reflection of ongoing operations and processes, evolve and optimize reflecting the dynamics of economic development and justifying phenomena and events.

Second. Development of financial and accounting reporting and sustainably present in it differences prove that this is a logically organized system in which are reflected international trends for a balanced harmonization, as well as the national one for storage of the specifics defining each national economy as a unique set of interacting reporting items. It is this dialectical unity provoking the improvement of the system itself, but also putting challenges to its regulation and especially the capability to carry out adequate control on this overall process.

²Simeonov, O. Approach to analysis and management of intangible assets. In: Accounting in conditions of market economy, Sofia, 2003.

³Mintzberg, H. (1987). Crafting strategy. Harvard Business Review (VII-VIII), p. 39.



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Third. Summarizing the findings of evolution and specific development of accountability a view can be justified that this is a real highly social system that creates enough awareness of representatives of all stakeholder. In essence, on the basis of the principle beginning of the methods, standards and organization it can be interpreted as a kind of mechanism optimizing the objective beginning in recording of data, but also the beginning of reconciliation and development of the feedback substantiating all social forms of control. The increase in full and complete satisfaction of the public needs arising from information deficit makes possible not only the improvement of the financial control, but also the opportunity society itself to be convinced that results are objective and meet its dynamically changing needs.

7. Chapter Three. The idea of the audit - origination, development and distribution

The purpose of the chapter is justified by history in the emergence of the audit process in which social needs provoke public expression of critical public attitude, which when put into accordance to management needs in the realization of socially important objectives and interests forms the structure of the control and development of various forms such as financial control, audit, etc. The critical analysis of the facts from the history of society proves that due to its social burdens and increasing administration financial control, and the audit in particular, imposes itself as a leading concept and a key factor in the improvement of the global economic system and international economic relations.

The findings about the formation, development and spread of the idea of the audit give reasons to make the following conclusions:

First. Under what circumstances and at what historical moment the audit has occurred is not so important, the essential thing is that each step in the development of society is a result of a successfully implemented concept of good management and effective control. The idea for the emergence of the audit focuses the attention precisely on the fact that for objective control it is required independence in sufficient extent, different of that resulting from the possession of the property and therefore justifiably power resources. The idea of the audit finds its genesis in society at the moment when monetary targets propel quickly and with priority social progress and development of the stated interests because on the increasingly perceived need for correct measurement and objective optimal control. On this basis, accountability creates conditions for manifestations and improvement of audit as a specific financial control and socially valuable form imposing in society confidence for the orderly development of its financial function and generated by it innovative ideas and their transformation into public goods.

Second. Despite the general ideological start of the audit and the dominant presence of the idea of globalization in the developing world in every national economy, even in the use of common models and proven best practices, the audit develops and improves in its own and unique way. In this process as determinants appear the features of the regulatory framework and system of accountability and specific features and phenomena such as psychology, morality and others. Anyway, the common interests that go far beyond national borders create prerequisites for the consolidation of the overall efforts to maximize coherence and harmonization as the fundamental basis of the audit and the logic of its procedures and imposing common international standards. This trend can be interpreted as the development of a specific control system in which the subject has a complex structure built from the conceptual and institutional systems having impact on a dynamic object as are the results of ongoing economic processes.



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Third. Approval of the audit as a specific control system marks a significant growth, as judged by adequate legislative changes, social regulation mechanisms, the creation of institutions and the set of high criteria in vocational training and development. The analysis proves that the public is aware of the need and the importance of an adequate control, in particular the audit, imposing to them a special social status substantiated by a wide range of powers forming a sufficiently serious authority. The main arguments of the statement are imputed role and authority of the audit in improving global economy and the optimization of international economic relations based on the international system of standards and regulating their practical application system of supranational institutions.

8. Chapter Four. Evolution of the perceptions of the independent audit

The purpose of the fourth chapter of the monograph is to present the key moments in the evolution of the concept of the independent audit. In the course of the study this analytical process is presented on global and Bulgarian level.

The exposition provides opportunities for several conclusions:

First. In practice the audit is a product of social development and strengthen the democratic idea accelerating this process. The need for independence and its public expression are the most important proofs that society credits with trust those who manage it. This act can be interpreted as satisfaction of a private legislative and social need caused in a high concentration of capital and the distinction of ownership from management, namely ignoring conflicts of interests between owners and employees through the implementation of the social function of the independent financial audit.

Second. The development of the audit and the formation of two major schools, respectively Anglo-American and European, prove that according to the specifics of the economic development of leading economic areas and main mechanisms justifying capital and social improvement the idea for audit is developed and evolved. Although on the audit national characteristics render influence, the main trends that develop in both schools actually specify the range of actions that develop the content of the independent financial audit from an expression of opinion on the fair presentation of the financial position of the company in its accounts to conducting of financial consultancy based on the accounts, current accounts and management reports. Objectively, changing forms of ownership, the main mechanisms for the development of capital markets and ways to generate profit predetermine the desire for harmonization and implementation of a unified methodology and common standards in the realization of the independent financial audit. The new economic reality necessitates the introduction of new content in the rules and ethics, as well as in the practical implementation of audit and other similar procedures.

Third. The audit in Bulgaria appears relatively early for the maturity of the society, and especially according to the condition of economic development. Nevertheless, the legal framework and institutional development show that German, or rather the European school, finds followers who implement independent audit complying with national economic circumstances. Although in the years of planned development of economy the idea of audit is almost ignored, indirectly the development of accounting science paves after political and economic changes and the introduction of market principles of development the audit to recover relatively quickly its positions. The legal basis with its adequate changes and the creation of specialized professional institutes and extension of the audit applications in key areas of



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socio-economic sphere prove that these the idea of auditing finds a good control and intellectual environment and it undergoes a dynamic development.

9. Chapter Five. Functionally conceptual analysis of the audit

The purpose of the fifth chapter of the monograph is based on the summary and analysis of the modern understanding of audit justified by the principle beginning and applied approaches structured in a conceptual framework to bring evidence that the audit in its functionally founded essence proving sufficient conceptual maturity generates significant internal structural prerequisites for the realization of institutionality. Development trends complement the impression of audit as a unique, highly intellectual, increasing its inherent responsibility, and a widely applicable business.

The statements may be related to the following conclusions:

First. The analysis on the audit confirms the view that this is a specific control event structured in a process which expresses an independent opinion of professional and highly erudite specialists aiming to obtain reasonable assurance on the reliability of the evidence accumulated and the opportunity to meet certain preliminary set criteria to optimization of risk management, control and management. The official and public disclosure of that opinion enables a wide range of stakeholders to take an attitude towards the development of the auditing object.

Second. The philosophy of the audit and its characteristics determine in its development a fundamental role to be played by the principal beginning. Multi-layered nature of the audit allows for the expression of general principles of financial control on the one hand, and on the other – of ethical auditing principles. Namely the principal beginning creates the idea of the audit to improve both in theoretical and in practical terms. The principal specifics presupposes the development of the audit process to be implemented in a targeted, systematic and appropriate way. In this sense, the methods and the combinations of approaches enable the results of the audit engagements to meet adequately the needs of stakeholders.

Third. Improvement of audit approaches, in contrast to the approaches in accountability, evolves quickly. Factors influencing on one hand are the dominant presence of the two competing schools - Anglo-Saxon and continental, and on the other – the deepening trend on validation of intangible assets as leading the formation of organizational value. Expressed on this occasion opinions impose on the audit greater significance and challenge it to assess objectively to maximum the practically immeasurable.

Fourth. Development of audit gives sufficient evidence that its conceptual framework associates to the idea of the independent audit more and more theoretically control models. Although in different stages of evolution of the audit key role to be played by different concepts, perhaps at this stage the modern audit suffers the serious influence of the concepts of ethics, independence, essentiality and international standards. Conceptual models create the impression of a particular functional failure regarding intangible factors for organizational success and therefore appropriately in the frame the concept of management control fits as a specific compensation mechanism possessing relevant tools for optimal wide impact.



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10. Chapter Six. Genesis in audit modeling and institutionalization

The purpose of this chapter is to justify the understanding that the genesis of the audit modeling and development of institutionalization are two different sides of a structured, balanced and controlled process. The emergence of new functional models and new degrees of institutionalization are two mutually substantiated and actively developing trends related to the audit in which priority can be assigned to institutionalization. In fact, the models can be viewed in a sense as a result of the adequate reaction of society resulting from its growing needs for controlling impact predetermined by adherence to principles and prepared by the statutory regulations. In other words the rational principle in the audit determines, structures and controls its formal appearances.

The following conclusions could be summarized:

First. The analysis conducted on the genesis in audit modeling proves that the relevant fact of the dynamic economic development of the idea of audit is a prerequisite for improving audit. The rationale behind this trend is seen as a result of the audit capabilities to minimize information risk, which in turn imposes it another significant feature - to be perceived as a subsidiary control function. In reality, that predetermines on the one hand performances of the audit as a specific mechanism for information logistics to all stakeholders, and on the other - to deepen the process of diagnosis and subsequent counseling.

Second. Reviewed the portion of benefits in theory audit classifications gives reason to conclude that the audit continues to challenge the development and improvement of its theory. Perhaps at this stage socio-grounded necessity of increasing practical applicability is the engine of its development. Opportunities and potentials of formed and publicly expressed auditor opinions in making strategic and especially investment decisions predetermine the expansion of its perimeter. Perhaps the idea of the perpetuum mobile is in force for the audit too, taking into account its role in the process of creating a scenario for overcoming the crisis in the global economic system, and at the same time and in addition creating conditions predetermining the increase of its institutionalization.

Third. Imputation of institutionalization, as a moral burden and a key feature of the audit, is another recognition for its social significance. Actually, it is a process which integrates moral and ethical beginning, the principal regulation, objective legality and credit with and of public trust. The initiation of such activity is conscious and proper act of state governance which perceiving the place and role of the audit provides monopoly powers to control over the process of its social self-improvement, and especially the ability to be ignored largely falling on the whole economic system in unacceptable situations and critical (crisis) conditions.

11. Chapter Seven. Institutionalization in the process of the independent financial audit

The purpose of the next chapter is in sufficient burden of proof to justify the statement that institutionalization is an objective process gaining greater social significance because of the potential at least partially to satisfy the need of the society and of development, and the presence of well-structured and authoritative organizations. In this sense, the analyzed process is a testimonial to its maturity and willingness, and parallel to that it can be defined as a historically proven effective mechanism connected to the appropriate audit while preserving its interests and their legitimate, lawful and controlled implementation.



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The following conclusions can be made:

First. The process of institutionalization in the audit is a historically justified regularity. Imputation of institutionality as a leading feature of the audit implies to justify public expectations for the creation of organizational structures with specific financial control, legally established functionality. Actually, this is a significant result of the emergence of institutions in a demand-driven way by the interests of the state and society. Under these conditions the search for solutions can be seen in the strict sense as the satisfaction of public needs from issuing independent opinions regarding decisions, actions and responsibility, and in a broader scope as alternatives for decisions arising out of the challenges to control as a whole due to problems in metrification. Opportunities to society offered by the institutionalization in the audit may be also perceived as an optimization plan or effective counseling for effective development of the interaction between principals and agents based on the minimization of conflicts in meeting the stated interests.

Second. Development of institutionality in the independent Bulgarian audit and deepening institutionalization are reasonable prerequisites to suggest that despite the established rules of development, in the idea of audit they undergo individual improvement in Bulgarian economic conditions. Even for short periods with a large space between them, in the analysis features of the new institutionalism are established which appears in the new institutional Bulgarian economy. For the process of improvement regarding both perimeter and contents, it can be stated that it covers major fields fixed between the imposition of international standards and case studies of real economic reality on the one hand, and on the other -from the principal decisions on key audit issues to management consulting decisions by the Bulgarian practice. In this sense, if the need of control becomes more serious, the audit can reasonably be interpreted as the most sensitive part of the structure of this socially significant relationship, which has grown in a conceptually and formally declared self-improving institutional system.

12. Chapter Eight. Institutional models in the independent audit

The purpose of the last chapter is tracing the expression of institutionalized control forms thematically related and organized by the audit to prove that they have a systemic nature, tested in the implementation process, providing an opportunity the logical linking in the institutional models in a significantly higher degree to be seen as an expression of hierarchical dependence, as justified by the level of subordination. Proofs of the presentation discuss institutionally established audit patterns in internal control, internal audit, external audit and state audit.

From institutional audit models reviewed and on the basis of comparisons made between them can the conclusions could be drawn:

First. Socially conscious significance of audit is reflected in the development of high institutionality. Under these conditions in the construction of a system of institutions according to the public interest institution established audit models would be normally improved. The registered level is a proof of the maturity of the society and its ability to generate ideas and mechanisms sparing stated interests. In this sense, the hierarchically constructed system of independent audits can be perceived as an expression of the symbiosis between trust and control function in an environment of relatively high independence. The rapid development of the subjective side in all dealing with audit systems is indicative of the increasing



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demand of the society to approach the maximum of its institutionalized subjects to growing list of diverse nature, activity and significance objects of auditing.

Second. The opportunity the independent audit system to be viewed in light of management functionality, critical public attitude and architectural design of the organizational structure (i.e. its result) is a prerequisite for enhancing the role of the modern organization and especially to expand state intervention as the supreme institutionalizing organization. The development of this process, driven by independent audit, is another proof of Jewish wisdom that trust is good but control is something far better.

Third. If about accounting W. Buffett argues that it is the language of business, rightly audit might add that this is its mechanism for formal, international recognition based on authoritative intervention in the analysis and disclosure of achievements in the implementation the stated interest results and allowing those who make it to be institutionalized. Establishment of a system of institutional audit models presents an opportunity to perceive the assurance of every effective step made in social development as a challenge to constantly improve internal alternative for a better future.

13. Conclusion

In its unity, the contents of the book proves the growing social need for rapid development of optimal audit by achieving sufficient confidence in increased transparency in the analysis of the results, interpreted as financial values and moral significance, as well as an engine of cash flows and an innovative form of effective control.

The main contribution of the monograph can be formulated in two main panels:

1. On the basis of the analysis on the development of accounting reflecting the main trends in the global economy the evolution in the improvement of the audit has been reviewed. This process is viewed as an opportunity for mutual influence of each element of a particular factor system on the other. On the one hand the created opportunity to enable the attribution of institutionality in the audit is seen principally as a result of this impact, and on the other - as a scientific contribution of the study.

2. The critical analysis of the conditions and circumstances that provoke meaningful and formal development of the audit for the first time in Bulgarian scientific literature have been thoroughly considered and specifically presented as ideological sources and leading arguments in initiating and deliberate building of a unified system of institutional audit presented models functioning in coherence with the development of the idea of audit globally. The major contribution moment in the analysis of the process in question is associated with a practical proposal tabled by a specific pattern (matrix) to measure and control the process of institutionalization in the field of Bulgarian financial control.

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