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From inspection to auditing: audit and markets as linked ecologies

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From Inspection to Auditing: Audit and Markets as Linked Ecologies

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Abstract

This paper studies the roles that images and ideas of market creation played in the re-articulation of relations between government, audit expertise and professional organisation in post-Soviet Russia. It examines the change from state-led inspection to market-oriented auditing between 1985 and 2005, and analyses this in terms of the notion of “linked ecologies”. The paper queries the relationship between audit and neoliberal modes of governing (Miller & Rose, 1990, 2008; Power, 1997). It argues that we should be careful not to see audit as an unproblematic expression of neoliberalism. Investigating the dynamics and conflicts accompanying attempts to establish auditing as a site for governmental reform, this paper examines the manifold ways in which the meaning of markets and the roles of auditing in them can be unsettled, reinvented and transformed. The paper analyses how auditing was made marketable, and investigates how projects of post-Soviet audit development came to be carried forward, shifted and changed through new “enterprising selves” and their newly founded audit and consulting firms. The paper concludes with a more general discussion of the implication of these findings for our understanding of the dynamics of professionalisation, and the changing of relations between politics and expertise.

Keywords: auditing; post-Soviet Russia; marketisation; neoliberalism; governmentality; professionalisation; professional service firms; linked ecologies; politics and expertise

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Audit in transition

1989 – That was the nascent stage of Russian audit. The task that we set at that time was to master that business and lay the groundwork for commercial success doing it. So the challenge we faced was to create the market for our services and then prove to this market that it cannot exist and develop without us. (Andrey Dubinsky, CEO, BDO Unicon, Russia)¹

Since the collapse of the Soviet Union, auditing has become one of Russia's most successful business sectors. In January 2008, more than 6,400 audit firms were registered with the Ministry of Finance.² Over the last ten years, Russia's audit firms have achieved remarkable growth rates. In 2001, the auditing business grew by approximately 60% in terms of revenue (excluding the then Big Five companies).³ In 2007, the total revenue of Russia's 150 largest audit groups (excluding the Big Four) increased by 37.4%, and reached a total of approximately 37 billion Roubles.⁴ This paper analyses the rise and expansion of auditing in post-Soviet Russia, and draws particular attention to the complex relationships that were formed between auditing practice and the ideas and instruments of marketisation. Investigating the dynamics and conflicts accompanying attempts to establish auditing as a site for a reform of modes of governing, this paper examines the manifold ways in which the meaning of markets and the roles of auditing in them can be unsettled, reinvented and transformed.

Utilising a linked ecologies approach (Abbott, 1999, 2005b; Fourcade, 2006; Fourcade & Khurana, Forthcoming; Ong, 2005; Star, 1995; Star & Griesemer, 1989; Wise, 1988), this paper queries the relationship between audit and neoliberal modes of governing (Miller & Rose, 1990, 2008; Power, 1997; Rose, 1993, 1999). It argues that we should be careful not to see audit as an unproblematic expression of neoliberal government. Following Power (1994,

¹ See www.bdo.ru/eng/company/history/ (accessed in May 2007).

² See "Svedeniya o raspredelenii auditorov, auditorских organizatsiy i individual'nykh auditorov po federal'nym okrugam" [Information about the spread of auditors, audit organisations and individual auditors across federal regions], issued by the Russian Ministry of Finance on 25.01.2008. Cf. <http://www1.minfin.ru/common/img/uploaded/library/2008/02/svedaudit2007.pdf> (accessed in November 2008).

³ See business journal *Ekspert*, No. 14, 08.04.2002.

⁴ See article "Business audit in Russia" which was published in the journal *Kommersant* and translated by GAAP.RU on 22.10.2008. Cf. www.gaap-ifs.com/news/gaap_ifs/2293 (accessed in November 2008).

1997), the paper agrees that audit is more than a series of mundane techniques. Auditing should also be understood as an idea, “a pervasive logic which has a life over and above specific practices” (Power, 1994, p. 3). Yet, the logic of audit is itself far from unproblematic, stable and readily defined. Nor is it exclusively wedded to neoliberalism (Kipnis, 2008; Strathern, 2000). We should be careful not to overstate the transformative power of audit. In post-Soviet Russia, the rise of ideas of Western-oriented auditing did not automatically lead to an end to the earlier Soviet inspection practice. The Russian business of auditing has, at least partially, been built into the very same structures that reformers argued needed to be changed. Further, we need to recognise the multiple nature of neoliberalism itself. A variety of phenomena can become embraced under the label of neoliberalism (see e.g. Burawoy et al., 2000; Harvey, 2005; Ong, 2006).⁵ With the help of a linked ecologies approach, this paper seeks to draw attention to the multiple and refracted nature of neoliberalism, and connected ideas of post-Soviet audit and market creation. Focussing on the “multiplicity of voices” (O'Malley, Weir & Shearing, 1997) within the project of post-Soviet audit reform itself, the paper aims not only to enhance our understanding of the specificities of Russian audit expertise. It also seeks more generally to contribute to our understanding of how neoliberal modes of governing are played out and contested in non-Western contexts.

Following Abbott (2005b, p. 248), “linked ecologies” have to be understood “in terms of interactions between multiple elements that are neither fully constrained nor fully independent.” An ecology is characterised by “its set of actors, its set of locations and the relation it involves between these” (Abbott, 2005b, p. 245). According to Abbott, the particular social structures and locations of an ecology are not pre-existing positions: “It is the process of constructing the relations between actors and locations that in fact constitutes and delimits both actors and locations. Analytically and empirically, the relational process is

⁵ Following Harvey (2005, p. 2), this paper defines neoliberalism in the first instance as “a theory of political economic practices that proposes that human well-being can best be advanced by liberating individual entrepreneurial freedoms and skills within an institutional framework characterized by strong private property rights, free markets, and free trade.” As a technology of government (Ong, 2006; Rose, 1993, 1999), neoliberalism seeks to reconfigure “relationships between governing and the governed, power and knowledge, and sovereignty and territoriality” (Ong, 2006, p. 3). Yet, it cannot be reduced to “a uniform global condition” (ibid., p. 14). As Ong points out, “neoliberal forms are often in tension with local cultural sensibilities and national identity” (ibid., p. 12). Neoliberal reform agendas, such as marketisation policies in post-Soviet Russia, create spaces for experimentation with market reforms, which are not seldom accompanied by local resistance, exceptions and mutations (Burawoy, 2001; Burawoy et al., 2000; Burawoy & Verdery, 1999; Hoffman, 2006; Kipnis, 2008; Sigley, 2006).

prior” (Abbott, 2005b, p. 248). A linked ecologies approach thus underscores that audit and markets, and the boundaries that come to be formed around them, only exist in relation to other arenas of economic, political and social activity (for this point see also Burchell, Clubb & Hopwood, 1985; Gendron, Cooper & Townley, 2007; Miller & O’Leary, 1994; Power, 1997; Radcliffe, 1998; Robson, 1991; Robson, Humphrey, Khalifa & Jones, 2007). The relationship between audit and markets, to borrow from Barry, Osborne and Rose (1996: 13), is “not automatically one of functionality or cooptation.” Instead of a single source of change, such as problematisations of Soviet planning, it is the multiplicity of different factors that are to be attended to, the “assemblage”, “network” or “field” of actors, instruments and ideas involved in post-Soviet audit and market reform (Callon, Millo & Muniesa, 2007; Chua, 1995; DiMaggio & Powell, 1983; Gendron et al., 2007; Latour, 2005; Miller, 1991, 2008; Miller & O’Leary, 1994; Ong & Collier, 2005; Power, 1997; Quattrone & Hopper, 2005; Robson et al., 2007; Suddaby, Cooper & Greenwood, 2007).

A linked ecologies approach emphasises change, internal dynamics and the *overlapping* and *interpenetrating* of previously distinct worlds. Rather than focusing on the ways in which different arenas, networks or fields give rise to the emergence of a particular accounting technology – such as value-added accounting or discounted cash flow analysis (Burchell et al., 1985; Miller, 1991) – attention is focused on the ways in which arenas and fields themselves come to be interlinked and reworked. Emphasis is placed on the modes and processes of mediation and co-production *between* different arenas or fields (see also Miller & O’Leary, 2007; Wise, 1988).⁶

In the case studied, markets for audit were actively created, crafted and shaped, not only by the Russian government, but also by the newly founded audit firms and their representational instruments. Emphasis was shifted from auditing as an abstract mechanism designed to help develop markets, to the marketisation of audit organisations. Auditing itself came to be marketised and seen as a platform for entrepreneurial self-realisation. The new

⁶ In this respect, a linked ecologies approach can also help overcome some of the limitations that have been ascribed to the concept of fields in institutional analysis (DiMaggio & Powell, 1983; Suddaby et al., 2007; Wooten & Hoffman, 2008). Ecological analysis helps to see fields no longer “as containers for the community of organisations”, but as a “relational space”, an “intertwined constellation of actors who hold differing perspectives and competing logics” (Wooten & Hoffman, 2008, pp. 138-140). As Abbott points out, it is in many ways a much loser and empirical model and an attempt “to find regularity in a social world first imagined as utterly fluid” (Abbott, 2005a, p. 6).

audit entrepreneurs themselves, in cooperation with the government, created the markets they sought to rule. A linked ecologies approach draws attention to such *changing relations and dynamics* between Soviet and post-Soviet, old and new, global and local audit definitions and marketisation attempts, and helps scrutinise the changing interplays between auditing and markets. It makes us aware that the market relevance of auditing is not fixed, nor should it be presumed. It has to be actively built and rebuilt. And as studies of changes in Western audit practices have made us aware (see e.g. Curtis & Turley, 2007; Gendron et al., 2007; Jeppesen, 1998; Robson et al., 2007), such processes of defining and redefining are likely to be the site of significant struggles, where outcomes are only provisional, and where they can be challenged and changed more than once.

A linked ecologies approach asks us to develop a more complex and dynamic account of the relations between different and sometimes competing programmes of post-Soviet governmental reform, audit development and market creation. It seeks to make room for the complexities and paradoxes that derive from attempts to spread and utilise somewhat ambiguous and ill-defined Western concepts of neoliberal government, marketisation and auditing. In so doing, it is distinct from population ecology approaches that, for instance, have been put forward in organisational theory (e.g. Hannan & Freeman, 1989). In contrast to Hannan and Freeman's population ecology approach, a linked ecologies approach is neither functionalist, nor does it make *a priori* strong assumptions about the actors, their properties and surroundings that it seeks to study. Abbott's definition of linked ecologies draws on the early Chicago School in sociology (Abbott, 1999; Goffman, 1963; Hughes, 1971) and is very closely related to constructivist ecological analyses, which have been carried out in the context of science and technology studies (Aker, 2007; Star, 1995; Star & Griesemer, 1989; Star & Ruhleder, 2001; Wise, 1988) and anthropology (Ong, 2005, 2006; Ong & Collier, 2005).⁷

⁷ As Aker (2007) put it, the notion of (linked) ecologies makes it possible to incorporate the various advances in constructivist scholarship into the sociological study of the occupations and professions. Within science and technology studies, Star (1995; Star & Griesemer, 1989; Star & Ruhleder, 2001) and Aker (2007) have used an ecological metaphor to attend to the contingency, indeterminacy and complexity of knowledge production, and to explore linkages between knowledge and its various contexts. In anthropology, Ong (2005, 2006) used the notion of "ecologies of expertise" and "eco-system" to draw attention to "situated entanglements" of markets and neoliberalisms in East-Asia. And in accounting, Miller and O'Leary (2000) wrote about eco-systems in value reporting, investigating the roles of technical analysts in the organising and composing of financial information flows.

A linked ecologies approach highlights the multiple determinations of audit and market ecologies, and it problematises the trajectories of their change (see also Ong & Collier, 2005). This implies that the move from socialist inspection to market-oriented auditing cannot be conceptualised as a period of change from one stage to the next, organised around certain predefined notions of market rationality, economic progressiveness and regulatory effectiveness. Although Russia's reformers were largely inspired by Western discourses of neoliberalism and progressiveness,⁸ we should be careful not to take such discourses at face value and to assume that they are transplanted unchanged. The transition from inspection to auditing is neither a one-way process of change, nor are its objectives as clearly defined as is often suggested by mainstream audit theories. The transformations that the Russian and other Eastern European societies underwent, and continue to undergo, are grounded in a complex reworking of old relations, past and present, Soviet and post-Soviet, socialist inspection and imagined new audit worlds (Burawoy & Verdery, 1999; Kelemen & Kostera, 2002; Stark, 1996; Stark & Bruszt, 1998).

A few studies have described and analysed the emergence of Western-oriented accounting professionalism(s) in developing and post-colonial economies (Annisette, 2000; Hammond, Clayton & Arnold, 2008; Neu, Ocampo Gomez, Graham & Heincke, 2006; Sian, 2006; Uche, 2002), and there is an emerging body of literature examining the specificities of new audit practices in Eastern Europe and Russia (see e.g. Bychkova, 1996; Enthoven, Sokolov, Bychkova, Kovalev & Semenova, 1998; Kosmala, 2007; Kosmala MacLulich & Sucher, 2004; Mennicken, 2008; Samsonova, 2009; Sucher & Bychkova, 2001; Sucher, Moizer & Zelenka, 1998). Yet, little attention has been devoted so far to analysing the linkages that have formed between ideas and instruments of audit, and wider processes of local and global market creation, and how such processes may or may not contribute to the changing of relations between government, authority and expertise (Rose, 1993). There have been few studies of what happens when previously state-administered accounting and audit

⁸ Particularly in the early 1990s, Russia submitted itself to a range of neoliberal reform measures, commonly referred to as 'shock therapy' (Arbatov, 2001; Bogomolov, 2001). These measures sought to minimise direct state intervention and included the removal of price controls, privatisation, the cutting of government spending, and proposals for a Western-oriented accounting and audit reform aimed at making financial reporting more useful for economic decision-making. The reforms were propagated by Western economic advisers (Jeffrey Sachs, Anders Åslund, Andrei Shleifer) and multilateral institutions, such as the IMF, World Bank and OECD (Boycko, Shleifer & Vishny, 1995; IMF, IBRD, OECD & EBRD, 1991; Lieberman, Nellis, Karlova, Mukherjee & Rahuja, 1995; OECD, 2005).

experts become, as Rose (1993, p. 285) has put it, “relocated within [an imagined, added AM] market governed by the rationalities of competition, accountability and consumer demand.” This paper seeks to redress this relative oversight by considering how linkages between audit, markets and modes of governing were established, challenged and changed, and with what effects.

The remainder of the paper investigates how projects of post-Soviet market and audit development were carried forward, shifted and changed at government level, and at the level of new “enterprising selves” and their newly founded audit and consulting firms. There were many factors driving the development of audit expertise that went beyond the demand from firms and investors for mechanisms of corporate control and accountability. Western-oriented auditing was brought into existence before investors could articulate their control demands. Capital markets were virtually absent, and Russian audit entrepreneurs and their audit firms, in cooperation with government, created and shaped the markets they sought to rule. Alongside these changes, market ideals changed too. Markets came to be viewed as a space for experimentation, something to be actively ordered and organised, rather than an abstract mechanism of economic coordination.

These changing interplays and shifts are now examined in five main steps. The next section provides a brief outline of research methods and the empirical materials collected. *Section 2* traces the beginnings of audit development in post-Soviet Russia. It describes and analyses how programmes and discourses of market-oriented audit reform were articulated at government level following Gorbachev’s calls for Perestroika [Restructuring] in the late 1980s. It shows how Western-oriented audit reform proposals were inextricably linked to Russia’s wider transition from a planned to a market economy. Auditing, to quote Rose (1999, p. 150), became involved in discourses aimed at transforming the Soviet “ethos of government” – “from one of bureaucracy to one of business, from one of planning to one of competition, from one of command and control to one of choice, self-regulation and individual responsibility.” The subsequent sections scrutinise these neoliberal “dreams and schemes” (Miller & Rose, 1990), and examine how market and audit ideals came to be shifted, translated and reworked.

Section 3 analyses attempts to operationalise the abstract market and audit reform programmes through the foundation of state-independent, commercial audit firms. It is shown how commercial auditing and state-independent audit firms came to be advanced as vehicles able to transform the ailing Soviet inspection apparatus, operationalise goals of market-oriented reform, economise mechanisms of state administration and increase regulatory efficiency. We observe a shift from programmes promoting audit as a state-independent institution of control and oversight, to programmes seeking the marketisation of auditing itself. *Section 4* analyses how post-Soviet auditing was *made* marketable. It is shown how the market relevance of auditing had to be actively built, with tools that were not necessarily directly related to audit and inspection activities. Audit had to be turned into an economic business before audit itself could take place, and audit ideas came to be merged with Western marketing and consulting expertise. Western audit and consulting firms (particularly the then Big Six), together with their marketing instruments, became important reference points in the erection of boundaries between the present and the past, the production of public visibility and the creation of new systems of audit representation and intra-occupational differentiations. Yet, former Soviet calculative practices and inspection technologies were not entirely changed or replaced; rather, they were rewrapped and restaged, with the help of Western ideas and instruments of market creation – technologies of ranking, branding and organisational management.

Section 5 concludes the paper with a discussion of the more general implications of these findings for our understanding of the dynamics of audit professionalisation and the changing relations between markets, politics and expertise. The paper revisits Cooper and Robson's (2006) reminder that professional firms, particularly large international firms, are increasingly important in accounting professionalisation and regulatory processes (see also Dezalay & Sugarman, 1995; Greenwood & Suddaby, 2006; Greenwood, Suddaby & McDougald, 2006; Hanlon, 1998; Hinings, Greenwood & Cooper, 1999; Robson et al., 2007; Robson, Willmott, Cooper & Puxty, 1994; Suddaby et al., 2007). It is argued that we need to redirect attention away from questions of professional association, towards instruments and activities of internationalisation and micro-differentiation to recognise the diverse ways in which audit expertise is organised, staged and legitimised. This suggests the need for more

comparative and micro-sociological studies of audit and audit cultures to appreciate their multiplicity, and to better understand how ideas of neoliberalism, audit and market creation are played out, transformed and subverted in day-to-day practices.

Methods and materials

Following Denzin and Lincoln (2000, pp. 4-6), in the context of this study, a qualitative research approach was adopted that can be understood as *bricolage* where different sets of representations are assembled and different methods of investigation are employed to develop an in-depth understanding of the field. Different methods were utilised to facilitate a multi-layered understanding of the issues connected to processes of marketisation and post-Soviet audit reform, and display their multiple and refracted nature. In the collection of the empirical materials, the study involved archival research, in-depth interviewing and participant observation methods. The document analysis covers the period from 1985 to 2008. Besides legal documents, Soviet and post-Soviet accounting and audit journals (Bukhgalterskii uchet, Auditorskie Vedomosti), Soviet and post-Soviet accounting and audit textbooks, newspapers (Vedomosti, Finansovaya gazeta, Nezavisimaya gazeta, Izvestiya, Kommersant daily, Moscow Times) and business magazines (Ekspert, Kommersant, Profil') were analysed.

As representatives and creators of “programmatic knowledge” (Radcliffe, 1999, p. 338), professional, legal, academic and other documents provided a good starting point in understanding the specificities of post-Soviet audit reform and market creation, and were an important source in the analysis of the ways in which the significance of auditing and markets was articulated and produced. The document analysis was complemented with 48 in-depth interviews (Wengraf, 2001), carried out in Moscow between 2001 and 2002, and several periods of participant observation (Spradley, 1980). Participant observations made it possible to link the collected interviews and other materials to the contexts within which they were produced, and they helped to better understand the diverse ways in which ideas of audit and market-oriented development were articulated, interrelated, and reworked. The interviews were conducted with former Soviet financial inspectors, Russian auditors, state regulators, representatives of new professional associations, academics, representatives of large Western

accounting firms, multilateral organisations (World Bank), and other international organisations (Association for Certified Chartered Accountants, International Centre for Accounting Reform in Russia). Participant observations were carried out in two large Russian audit firms (for two months and two and a half months respectively) and the International Centre for Accounting Reform (for one month). Most interviews were conducted in Russian and transcribed in Cyrillic. For the purpose of this paper, quotes taken from Russian language interviews and documents were translated into English by the author. Where the translation of a specific term was ambiguous, the original Russian term has been added in brackets next to the English translation.

The paper assembles multiple visions of auditing and marketisation to navigate through the different, at times controversial, perspectives and voices attached to post-Soviet audit and processes of market creation. In Russia, the idea of audit was born with Perestroika in the late 1980s. The Soviet government advanced audit as an institution for dealing with economic and social transition. Here, audit came to constitute much more than a reaction to financial control deficiencies. It was seen as a way through which Russia's government and economy could be re-organised according to Western constructs of global capitalism and market-oriented development, and it is to these early beginnings of post-Soviet audit development, and the intertwining of audit with wider programmes of governmental reform, that we now first turn.

From state administration to market-economic methods of governance

An important official point of departure for Russian audit development was constituted by the Soviet government in January 1987, with the approval of regulations for joint venture operations (Decrees No. 48 and 49 of 13 January 1987). Here, for the first time, the term “audit” [audit] was used in a legal context to replace the term of financial revision [reviziya]. *Inter alia*, the decree states:

In order to exercise their oversight rights, the participants in the joint enterprise are to be provided, in the procedure specified in the articles of incorporation, with information relating to the operations of the enterprise and the status of its assets, as well as information on profits and losses. The joint enterprise may have an auditing commission [auditorskaya kommissiya] that is formed in the procedure specified in the articles of incorporation. Audits of joint enterprises' financial, economic, and commercial operations are performed for a fee by a Soviet self-financed [khozraschetny] auditing organization [auditorskaya organizatsiya]. (Quoted from Boguslavsky & Smirnov, 1989, p. 194)

From this point on, financial controls were no longer exclusively carried out through the control apparatus of the state. Self-sustaining, state-independent [khozraschetny] auditing organisations entered the picture of financial regulation. The financial controls of joint ventures were to be carried out for a fee, payable by the inspected entity to the auditing organisation.⁹ This change from state-led inspection [reviziya] to commercial auditing [audit] had its roots in a combination of different demands and problematisations questioning not only old practices of Soviet financial inspection but much more widely the Soviet regime of central planning, command and control. Paraphrasing Power (1995), the emergence of auditing in Russia can be seen as closely linked to the “transformation of regulatory styles” and attempts to reinvent post-Soviet government in accordance with Western market ideals. As the Deputy Director of one of today’s biggest Russian audit firms comments:

The idea of auditing was born with Perestroika in the late 1980s. With the emergence of market economic structures auditing also emerged. Before that, what did we have? We had a planned economy. And we had government controls. The government controlled profits and calculated taxes. We had bookkeepers, but no accountants or financial directors. In theory all that existed, but it wasn’t called the economics of an enterprise. [...] We had financial reports, we had accounts, but these were statistics, not really economic facts. In reality, it didn’t really mean very much. This system didn’t require the work of auditors, but we did have inspectors [revizory].

In Russia, auditing was introduced as part of broader reform programmes aimed at economic liberalisation, privatisation, and the repositioning of the (post-)Soviet state. Socialist forms of rule had been called into question, and new market-oriented modes of governing, including auditing, came to be put forward to redefine the roles of the state, enhance efficiency, reduce bureaucracy and extend rationalities of market-oriented exchange and accountability (see e.g. Danilevsky, 1991; IMF et al., 1991; Lieberman et al., 1995).

Yet, the move from state financial inspection to state-independent commercial auditing did not take the form of a clear-cut break. In the late 1980s, state financial inspection practices began to be reframed under the label of auditing without it being clear where the reform attempts were heading. The meaning of the word audit and what distinguished auditing from old Soviet inspection practices had to be worked out, again and again. And

⁹ The first Soviet audit firm was founded in September 1987, under the leadership of the Soviet Ministry of Finance (Antonov, 1989). The firm was founded as a shareholding company [aktsionernye obshestvo], but the Soviet state was still its exclusive stockholder. Between 1987 and 1988, all joint venture enterprises that operated in the Soviet Union had to undergo audits by Inaudit. In March 1988, this monopoly was dissolved and managers of joint ventures were allowed to choose their auditors themselves (Geron, 1989: 11). During this time, the first private Russian audit businesses also emerged. In 1989, for example, Unicon, was founded, in 1990, FBK, in 1991 Rufaudit, and in 1992 Rusaudit and Topaudit. In 2002, these firms belonged to the top ten Russian audit firms in terms of number of employees and revenues (see article in journal *Profil*, 11 March 2002, p. 80).

important reference points in working out distinctions between socialist inspection and market-oriented auditing, came not only to constitute Western audit technologies (such as audit risk models and audit sampling procedures), but also the commercial nature of audit itself. Government officials, academics and Soviet audit practitioners saw in the commercial nature of auditing one of the most defining features distinguishing it from socialist state inspection (Danilevsky, 1987a; Danilevsky, 1991; Suyts, Akhmetbekov & Dubrovina, 2001). From the beginning, audit (in contrast to socialist inspection) came to be placed in the context of market-oriented business activities. Audit and markets were viewed as inextricably interlinked, as mechanisms of control and coordination, which *mutually* condition and reinforce each other. But this did not mean that old inspection practices ceased to exist. The auditing profession-to-be came to inhabit multiple, contradictory contexts. As Stark (1996) would put it, we observe “the interweaving of multiple justificatory principles”, a recombination of old and new, with actors manoeuvring through a multiplicity of different legitimating principles, building new market-oriented institutions (such as auditing) not on, but *with* the ruins of the past.

During Soviet socialism, financial controls, so-called revisions [reviziya]¹⁰, were set up as an integral part of the planning apparatus of the Soviet state. The organisation of the controls was centred on the objective of financial plan fulfilment, in particular with respect to the observance of state-set costing plans (Chumachenko, 1985; Kramarovsky, 1987a; Krasnov, 1987; Mitrofanov, 1965). Soviet inspectors worked as state servants, and they received their orders either from the Soviet Ministry of State Control, the Ministry of Finance, the branch ministries or other, local governmental control organs. The main objectives of the state financial inspections were to ensure that assets were not misused, that outputs were not misappropriated and that accounts were prepared in accordance with the rules and procedures set out by the government. The controls consisted mainly of detailed, highly formalised checks of procedural compliance. For example, it was checked whether bookkeeping rules had been properly applied, whether forms had been correctly filled out, whether stamps and

¹⁰ It should be noted that the term “revision” has been, and still is, widely used in the conduct of financial audits in German-speaking countries, as well as a number of other continental European countries, such as Denmark (see e.g. Christiansen & Loft, 1992). The Germanic word “Revision” and the Russian word “reviziya” have both been derived from Latin [revidere, revisio]. “Revidere”, in Latin, refers to general processes of checking. In post-Soviet Russia, the term “reviziya” has been replaced with the term “audit” to signal the Western re-orientation of the formerly state-led system of financial control.

signatures were in the right place and whether the documentation of production cycles was complete (see e.g. Kramarovsky, 1970; Mitrofanov, 1965). Further, inspection work itself was subject to a detailed plan. The inspectors had to follow a detailed annual state inspection plan which set out control objectives, time frames, and allowable failure rates (Chumachenko, 1985; Danilevsky, 1987a). But financial inspections were not only an integral part of the Soviet planning apparatus; they were also part of Soviet communist ideology. Party officials, academics and other actors involved in the political governance of the Soviet state portrayed financial inspections as an important instrument to facilitate the realisation of socialism (Chumachenko, 1985; Kramarovsky, 1970, pp. 5-13; Krasnov, 1987; Mitrofanov, 1965, pp. 3-16). State financial inspections were an integral part of Soviet governmentality rooted in ideals of central planning, surveillance, command and control and social equity. The *Great Soviet Encyclopaedia [Bolshaya Sovetskaya Entsiklopediya]* (Vvedensky, 1955, p. 175), for example, states:

In the USSR, financial inspections [reviziya] support the consolidation of socialist lawfulness and state discipline.

In Krasnov's (1987, p. 14) study of the history of socialist control we read:

In a socialist society, control fulfils the role of an instrument to consolidate socialist forms of social life, where private property does not exist. [...] Socialist [financial] control is directed towards the liquidation of oppression and exploitation.

In accordance with these ideologically motivated definitions of socialist state inspection, Western auditing was viewed as a means of control that was inherently linked to capitalism – private enrichment, exploitation, inequality and individual responsabilisation (Kramarovsky, 1970, p. 9). A Soviet financial dictionary, in 1988, still described auditing as an activity that serves the interests of “monopolist capital” and deepens class divisions (Garetovskii, 1988, p. 49).

Problematizing Soviet command and control

In the late 1980s and early 1990s, this picture began to change. On 11 March 1985 Mikhail Gorbachev was elected General Secretary of the Communist Party of the Soviet Union (CPSU). At the 27th Congress of the CPSU in February 1986, Gorbachev called for radical reforms in the economy. *Perestroika* [economic restructuring] and *Glasnost* [policy of maximal publicity, openness and debate] came to be cornerstones of Gorbachev's reform

policies (Gorbachev, 1987). An immense struggle for economic and political reform had begun, which was aimed at moving gradually (as far as proved necessary) in the direction of a market economy, democratisation, openness, political freedom and more Western-friendly thinking in foreign policy (Åslund, 1991).

At the Central Committee Plenum in June 1987, a reform programme was adopted which promoted a shift “from primarily administrative to primarily economic management methods at every level” (Gorbachev, 1987, p. 33). Gorbachev and his advisors problematised the severe centralisation of the Soviet management system – being, as he put it, “regulated down to the last detail”, “strictly posing tasks and allotted budget sums” (Gorbachev, 1987, p. 46). He and other Perestroika proponents, like Aganbegyan, argued for the broadening of the rights and economic autonomy of enterprises, the enhancement of competition, self-responsibility and self-administration (Aganbegyan, 1988, 1989; Åslund, 1991; Gorbachev, 1987). Centralised economic management was to be reorganised “in the interests of enterprises” (ibid.), more freedom was to be granted to managers, “genuine economic incentives” were to be introduced (ibid., p. 90), and measures were to be invented making profit a concern, encouraging “self-government” [samoupravlenie] and more “initiative and creative endeavour” (ibid., p. 34). In the reform programme we can read:

[...] Ministries, state committees and other state departments are required to resolutely change forms and methods of managing associations, enterprises and organisations. [They are required] to change from administrative to primarily economic methods [of management and control]; to provide the necessary conditions and scope for the adoption of economic accounting procedures [khozaschet], self-financing [samofinansirovanie] and self-management [samoupravlenie]. (Article 4, Resolution N7283-XI, Supreme Soviet, 30 June 1987, “The perestroika of the management of the national economy”)

With the term “khozaschet” government officials referred to economic methods of governance and management, economic cost accounting, the operation of a business on a self-sustaining basis (meaning without state subsidies) and profit orientation (Corten, 1992, p. 63). The term has existed in the Russian language since the 1920s, but gained new significance in the early years of the Gorbachev era. Under the Perestroika movement, the mechanism of “khozaschet” was (re-)introduced to provide enterprises with more accountability, economic independence and planning autonomy (Aganbegyan, 1988, 1989; Gorbachev, 1987). Organisations were encouraged to plan their finances and production independently, and in 1988, following the earlier approval of regulations for joint venture operations, the Law on

Co-operatives was adopted, which made forms of private entrepreneurship for the first time more widely allowable and promotable.

During this phase of Perestroika politics, also the system of state financial inspection [reviziya] came to be problematised, openly discussed and criticised. Restrained criticisms had already been formulated in the 1960s and 1970s, but under the Perestroika movement it had become possible, for the first time, to discuss these issues in a wider forum, and with less pressure to conform to Marxist-Leninist ideology. The discussions commenced as far back as April 1981, when the Council of Ministers of the USSR issued a resolution that set out, according to the title, “Measures for the improvement of control and inspection work in the ministries, departments and other offices of governmental management [organy upravleniya]”.¹¹ The resolution criticised the work of the existing inspection institutions profoundly:

The Council of Ministers of the USSR notes that the [...] controls of the financial and economic activities of associations, enterprises, organisations and other institutions continue to show serious deficiencies. The ministries, departments and other offices carrying out inspections and controls are still not very effective and only to a very limited extent meet the requirements of enhancing state discipline, preventing mismanagement and guaranteeing the preservation of socialist property. The inspections and controls are not seldom of a superficial, formal character and do not exhibit the required positive influence on the work of the associations, enterprises, organisations and institutions as they should do.

Subsequent to the resolution, the major Soviet accounting journal *Bukhgalterskii uchet* began to publish a series of articles discussing the current situation of the inspection apparatuses, and reconfirming the need for reform. The debate started cautiously, but over the years, and encouraged by Gorbachev’s Perestroika politics (1985-1991), the articles became stronger in their critique and reform requests. In November 1985, for example, the journal published an article that openly problematised the “administrative focus” of the inspections and their lack of economic analysis:

Many of the reports [akty] that are prepared by the control and inspection apparatuses do not contain a deep analysis of the economic situation of the controlled enterprises and associations [...]. The inspectors usually spend only a very limited amount of time [on the controls], which does not allow them to come to a thorough understanding of the particularities of the ways of documentation [dokumentooborota] and the specificity of the financial and economic activities of the controlled enterprises [...]. In many cases the controls and inspections are carried out to meet [their own] plan requirements and are of a quite formal [ritualistic] nature. (Zhurko, 1985, p. 24)

¹¹ See resolution [postanovlenie] N 325 of the Council of Ministers of the USSR from 02.04.1981. In 1980, five years before Gorbachev was elected General Secretary of the CPSU, he had already received full membership of the Politburo, and reform needs had been articulated then particularly within the circles of the Young Communist League (Komsomol) (Åslund, 1991; Gorbachev, 1997).

In the subsequent years, the journal published more and more articles, emphasising the indispensability of a fundamental re-organisation of financial inspection and control. Between 1985 and 1990, almost every monthly issue of the journal contained at least two or three contributions criticising the existing inspection practices and calling for reform. These contributions were written by parties outside the inspection apparatus (e.g. academics), as well as by the people within it. Between 1985 and 1990, Yuri Danilevsky, for example, who was at that time the head of the major financial control division [kontrol'no-revizionnoe upravlenie] of the Soviet Ministry of Finance, published nine articles in the journal *Bukhgalterskii uchet* carrying titles such as “Financial control and the economy” (Danilevsky, 1987a), “Improving control and inspection work” (Danilevsky, 1987b) and “Financial control: what it should become” (Danilevsky, 1990). Other publications were headed with titles such as “Enhancing the effectiveness of departmental controls”, “Improving controls for the reliability [dostovernost'] of accounts”, “Cadres of a new type” and “About the perestroika of control and inspection work”.¹²

The criticisms within these articles focused on deficiencies in the educational and training programmes of financial inspectors, the internal fragmentation of the control and inspection systems, and the limited impact of inspections on enterprise management. Some articles addressed the superficiality of state controls and pointed out the low morale of inspectors in the workplace (e.g. Zhurko, 1985). Others talked about the scarcity of financial and human resources to fulfil inspection tasks, or found fault with the lack of internal quality controls (Kundrotas, 1988, 1989). To put these criticisms into perspective, it is important to understand that, in the Soviet Union, financial inspectors (similar to bookkeepers) did not enjoy a particularly high status. In comparison to other occupations, they were relatively lowly paid and not considered to be well educated (Bailey, 1973; Kramarovsky, 1987b; Shafirova, 1986, 1990; Solov'ev, 1988; Zhurko, 1985). In addition, the inspection apparatus was well known for its bulkiness and fragmented management structures. Since the late 1930s, it was frequently pointed out that the apparatus lacked co-ordination and suffered from

¹² The articles quoted above were published in the following issues of the journal *Bukhgalterskii uchet*: December 1985, June 1986, October 1986, and June 1988. The articles represent only a small fraction of the total number of articles that were published on this topic during that time.

duplication of effort.¹³ This was partly the case, because financial controls were embedded in a variety of different state structures, which were not very well connected with each other. The accounting department of an enterprise, for instance, was subject to a series of different controls (see e.g. Campbell, 1974). On the one hand, the department was subject to controls of the relevant branch ministries. On the other hand, the Gosbank (the Soviet Central Bank) would send out its own inspectors to ensure that the prices employed by the accountants were in accordance with those fixed by the government. In addition, the Ministry of Finance sent controllers that came in to check that the payments and revenues were made in line with the overall finance plan.¹⁴

Following the criticisms and stimulated by the market-oriented reforms undertaken elsewhere, reformers argued for the need to make state financial inspections “more economic”, less bureaucratic, and more relevant to the interests of enterprises. “Economic methods” of inspection were to be developed, moving financial control away from a focus on correct weight, quantity and other administrative planning measures, to an emphasis on quality, efficiency and profit and loss calculation (see in particular issues No. 1 to 5 and 10, 1989, and issues No. 1 and 4, 1990, of *Bukhgalterskii uchet*). In this context, Western commercial auditing came to be seen as an important reference point (Danilevsky, 1990; Danilevsky, 1991, 1995a, b). Western commercial auditing came to be regarded as a possible mechanism for accelerating processes of governmental modernisation and downsizing. Seen as a central element in Western market infrastructures, auditing should help promote “economic thinking” and market-oriented development, not only outside but also within the inspection apparatus. It should help stimulate market-oriented change and contribute to the dissolution of the Soviet state monopoly over financial control (Danilevsky, 1991; Shpig, 1990). In the accounting journal *Bukhgalterskii uchet* we read:

The transition towards a market economy poses new requirements to the control over financial-economic activities of different enterprises. [...] [State-independent] audit controls make the work of state institutions easier; they also make the work for enterprises easier. [...] Audits are important to signal the healthiness of an enterprise; [...] and] audit firms help to build up and organise market relations. (*Bukhgalterskii uchet*, 1991, No. 8, p. 40)

An article published in an earlier issue of the journal states:

¹³ See in particular the article by Kramarovskiy (1987b), which provides a comprehensive account of the control and inspection problems that were discussed in the journal *Bukhgalterskii uchet* between 1937 and 1987.

¹⁴ For a more detailed analysis of these issues see Chumachenko (1985) and Krasnov (1987).

Completely new forms of control should accompany the market economy; one form of those [new controls] is auditing. [...] In developed countries, audit services make up one of the strands of big business. A thoughtful adoption of these services in our country could have a huge social and organisational impact on the improvement of the management of industry in our developing market economy. [...] It is necessary to learn quickly and intensively more about Western audit expertise. (*Bukhgalterskii uchet*, 1991, No. 1, pp. 38-39)

Danilevsky, the former head of the inspection division of the Soviet Ministry of Finance, writes:

The development of market relations, and particularly shareholding forms of property, call for the need to establish a system of [state] independent, external financial control [audit]. (*Bukhgalterskii uchet*, 1991, No. 3, p. 4)

Western auditing came to be seen as a necessary response to the envisaged market reforms. It was called upon to strengthen the accountability of enterprises, to enhance their autonomy, and to promote regimes of economic cost accounting and self-governance. The next section takes a closer look at this nexus between auditing, audit firms and market-oriented reform demands. It analyses the *mutual* intertwinement of audit and markets and their establishment as “linked ecologies” (Abbott, 2005b). It is shown that auditing was not only called upon to *build* markets. The market-oriented nature of auditing itself came to be viewed as an indispensable element of its effectiveness. Looking at the West and large Western audit firms, particularly the then Big Six, auditing itself was to be structured in accordance with principles and images of market rationality, to make it state-independent, economic and user-oriented. This did not mean that old inspection practices completely disappeared. Rather, they came to be re-articulated within the new market ideals.

Audit, audit firms and neoliberal reform demands

In April 1991, Boris Yeltsin, in his function as Chairman of the Supreme Council of the Russian Soviet Republic, announced in the Russian newspaper *Nezavisimaya gazeta*:

We [the government] have to return to our people economic and legal rights and freedom. [...] We have to develop conditions for a return of Russia to the system of the world market and world culture. (*Nezavisimaya gazeta*, 02.04.1991)

Particularly between 1989 and 1992, Soviet and later post-Soviet transformation policies came to be grounded in beliefs that processes of radical marketisation, liberalisation and privatisation could transform Russia’s highly bureaucratised, statist economic system, including its unwieldy inspection apparatus, into a dynamic, competitive capitalist economy (Åslund, Boone, Johnson, Fischer & Ickes, 1996; Gaidar, 2003; IMF et al., 1991; Sachs &

Warner, 1995; World Bank, 1996). Gorbachev acknowledged that “there is no alternative to shifting to the market” (Pomer, 2001, p. 2), and Yeltsin “championed immediate transformation of Russian socialism into laissez-faire capitalism” (ibid. , p. 1). As Pomer (2001, p. 4) recalls, on 2 January 1992, by presidential decree, coordination of the economy by central planning was terminated – most price controls were lifted, doors to foreign trade and capital flows were thrown open, and government spending was cut sharply: “The goal was immediate transition to unfettered markets, thereby allowing the market to guide the economy without government interference.” The supposedly successful capitalist societies of Western Europe and the United States became important reference points for what post-communist Russian society aspired to become (Bogomolov, 2001; Lane, 2002; Pickles & Smith, 1998). To quote Bogomolov (2001, p. 53):

Gorbachev’s intent to transition to the market was met by the West with beguiling offers to share knowledge and experience. A steady stream of economists arrived from abroad, bringing advice avidly assimilated by young reformers. Chicago School neoliberalism was in vogue. Russian admirers, hastening to disown the communist faith, were won over. Many of these proselytes became even more orthodox than their new ideological heroes.¹⁵

The market reform programmes induced new ways of thinking about financial control and regulation, including auditing. Simultaneously, auditing came to be located outside and inside markets. On the one hand, Western auditing came to be seen as an element of market-independent institutional infrastructure supporting the establishment of market relations amongst enterprises, and between enterprises and investors. As a mechanism of independent control, auditing should help prevent asset stripping, improve the presentation of financial information, and ensure compliance with new market-oriented regulations and standards (Danilevsky, 1991, 1994; IMF et al., 1991, p. 53). On the other hand, auditing activities themselves were to be organised along principles and images of market rationality. To enhance their effectiveness, so it was believed, financial inspections had to be detached from “the apparatuses of political rule” (Rose, 1993, p. 285). Financial audit experts were to be re-

¹⁵ The neoliberal reform programme outlined by Western economic advisers, such as Sachs, Åslund and Shleifer, and multilateral institutions, such as the OECD, World Bank and IMF, recommended the rapid liberalisation of foreign trade, fiscal austerity and swift privatisation (IMF et al., 1991; Lieberman et al., 1995; World Bank, 1996). It was informed by the so-called “Washington Consensus”, neoliberal reform policies aimed at fiscal stabilisation, privatisation and liberalisation outlined by the World Bank and IMF in the late 1980s to rescue states in economic crisis (Harvey, 2005). Following the Western recommendations, on 2 January 1992, Yegor Gaidar (then acting Russian prime minister), launched the so-called “shock therapy” programme promoting laissez-faire capitalism through the sudden removal of price controls, the liberalisation of trade and large-scale privatisation (Arbatov, 2001).

located within (imagined) markets “governed by the rationalities of competition, accountability and consumer demand”. As Danilevsky (1991, p. 6) writes:

The activities of auditors should be guided by legislation and private [sobstvenny] and economic [khozaschetny] interests. Conditions of competition within the auditing business allow economically for quality in the carrying out of inspections [revizii] and controls. In turn, enterprises have the possibility to choose a qualified partner (auditor) who is independent from the departmental inspectorates, and the government is given the possibility to ensure control over the reliability [dostovernost'] of financial statements and the correctness of tax calculations without having to spend its governmental budget resources.

State-independent, self-financed commercial audit firms [khozaschetnye auditorskie organizatsii] came to be identified as the main instruments through which market-oriented reform objectives could be realised:

The development of a web of audit firms can lay down the beginning of a genuine establishment of economic principles of financial control, based on contractual, commercial relations between the auditors and the controlled enterprises and other organisations. (Danilevsky, 1991, p. 6)

Audit firms came to be advanced as entities through which the old Soviet control system could be “adapted to the requirements of a the market economy” (Itkin, 1991, p. 20); through which “reliable [dostovern] financial information” could be produced allowing for “the enhancement of capital market efficiency” and “evaluation and forecasting of consequences of economic decision-making” (Sheremet & Suyts, 2001 [1995], p. 11). Such beliefs, to a great extent, were rooted in highly idealised Western accounts. Western discourses on audit functionality were called upon to promote and legitimate the rise of commercially organised audit expertise (Danilevsky, 1991, 1995a, b; Sheremet & Suyts, 2001 [1995]; Solov'ev, 1988; Terekhov, 2001; Tsyplenkov, 1994).¹⁶ Further, the large international accounting firms had opened their first offices in Russia in the late 1980s (Cooper, Greenwood, Hinings & Brown, 1998). The presence and economic success of the then Big Six strengthened beliefs that the establishment of private audit firms constituted an appropriate response to the political and economic reform demands. In the eyes of the Russian reformers and new auditors, the big firms “demonstrated the need for professional services” (Pyatenko, 1998, p. 9), and they set an example of how auditing ought to be organised. Ernst

¹⁶ In 1993, for example, one of the first Russian commercial audit firms “Kontakt” (later FBK) initiated the translation of Robertson’s audit textbook [Robertson, J.C., 1976: Auditing. Burr Ridge: Business Publications]. In 1995, the economics professors Terekhov and Sokolov translated the fifth edition of Arens and Loebbecke’s textbook [Arens, E.A. and J.K. Loebbecke, 1991: Auditing, an integrated approach. Englewood Cliffs: Prentice Hall]. In the same year, Sokolov translated the “Audit Framework” by Adams [Adams, R. 1993: Audit Framework. London: ACCA]. In addition, a translation of Carmichael and Benis’s “Auditing Standards and Procedures Manual” appeared [Carmichael, D.R. and M. Benis, 1994: Auditing Standards and Procedures Manual 1994. London: John Wiley, also translated in 1995].

and Young established their first offices in Moscow in 1989. Coopers and Lybrand, Arthur Andersen and KPMG followed in 1990, and Deloitte and Touche launched their Russian offices in 1992. Subsequent to the joint venture regulations in 1987, the international accounting firms had followed new Western joint venture partners into Russia, as most of them needed a Western audit for their Western parent companies (Cooper et al., 1998).¹⁷ Later, from 1990 onwards, the big firms, along with newly founded Russian audit firms, conducted also audits for co-operatives and banks.¹⁸ The activities of the Big Six, the opening up of the Soviet Union for foreign direct investment, and the introduction of new forms of private property reinforced beliefs that the old Soviet inspection apparatus needed to be replaced with a system of commercial auditing run by private audit firms.

Yet, the actual working of auditing still needed to be figured out. As Power (1997, p. 42) would put it, the efficacy of auditing was *a priori* assumed. Neither the actual working of audit, nor its technologies were problematised. As the following remark of a former employee of the Soviet Ministry of Finance¹⁹ illustrates, the advent of auditing, at first, had the appearance of a fashion. Economic reformers deemed it to be more appropriate to control commercial, market-oriented operations through commercial audits rather than the old system of state inspection – without considering what the exact implications of such a change would be:

Because the government [...] allowed the foundation of enterprises with foreign capital, and even further, the foundation of enterprises with capital from capitalist countries, it would have looked very strange, if a part of the state control apparatus would have controlled these organisations. [...] At that time it was quite fashionable to set up audit firms. An understanding of the meaning and roles of this institution [of auditing] did not exist. The procurators [inspectors] would assign auditors and the auditor would do the controls [for them]. Auditing was seen as an instrument that could be employed to delegate control, state controls. And it was just fashionable, instead of setting up a control-inspection apparatus within the state structures, to create such an apparatus through audit firms. In the West that exists, so why shouldn't we have the same?

¹⁷ The joint venture law from 1987 stimulated the rise of auditing, as it required that joint venture partners underwent an audit, instead of the traditional state inspections. However, the law itself is only one factor among many that contributed to Russian audit development. The law itself does not explain the rise of auditing. For this, we have to look at the wider conditions of its emergence, including political changes, problematisations of state financial control and the opening of Russia to the West.

¹⁸ A new Banking Law, adopted in December 1990, stated that the financial statements of commercial banks were to be checked by an independent audit organisation. Also the Enterprise Law and the revised Law on Co-operatives, issued in 1990, introduced audits as a means of external financial control and required these to be conducted by commercial auditing organisations.

¹⁹ In 2002, when this interview was conducted, the interviewee worked as a partner for a Big Four audit firm in Moscow and was responsible for the development of internationally oriented accounting and audit methodology.

Soviet inspection practices, thus, began to be reframed under the label of auditing, but without it being clear where the reform attempts were heading. Reform activities were based on a range of ideas about what Western auditing in Russia might look like, without these ideas being anchored firmly in agreed, uncontroversial definitions of auditing. In the beginning, the term “auditing” was primarily used to demarcate a new control *area*, namely the control of commercial operations carried out by joint ventures and other entities with mixed or exclusively private funding, rather than to denote changes in actual inspection *practice and technology*. A former state financial inspector, who in 2002, at the time of this interview, was Deputy Director of one of the Big Four audit firms in Moscow, remembers:

When we heard the word “audit” for the first time we were confronted with a series of new questions. Amongst other things, we asked ourselves what we should look at [when carrying out audits]. The major control organ at that time was the Ministry of Finance; we worked with their questions. [...] And, obviously, what we did during these times, that wasn’t an audit in the sense as we understand it today. It was more like...the procedures were more like... – [...] *More like the inspections you carried out before?* – Yes, yes, exactly.

The practical meaning of audits, and what made them distinct from governmental inspections, still had to be worked out. This problem arose partly out of the general obscurity that, as Power (1997) shows, characterises the business of auditing, whether in the East or the West. It arose also out of a lack of first-hand experience in Western auditing and resistance accompanying the reform attempts. On the one hand, auditing had become attached to neoliberal reform demands, ideals of market-coordinated action, competition and laissez-faire. On the other hand, there were still many voices, within and outside government, seeking to restore the old command and control regime and state authority. Old inspection ideals, coalescing auditing with ideas of “lawfulness” [zakonnost’], juridical enforcement and governmental oversight, rather than market accountability and consumer rights, lived on (see e.g. Shpig & Lazurenko, 1991).

Moreover, the neoliberal ideas and programmes of marketisation themselves were not as homogeneous as, at first, they may have appeared. We cannot speak of one unitary neoliberal or market logic (Harvey, 2005; Ong, 2006). Rather, we have to acknowledge the multiple visions and rationales that can become connected to audit, marketisation and neoliberal reform ideas. In the name of “the market” and neoliberalism, a range of different ideas and instruments can get mobilised, which put different emphasis on different aspects of neoliberal government (Aldridge, 2005; Hirschman, 1992). In the case of Russia, marketisation,

and neoliberalism respectively, came to be defined as opposite to planning and bureaucratic coordination, at the same time market-oriented reform policies themselves required a lot of organisation and re-regulation. At an abstract level, neoliberalism and marketisation came to be understood as freedom to self-organisation, individual responsabilisation and increased accountability (Åslund, 1995; Gorbachev, 1987; see also Rose, 1999). At the level of audit organisation, they came to be interpreted in terms of economic calculation, rationing, and competition (Danilevsky, 1990, 1991; but see also Kurunmäki & Miller, 2006). At the beginning of Russia's transition to capitalism, "the market" came to be regarded as a disciplining and "civilizing" mechanism (Gaidar, 2003; Gorbachev, 1987; Hirschman, 1992, 1997 [1977]; IMF et al., 1991). Later, when many of the reforms did not turn out as planned, "the market" came also to be seen as merely opening up possibilities for bare profit seeking, opportunistic enrichment, free riding and ruthlessness (Burawoy, 2001; Klein & Pomer, 2001). Following a linked ecologies approach, we need to make more room for such multiple views and interpretations that came to be attached to audit and processes of marketisation.

Further, abstract, idealised discourses about marketisation and auditing alone cannot help us explain how auditing, and new audit firms respectively, came to work (or not work). Nor can they add to our understanding of the many shifts, contradictions, dynamics and tensions accompanying attempts to transform post-socialist inspection in the light of Western market ideals. For this, we have to look at the messy translation of the ideals. A linked ecologies approach, as put forward in this paper, seeks to unravel the manifold connections that came to be established between audit reform programmes and different instruments and ideals of marketisation. Ecological analysis, as Wise (1988, p. 77) has put it, draws attention to the "particular modes of mediation through which societal concerns become projected into the very local concerns of a particular domain" of activity. In so doing, ecological analysis asks us not only to analyse the governmental programmes that gave rise to audit. It also asks us to investigate how the market and audit reform requests came to be rearticulated at local level, translated and shifted into sub-programmes, counter-programmes, and attached to technologies involved in the day-to-day construction and legitimation of claims to audit expertise.

Changing relations between politics and expertise

In post-Soviet Russia, particularly in the early 1990s, many reformers believed that new market institutions (including auditing) would arise almost automatically, if institutions of the old system were destroyed (see e.g. Boycko et al., 1995). Yet, the anticipated transition did not come about (Burawoy & Verdery, 1999; Pickles & Smith, 1998). The reforms carved space for new forms of private entrepreneurship, but did not automatically lead to greater degrees of accountability, transparency and individual responsibility, or changes in inspection technology. People, including accountants and auditors, as Stark and Bruszt (1998) aptly point out, were not wondering how to transit to “the market”. They were more concerned about how to survive with the resources at hand and how to cope with the high degrees of institutional uncertainty. Thus, market-oriented reform programmes did not result in clearly identifiable pathways of change. Rather, as the following sections show, they opened up spaces for experimentation and pluralisation. Auditing itself came to be implied in such spaces of experimentation and pluralisation. At government level, demands for auditing had been articulated, but tasks of audit still had to be defined, and differences between socialist inspection and market-oriented auditing to be worked out.

The market relevance of auditing had to be actively built and rebuilt, with tools that are not necessarily directly related to calculative proficiency or actual degrees of scrutiny. Russian audit entrepreneurs and their firms actively participated in the construction of the markets they sought to rule. Audit had to be turned into an economic business before audit itself could take place, and audit ideas came to be merged with Western marketing and consulting expertise.²⁰ Western marketing instruments (client questionnaires, audit firm ratings, advertisements, brochures etc.) came to be used to erect boundaries between the present and the past, gain public visibility and build up new systems of audit representation.²¹

²⁰ This, of course, is not only a specificity of auditing in post-Soviet Russia. Discourses seeking to redefine and market auditing in consulting terms also took place in the West, in the 1980s and early 1990s, particularly before the Enron scandal (see e.g. Jeppesen, 1998; Robson et al., 2007). Yet differently from the West, in Russia discourses about consulting emerged at the same time when auditing was introduced, and not as something that was added on to audit.

²¹ In the context of this paper, systems of audit representation are defined as systems of signifying practices and symbolic systems (Hall, 1997) through which audit meanings are produced, and which help position audit firms and auditors as market actors in envisaged audit markets. This paper argues that symbolic systems play an important role in creating possibilities of what auditing is and who auditors are. Discourses and systems of

The next section describes and analyses how auditors actively tried to *make* audit marketable. It shows how auditors sought to reinvent themselves as market actors through references to managerial efficiency, economic successfulness, client care and competitiveness. Projects aimed at increasing professional status and external recognition came to be carried forward at the level of audit firms and their positioning in the emerging audit market (e.g. via audit firm ratings, client questionnaires and other marketing instruments). Notions of good or bad, professional or unprofessional, auditing came to be linked to audit firm size, audit firm branding, and corporate influence. In this context, large Western professional services firms (particularly the then Big Six and other large mid-tier accounting firms) came to function as role models, as market organisations to compete with and learn from. They came to be seen as strongholds of Western audit and marketing expertise, with structures at their disposal through which, so it was hoped, at least parts of the emerging Russian audit market could be remodelled, modernised and connected to the West.

The meaning of markets and the roles of auditing in them, thus, was reworked. Attention came to be shifted away from textbook ideals seeing auditing as a mechanism to reduce information asymmetry, to enhance accountability and to add credibility to financial reports.²² Auditing was redefined as platform for corporate development, consulting activities and entrepreneurial self-realisation. With this, also market ideals changed. Markets were no longer seen as an abstract mechanism of economic coordination, but as a space for experimentation, which needed to be actively created, crafted and shaped, by the audit firms themselves and their representational instruments.

Making audit marketable

Until 1993, auditing itself remained a largely unregulated business. In 1994, this situation was changed. The government adopted Temporary Rules on Auditing, which for the

representation construct places from which auditors and audit firms can position themselves and from which they can speak to each other and larger publics.

²² See e.g. Danilevsky et al. (2002), Sheremet and Suyts (2001 [1995]), Suyts et al. (2001). Sheremet and Suyts (2001 [1995]) wrote one of the first Russian audit textbooks for students at the Moscow State University. Following Western textbooks (Arens and Loebbecke [1995], Adams [1995], Robertson [1993]) and principal agent theory, they describe auditing as a device “to overcome information asymmetries”, “to increase the trustworthiness of financial information”, “to evaluate and forecast the consequences of different economic decisions” and “to enhance capital market efficiency”.

first time laid out a definition of auditing, and officially granted audit firms a key position within the system of economic and financial control that was to be reformed. The Temporary Rules defined auditing as:

[...] entrepreneurial activity of auditors (audit firms) involving independent, non-governmental controls of accounting (financial) reports, payment and settlement documents, tax declarations and other financial obligations and requirements of economic entities and the provision of other auditing services. (Quoted from Danilevsky, 1994, p. 9)

The adoption of the Temporary Rules constituted an important further step in the marketisation of audit services. Subsequent to the Temporary Rules, audits became mandatory for a large number of companies.²³ Audits came to be officially relocated within commercial, state-independent audit firms, which were free to decide on the forms, methods and contents of the checks they carried out.²⁴ Groups of audit experts and audit organisations officially were put into competing positions. Audit services were redefined as commercial, tradable good. Auditing itself came to be seen as “*entrepreneurial activity*” [predprinimatel’skaya deyatel’nost’], and auditee organisations were free to choose among a host of newly established audit suppliers.

Between 1991 and 1996, the number of new audit firms increased rapidly. In 1991, at the early beginnings of Russian audit development, an auditing conference was held in Moscow in which more than 180 audit firms participated (Terekhov, 2001, p. 64). A few years later, the number of audit firms amounted to more than 2,000 (ibid.). In 1996, more than 3,000 audit firms operated in Russia, and by 2001 this number had increased to 7,500 (see Table 1 below).²⁵

Insert Table 1 about here

Yet, to both the new audit producers and consumers it was still not entirely clear what distinguished auditing from former inspection activities apart from the new commercial

²³ Audits became mandatory for unlimited joint-stock companies, banks, insurance companies, stock exchanges, investment institutions, charitable funds, joint ventures and companies with a turnover of more than 500,000 minimum monthly salaries (ca. 7 Million USD) or total assets in excess of 200,000 minimum monthly salaries (ca. 3 Million USD) (Enthoven et al., 1998, p. 87). These requirements were specified in a governmental resolution from 7.12.1994 (No. 1355). According to the Russian business journal *Profil’* in March 2002 more than 20% of all businesses had to undergo mandatory audits (*Profil’*, 11 March 2002, p. 78).

²⁴ See Article 13 of the Temporary Rules: “*Auditors and audit firms have the right to define methods and forms of audit controls themselves, provided that they do not conflict with the legal framework of the Russian Federation.*”

²⁵ The auditors interviewed in this study came from a variety of different backgrounds. Some had worked in science labs as mathematicians; some had an engineering or background. Others had taken MBA degrees abroad. Only a few had formerly worked as state financial inspectors; and many had only received their university degrees some years ago.

attributes. What one could or should demand from mandatory audit services still had to be specified. Relations between auditor and auditee had to be figured out, and evaluation criteria for “good” auditing to be defined. Different attempts began to be undertaken by the new audit entrepreneurs and their founded audit firms to make audit reputable and marketable, to position themselves in the emerging post-Soviet audit market, and redefine their identity in accordance with market ideals. In this context, attention was drawn in particular to marketing expertise and market-oriented instruments of audit firm representation – public advertisements, audit firm rankings, press articles etc. – to communicate, ground, sell and legitimate claims to new competence, mark differences between Soviet and post-Soviet audit practices, establish new grids of classification, and distinguish “real” from “quack” professionals.

Attempts aimed at making audit reputable (and thereby marketable), thus, were not only rooted in the development of a new knowledge base, Western-oriented audit methodologies and traditional mechanisms of professional regulation (e.g. professional standards, ethical codes and certificates). At least equally important were activities and instruments of marketing and branding aimed at the publicising and general promotion of auditing and audit firms. Activities and instruments aimed at making auditing widely “presentable” and “communicable” came to the fore. New forms of market representation were invented to make auditing and audit firms publicly known, construct status hierarchies between small and large firms, reinforce ideas of market-guided auditor choice, and demonstrate competitiveness. In this context, ideals of auditing came to be intertwined and reframed with ideas and instruments of consulting, management and marketing. The following passages examine how auditing and market ideals came to be carried forward, shifted and changed through the new audit entrepreneurs, their audit firms and representational instruments. Three instances of post-Soviet audit re-branding and re-presentation are analysed.

First, changing representations of relations between subject and object of auditing, between auditor and auditee, are investigated. It is shown how notions of auditing as instrument of verification and market-control came to be shifted and remoulded by auditors and audit firms seeking to reinvent themselves as “doctors who heal” in order to leave stigmas

of socialist inspection behind, distinguish themselves from sham professionals, legitimate entrepreneurial inventiveness and reemphasise customer orientation. Second, it is shown how imageries of auditors as “doctors who heal” are not only utilised to reinforce differences between the present and the past; they are also used to restage old aspirations of organisational efficiency and, to some extent, defend continuity in audit methodology. Third, we turn to the embedding and re-articulation of market-oriented audit ideals in inter-organisational constructions of market credibility, and analyse the relevance of audit firm rankings in newspapers and popular business magazines for the construction and legitimation of new claims to expertise. We observe the re-invoking of market ideals in terms of inter-organisational competition and demonstrations of corporate powerfulness. But we also see that this does not necessarily imply that former Soviet calculative practices and inspection technologies are entirely changed or replaced; first of all, they rather are rewrapped and restaged – with the help of Western ideas and instruments of market creation, representation and organisational management.

Doctors who heal

Here [in Russia] you find firms who really perform audits and you have firms who just call themselves audit firms. That is a big difference. You have doctors who heal. They know what they are doing; they are experienced. But you also have people who just wear white collars. They just take your money and give you a certification that you are healthy and that you are not going to die soon. (Director of a large Russian audit firm)

An auditor comes to a firm to express his opinion. He does not come with the objective to punish or fine. He comes with the objective to find out whether there are any shortcomings; and he will inform the management of the company about these shortcomings, which means that we don't penalise. (Senior Auditor of another large Russian audit firm)

An auditor – that's not just a person who comes to express an opinion on the financial statements; people expect him also to tell them how things should be done, they expect advice. [If you] say that an audit is about the support [podderzheniye] of a true and fair view, the management of a company would not understand this. And they don't care. They think: 'If we hire auditors and pay them money, they ought to tell us how all this [the accounting] should be done, so that we don't face problems with the tax authorities.' If an auditor does not help the enterprise to get the accounting and computation of taxes right, the enterprise would choose another auditor the next time. (Audit Manager of another large Russian audit firm)

In the early 1990s auditing had been introduced and put on a market footing, but potential audit clients were not necessarily convinced that auditing constituted a valuable, worthy activity. Professional standards were largely absent or, if present, rarely enforced. Markets, including the emerging market for audit services, came to be experienced by many as being “out of control”, as wild and uncivilized spaces “where anything goes”. Furthermore,

stigmas of Soviet inspection continued to live on and were often attached to auditing, too. As was pointed out earlier, during Soviet times neither bookkeeping nor inspection enjoyed a high status or good reputation. In order to expand their businesses, enhance public credibility and trustworthiness, the new auditors needed to counteract the old stereotypes and imageries. In so doing, they did not only need to develop new technical skills and a new knowledge base, they also needed to find ways and instruments allowing for their public *re*-staging, proactive impression management and communication of their worth.

In doing so, individual auditors and their firms, *inter alia*, began to emphasise the metaphorical similarity between auditing and other respected, established occupations. As with the US-American management consulting profession in the 1930s (McKenna, 2006, p. 201), Russian auditors too began to describe their activities in terms of medical analogies. Auditors and audit firms, seeking to distinguish themselves from past inspectors and sham professionals, promoted themselves as “doctors who heal”, and commercial auditing as medicine for the ailing economy. In various journal articles, books, advertisements and public speeches auditors presented themselves as “doctors of the economy” [doktory ot ekonomiki], as “physicians for the bookkeeper“ [vrachi dlya bukhgaltera] (Baklan, 1988; Pyatenko, 1998, 2001). Notions of control [kontrol] and inspection [reviziya] came to be reworked and intertwined with notions of guidance, help [pomosh] and competent advice [gramotny sovet] (Pyatenko, 1998). Whereas former Soviet inspectors continued to be portrayed as watchdogs, as policemen who want to expose mistakes, punish and collect fines, auditors sought to re-brand themselves as consultants, helpers, and accounting advisors (Pyatenko, 1998, 2001; Suyts et al., 2001; Terekhov, 2001). In the accounting journal *Bukhgalterskii uchet* we read:

Auditors are no longer the state inspectors [revizory] from yesterday, whose task it was to find errors and breaches. The auditor of today is an adviser [sovietchik] to the owner, entrepreneur and bookkeeper. Qualified consulting services are often more needed than the audit itself. (*Bukhgalterskii uchet*, 1998, No. 8, p. 8)

A shift is articulated from socialist inspection to Western-oriented business consulting (see also Baklan, 1988; Pyatenko, 1998, 2001). Medical metaphors came to be blended with Western consulting ideals. They were not so much used to root auditing in ideals of science, but to articulate characteristics of (Western) management consulting, emphasise the importance of client/patient care, discretion/doctor-patient confidentiality and state independence:

It is important that [audit] organisations [...] emphasise in their regulations and contracts the consulting and confidential character of their offered services, avoiding the words “inspection and control” [reviziya i control]. In the opinion of the leaders of the organisations, their client will only be interested in their services, if he is convinced that the results of the accomplished work will only be communicated to him, and the objective of the work does not consist in an attempt to wash one’s dirty linen in public. (*Bukhgalterskii uchet*, 1988, No. 11, p. 11)

Before statutory audits were widely introduced, many audit firms worked as accounting consulting organisations [khozraschetnye konsul’tativnye organizatsii].²⁶ Modelling themselves on Western accounting and consulting firms, they later relabelled themselves as audit-consulting firms [auditorsko-konsul’tatsionnye firmy], and auditors referred to themselves as auditor-consultants [auditory-konsultanty] (see e.g. Pyatenko, 1998). Russian audit firms, which in 2005 for example belonged to Russia’s five largest national audit firms, started under names such as Unicon (Universal Consulting)²⁷, or FBK (Finansovye i bukhgalterskie konsultatsii – Financial and bookkeeping advice), which they continued to carry. Consulting images were invoked not only to reinforce distance from old inspection imageries, but also to legitimate the profit orientation of the new audit firms and communicate, akin to Western audit firms in the 1980s and 1990s (Hinings et al., 1999; Jeppesen, 1998; Robson et al., 2007), the “added value” of their services to potential clients.

The presence of the Big Six (later Big Five and then Big Four) accounting firms in Russia from the late 1980s onwards had a major impact on such developments. The big firms were seen as role models who had successfully embraced a competitive market orientation. Their multifaceted business engagements reconfirmed beliefs that auditing should “combine the function of control with consulting and legal advice” (*Bukhgalterskii uchet*, 1993, No. 2, p. 10). The entrepreneurial success of the big firms, their client orientation and general

²⁶ See for example the article in the journal *Bukhgalterskii uchet* by Baklan (1988), a representative of the inspection apparatus of the Soviet Ministry of Finance, describing the foundation of Soviet accounting consulting firms in the late 1980s. Amongst other things, he describes the activities of “Finansy”, a consulting firm in Tbilisi founded in 1987 to offer services in the areas of financial economic analysis, management consulting and legal compliance work; “Took”, an Estonian firm offering legal advisory services and consulting in finance; and “Ekspert”, a Moscow firm providing consulting services to newly founded cooperatives in accounting and bookkeeping.

²⁷ Andrei Dubinsky, founder and director of Unicon comments on the company name on the audit firm’s website: “[...] the name should include the word “consulting” or a part of it to reflect the universal nature of our services. Furthermore, it should show that we are going to become part of the global system in the future, that our professional roots are international. At the same time I wanted a good-sounding name. That is how the name “Unicon” was born – its first part “uni” stands for “universal”; its second part “con” is for “consulting”. If we look at it in a different way, “unic” sounds similar to “unique”. The ultimate meaning would be “unique consulting”, and I believe it is true.” See <http://www.bdo.ru/eng/about/history/index.wbp> (accessed in August 2008).

management expertise, came to be seen as important preconditions for professional audit development (see e.g. Pyatenko, 1998, and *Bukhgalterskii uchet*, 1992, No. 4, pp. 8).

Supported were such views by articles from owners of smaller Western accounting firms, which began to be published by *Bukhgalterskii uchet* regularly from the early 1990s onwards. In 1992 for example, the journal published an article by Thomas Telling, an American accounting firm owner, entitled “Accounting firms in the market economy”.

Telling wrote:

Accounting firms offer clients all complex accounting services, which the client himself cannot carry out. [...] Accounting firms help business people. [...] They can help prepare budgets, offer valuation services, prepare accounts for tax authorities and provide other services. (*Bukhgalterskii uchet*, 1992, No. 12, pp. 21)

According to a survey, published in the journal *Bukhgalterskii uchet* in 1995, the majority of Russian audit firms offered consulting services to their clients. They sought to protect their clients from the grip of tax authorities, prepared business and financial plans for them, provided advice on accounting policies, and helped clients adapt to the fast changing regulatory environment (Podolsky, Savin & Sotnikova, 1995). Bare audits, in this context, were often regarded as being of secondary importance. By many (including auditors and auditees) they came to be seen as “necessary formality”, “not yet a really effective element in the market economy”, “not an instrument of societal control over the commercial activities of enterprises and organisations” (see e.g. Stukov, 1996, p. 38). As Stukov (1996, p. 39) put it: “In the best case audits are tolerated, but they are not liked”. Consequently, audits as such enjoyed limited credibility. Even in 2002 we can read in a widely disseminated Russian audit textbook (see Danilevsky et al., 2002, p. 98): “When granting loans, banks often employ non-official information about the real situation of the potential client rather than trust his financial statements, although they have been approved by a licensed auditor.”

Against the background of such articulations of distrust, marketing and skilful public impression management became important topics for the newly established firms, especially for those with bigger business aspirations (e.g. FBK, Unicon, Rufaudit). Western-oriented marketing strategies, combined with ideas of strategic management, began to be adopted to underline professionalism, client orientation and entrepreneurial ability (Pyatenko, 1998, 2001; Vedenev, 1999). Key account management, SWOT analyses (analyses of strengths,

weaknesses, opportunities and threats), and PR work began to enter in particular larger firms (see e.g. Pyatenko, 2001; Verkhov & Kozlova, 1998).²⁸

Further, firms like FBK, Rufaudit and Unicon founded their own publishing houses. They issued journals for accounting and audit practitioners, were involved in the setting up of audit business associations²⁹, published translations of Western accounting and audit textbooks, and issued their own books and articles. These carried titles, such as “Choosing an auditor and consultant” (Pyatenko, 1998), “The auditor comes to the bookkeeper to help” (Antipin & Badalin, 1994), “The foundation and development perspectives of a market for audit-consulting services in Russia” (Pyatenko, 1997), or “The marketing of audit services” (Vedeneev, 1999). They sent their employees to give public speeches (e.g. at conference), and founded their own PR, marketing and strategic business development departments with the aim “stop auditing from being poorly understood” and re-emphasise its “usefulness for the development of the market” (Voronaev, 1994).³⁰ Audit firms and their founders began to portray themselves as active audit market organisers – actively forming themselves, audit expectations, and their competitive environment (Pyatenko, 1997, 1998).

Market success came to be promoted as a sign of professionalism, and organisational competence of audit firms as the main vehicle through which high levels of audit professionalism could be realised. Displays of entrepreneurial success, shown in newspaper articles, business journals and audit firm advertisements, came not only to be utilised for the attraction of new clients, but, as the following sections will show, also for the general

²⁸ Pyatenko, for example, extensively refers to the English and American consulting and marketing literature and quotes Maister (1993), *Managing the Professional Service Firm*, New York: Free Press; the *Handbook of Management Consulting Services* by S.W. Barcus and J.W. Wilkinson, 1995, New York: McGraw-Hill; and Peoples, D.A. (1993), *Selling to the Top*, New York: John Wiley.

²⁹ The two founders of Rufaudit, Alexey and Alexander Ruf, founded in 1992 the Russian Collegium of Auditors. In 1996, under the leadership of the audit firm Unicon, the Union of Professional Audit Organisations (SPA0, which became later renamed into IPAR, Institute of Professional Audit Firms in Russia) was founded. Temporarily, the number of audit associations amounted to more than 100. Following the introduction of the Federal Audit Law in 2002, and the requirement for governmental accreditation of such associations, this number was eventually cut down to five officially recognised organisations (see http://www1.minfin.ru/common/img/uploaded/library/2009/02/peresh_apao.pdf, accessed in June 2009). With the exemption of the RCA, all associations accept audit firms as their members. The associations are primarily seen as a platform for auditors and audit firms to defend their business interests. Membership in them has never been compulsory and audit certificates were, and still are, not issued by them, but the Ministry of Finance.

³⁰ In 1996, the Russian business magazine *Ekspert* published a survey where the then 20 largest Russian audit firms (in terms of revenues) were asked to list the main factors that contributed to their economic success and continuing competitiveness on the audit market. Amongst the most important factors mentioned were: “good relations with national enterprises (potential clients)”, “professionalism of employees” and “comprehension of the client’s psychology”. See *Ekspert*, 1996, No. 35, p. 32; reprinted in Terekhov (2001, pp. 196-197).

enhancement of public recognition and respect. Similar to the case of the US-American management consulting field (McKenna, 2006, p. 203), and the case of the large international accounting firms (Cooper & Robson, 2006; Greenwood et al., 2006), professionalism came to be seen as a characteristic of individual firms and their capacities for efficient organisation and business development, rather than as the property of individuals. Attributes of organisational proficiency and corporate powerfulness, the next section shows, came to be utilised to articulate professionalism. In this context, special attention was devoted once more to the large Western accounting firms and their ways of organising expertise. At the same time, however, practices aimed at increasing organisational rigour and discipline provided also old inspection ideals with new relevance.

“Civilizing markets”: Organisational proficiency and accounting hygiene

Between 1989 and 1995 audit-consulting, like any other Russian business, developed basically on a combination of indomitable spirit and entrepreneurial energy. [...] Independently, a well developed and flourishing new branch of the economy came to be formed. More importantly, auditors and consultants, ahead of almost everyone, paved the way for a life in accordance with the laws of the market economy and competition. The sphere of professional [audit and consulting] services already itself constitutes a clear example of the possibility to form and develop normal, independent, market laws abiding organisations. (Pyatenko, 2001, pp. 119, 329)

Auditing came to be regarded as a sphere of business where market relations were realised. Auditors and audit firms sought to actively embrace market ideas. They promoted themselves as entrepreneurs, as “motors” of the audit machinery, “oriented towards the future” (Pyatenko, 1998, p. 37). Pyatenko, deputy director and partner of FBK, distinguishing between audit specialists and audit entrepreneurs for example wrote:

Experience and knowledge of the [audit] specialist does not mean much without the work of the manager and [audit] entrepreneur. [...] The entrepreneur is the motor of the machine, oriented towards the future. He is a creator, a strategist, a founder and developer of new markets and the methods of their mastering. (Pyatenko, 1998, pp. 37-39)

Images of audit entrepreneurialism came to be utilised to underline the market orientation of the audit sector, stress its progressiveness and, thereby, reinforce distinctions between the past and the present – between old worlds of passive, rule-abiding bureaucratic inspection and bookkeeping and new worlds of Western-oriented accounting and auditing. In accordance with market ideals, the economic success of an audit firm came to be promoted as a sign of organisational efficiency, competent management and professionalism (Guttseit & Ostrovsky, 1998; Pyatenko, 1997, 1998; Verkhov & Kozlova, 1998). Market competition came to be advanced as crucial for the enhancement of service quality and client satisfaction.

In the absence of strong and long-established conventional forms of professional accreditation and organisation, the particular business history of an audit firm, its positioning in the market and client portfolio, came to play an important role in the production of status differentials and generation of public recognition and authority (Pyatenko, 1998; Verkhov & Kozlova, 1998).

Drawing on organisational patterns of the West, the government had introduced licensing procedures for audit firms and professional examinations for individual auditors in 1994 (see e.g. Bychkova, 1996; Enthoven et al., 1998; Sucher & Bychkova, 2001).³¹ Yet, within these structures, work and jurisdiction of the Russian auditing profession remained largely undefined. The formal entry barriers to the profession remained low, and were not strongly controlled (Danilevsky et al., 2002; Terekhov, 2001). In the view of many auditors, professional examinations represented a necessary condition for the carrying out of audit work, but they did not constitute a very effective mechanism for the production of closure and credentialising of expertise. This was confirmed by many interviewees occupying differing positions ranging from audit trainee, audit partner to firm director. The Deputy Director of one of Russia's biggest audit firms remarked in this respect:

The qualification that is required to do audit work is relatively easy to get. The requirements are very low. You just need to study for two nights; you read a little bit – that is all very easy. [...] The centres that conduct the exams are interested in letting as many students pass as possible, because that's how they make money. They have to let the students pass to secure their existence.

A senior expert involved in the management of audits at the same firm even decided not to enrol for the national examinations:

I decided not to get the certificate out of principle. I can openly say to you that our audit certificate is a complete profanation. The point is, well, usually all people who decide to take the exam will also pass, and I don't believe in exams where 100 per cent pass. [...] I just don't have any respect for this exam; some people even just buy the certificate.³²

Due to the lacking credibility of the state audit certificates, and supported by reform programmes aimed at marketisation and privatisation, ambitious audit firms began to promote themselves as “sites of professionalisation” (Cooper & Robson, 2006). Seeking to establish themselves as “pioneers” and “elite” (Pyatenko, 1997, 1998; Terekhov, 2001) of Russian audit development, they began to play a major role in the shaping of new professional

³¹ See Regulation No. 482 on the issuing of audit certificates and audit licenses (Danilevsky, 1994). The regulation was adopted by the government on 6 May 1994.

³² On the lacking quality of auditor certifications comment also Danilevsky et al. (2002) and Terekhov (2001).

identities and creation of intra-occupational status hierarchies. They began to run their own training programmes (see e.g. Unicon and FBK), adopted international auditing standards, rationalised audit procedures, formalised their audit methodologies and established differentiated command structures to establish clear divisions of audit labour (see e.g. Danilevsky et al., 2002; Pyatenko, 2001; Sheremet & Suyts, 2001 [1995]). In attempts to demonstrate a “more civilised stage of [audit] development” (Pyatenko, 2001, p. 119) ideals of professionalism came to be intertwined with displays of organisational efficiency and economy (see also Guttseit & Ostrovsky, 1998; Sheremet & Suyts, 2001 [1995]). Pyatenko, for example, wrote:

For auditors and consultants a deciding factor for their survival and development in the tough market environment consists in the professionalisation of the organisation of their business. [...] The fundament of a professional culture in an audit-consulting firm is the presence of well mastered management procedures at all levels [...], and the ability to quickly and accurately utilise standard working algorithms within day-to-day practices. (Pyatenko, 2001, pp. 7-9)

The establishment of standard operating procedures, the formalisation and “industrialisation” (Pyatenko, 2001) of audit activities, came to be regarded as a sign of “normalisation” and “civilised-ness” (Guttseit, 2000; Guttseit & Ostrovsky, 1998; Pyatenko, 1998, 2001; Terekhov, 2001). Once more, reference was made to the Big Six accounting firms (see e.g. Danilevsky, 1990; Danilevsky, 1991; Pyatenko, 1997, 1998). Their “bureaucratic professionalism” [burokraticheskii professionalizm] and rationalised ways of organising “paper-work” [bumago-tvorchestvo] came to be seen as important attributes of audit professionalism (Pyatenko, 1998, pp. 14-18). Ideals of marketisation were reworked and, taking the then Big Six accounting firms as an example, auditing came to be linked up with Weberian-like ideals of formal-rational organisation:³³

Western companies have great experience with methods of industrialisation and the very process of providing “professional services”. They have methods [...] and standard operating procedures. [...] The Big Six teach their people how to work on a conveyer belt. [...] [Their methods of] standardisation and industrialisation make it easier to train personnel and deal with turnover. This is their corporate culture. (Pyatenko, 1998, p. 15)

Organisational rigour and discipline came to be promoted as characteristics supporting the establishment of “normally functioning market relations” and the formation of “a civilised

³³ To paraphrase Meyer and Rowan (1977, p. 340) the audit firms incorporated practices and procedures “defined by prevailing rationalized concepts of organizational work.” They adopted these bureaucratic structures and rules not so much because of their immediate efficacy, but to enhance their “legitimacy, resources and stability”. Being both widely accepted amongst Western accounting firms and rooted in past ideals of Soviet bureaucratic organisation and planning, these rules, structures and procedures already enjoyed widespread legitimacy and, thereby, could function as powerful symbols signalling orderliness, rationality and *normality*.

competitive market” (Pyatenko, 1998, 2001). Oddly enough, old ideals of efficient administration, accuracy, and accounting hygiene, in this context, came to be provided with new relevance. To some extent, in the name of the market, bureaucratic traditions were reinvented (see e.g. Avdyunin, 1996). Looking at how the big international accounting firms organised their work, well designed and articulated internal organisational structures, standardised audit manuals, well managed archives with working papers and audit files, and formalised audit quality control procedures, came to be seen as characteristics distinguishing proper audit firms from foul players, often labelled as “black auditors” [chornye auditory]. The term “black auditors” was widely used amongst regulators and professionals for describing auditors who were formally qualified but pursued audit activities in an unethical manner, for example, by providing clean audit reports without backing these up with detailed checks and documentations (Danilevsky et al., 2002; Guttseit, 2000).

Against the background of widespread distrust in auditing (and accounting), and in view of the absence of credible professional certificates, “bureaucratic professionalism” was advanced as important element in the achievement of audit quality, “civilized competition”, market recognition and economic success (Guttseit & Ostrovsky, 1998; Pyatenko, 1998). The fixation of Western audit firms on procedural correctness, proper documentation, and formal “auditability”, as Power (1996, 1997) would put it (but see also Barrett, Cooper & Jamal, 2005; Radcliffe, 1999; Van Maanen & Pentland, 1994), to some extent, could be invoked to re-legitimise old Soviet bookkeeping and inspection practices concentrating on issues of formal accuracy, lawfulness [zakonnost’] and legal compliance work (see e.g. Bailey, 1995; Campbell, 1963; McGee & Preobragenskaya, 2005; Shama & McMahan, 1990).

Most of the Russian audit firms that the author had visited in Moscow between 2001 and 2002 (8 out of 9) used audit manuals, documentation indices, working paper blueprints and quality control procedures that had been imported from the big international accounting firms by employees who, at some point, had been working for these firms. These materials were used to increase procedural orderliness, ensure accurate documentation and enhance organisational efficiency. Yet, these new technologies did not entirely replace old inspection practices. Audits conducted on Russian financial statements, largely continued to consist mainly of detailed, highly standardised transaction tests, aimed at checking documentary

accuracy and compliance with national tax and accounting regulations. Less emphasis was placed on checks of the control systems of an organisation, asset valuation and overall economic representation. As the Deputy Director of one large Russian audit firm remarks:

In a Russian audit, you would find less confidence in the internal control systems. And therefore you'd have a much higher amount of substantive testing than in other countries.

A senior auditor who worked for another large Russian audit firm commented:

The problem is not that auditors don't understand the operations [of the audited entity]. The problem is that auditors have quite a formal approach to their work. Back in the Soviet times, there existed the principle: if there is a document, there is also a transaction, and – vice versa – if there is no document, no entry into the books has to be made. Often, this principle is still alive today.

A Russian partner of one of the large international audit firms confirmed this view:

Whereas the task of the audit process is to throw light on the reliability [dostovernost'] of the financial statements as a whole, the objective of an inspection [reviziya] is to check on concrete kinds of business activity, on concrete operations. [...] Somehow... well, because the Russian public is more used to inspections [reviziya], Russian audit companies often hang on to the ideology of inspection [reviziya]. [...] A certain part of the Russian community of auditors is interested in inflating these differences under the label of Russian specificity. Many Russian [audit] firms use this in their competition with the Big Four. They say: "What can they [the Big Four] give you? They control only in general, but we control every transaction."

To become redefined as market-oriented, actual accounting and audit practices did not necessarily need to be radically changed. What changed, first of all, were the ways in which such practices were restaged, represented, marketed and commoditised. In attempts to make post-Soviet auditing marketable, audit and accounting technologies were not automatically radically reworked, but they came to be intertwined with Western marketing technologies, Western ideas of strategic organisational management and the hierarchical structuring of large international professional services firms. In this process, ideas of auditing themselves came to be redefined. Attention came to be shifted away from auditing as mechanism of certification enabling market exchange and accountability, to auditing as platform for entrepreneurial development, self-realisation and economic wealth creation. Auditing itself was reinvented as a marketplace, with audit firms as central audit market designers. Despite the general public mistrust in accounting and audit reports, auditing could flourish, because of the marketing skills of a selective group of new audit entrepreneurs, the added consulting services they were promising to deliver, and the economic successfulness they emanated. Careful client management, audit firm branding and instruments of efficient organisational management directed attention away from the actual content of audits. Questions about auditing came to be

replaced with concerns about procedural rigour, corporate powerfulness and skilful impression management.

In the following last part of the analysis, the paper turns to one particular instrument that came to be of increasing importance for audit firms in attempts to create markets for their services, enhance their standing and general credibility. Attention is drawn to the production and circulation of audit firm rankings. As will be shown, through the introduction and circulation of audit firm rankings, in particular large Russian audit firms sought to reinforce their importance and central standing. Market ideals were translated into displays of inter-organisational competition, audit firm hierarchies, and organisational status differentiations. Connections came to be drawn between audit expertise and audit firm size; ideas on professional authority came to be intertwined with measures of corporate success.

Competition, rankings and status configurations

One of the first Russian audit firm rankings was published in February 1992 by the business journal *Kommersant* (Danilevsky, 1992). The ranking was produced by the Russian tax authorities and consisted of a list of audit firms “whom they trust” (Danilevsky, 1992, p. 6). A couple of years later, audit-consulting firm rankings began to be produced by the editorial team of the *Kommersant-Daily* (No. 139, 27.07.1995; No. 56, 04.04.1996) and the audit firm FBK. FBK’s rankings were (and still are) conducted on a voluntary basis. They came to be of wide popularity and, from early on, were regularly published in leading Russian business journals (e.g. the journal *Ekspert*). Drawing on Western audit firm rankings, in particular those published by the *International Accounting Bulletin (IAB)*³⁴, FBK ranked Russian audit firms by total earnings [vyruchka], fee income, service lines, and staff numbers. Other indicators published were earnings per employee (audit specialist), economic growth of each firm and the audit market as a whole, and comparative international audit firm rankings. FBK published its first ranking in 1996 in its in-house journal *Finansovye i bukhgalterskie konsul’tatsii* [Financial and bookkeeping advice] (No. 3, pp. 58-63).³⁵ The ranking consisted

³⁴ The *International Accounting Bulletin (IAB)* is an international newsletter reporting “on the activities, performance and strategies of the world’s accounting firms.” The IAB is subscribed by many large international accounting firms and banks, such as PwC, Ernst and Young, Deloitte, KPMG, Barclays, and Credit Suisse. See www.researchandmarkets.com/reportinfo.asp?report_id=220224&t=d&cat_id (accessed September 2008).

³⁵ See also article “The largest firms on the Russian and world market for audit-consulting services” (*Finansovaya razeta*, No. 33, 12.08.1996).

of 20 Russian audit firms, which voluntarily participated. In 1997, the group of audit firms wanting to be ranked accrued to 41. By 1998, the ranking included already 100 firms (amongst them PricewaterhouseCoopers, see Table 2 below) and had come to be an established feature in the Russian business press (e.g. journals, such as *Ekspert* and *Profil'* or newspapers, such as *Finansovaya gazeta* and *Kommersant daily*) (for an example of a more recent ranking see Table 3 below).³⁶

Insert Tables 2 and 3 about here

Despite criticisms and articulations of mistrust (see e.g. Chaya, 2007; Danilevsky, 1992; *Finansovaya Gazeta*, No. 23, 04.06.1996; *Izvestiya*, No. 103, 05.06.1996), over the years the rankings gained more and more attention and influence.³⁷ The audit firm rankings began to gain popularity at a time when ratings and rankings generally had acquired vogue in Russia's business world, not just in auditing and consulting, but also in other sectors of activity. Rankings and ratings, at first, had been conducted on emerging Russian banks and newly issued securities.³⁸ Later the insurance and audit-consulting industries followed, and soon after that universities and other organisational fields.³⁹ In the insurance sector, rankings and ratings had been put forward as "second testimony" [vtoroe svidetel'stvo], as second assurance mechanism, particularly needed in the absence of trustworthy audits and government structures (*Finansovaya gazeta*, No. 18, 1994). They were advanced as insurers of market principles, as promoters of "conditions of open competition" (ibid.). Also in the auditing field, audit firm rankings came to be regarded as a "means of competition" [sposob konkurentnoy bor'by] (*Ekonomika i Zhizn*, No. 29, 17.07.1997). They were promoted as lists

³⁶ See e.g. issues No. 35 (16.09.1996), No. 12 (31.03.1997), No. 14 (14.04.1997) of the journal *Ekspert*, issue No. 56 (04.04.1996) of the newspaper *Kommersant-Daily*, issues No. 33 (12.08.1996) and No. 16 (18.04.1997) of the newspaper *Finansovaya gazeta*, or issue No. 32 (08.09.1997) of the journal *Profil'*.

³⁷ In an article of the *Finansovaya gazeta* (No. 23, 04.06.1996), the vice-president of the Russian Audit Chamber (Auditorskaya Palata Rossii) Sheremet, for example, criticised the methodology of the rankings and stated that such ratings misleadingly implied the foundation of a civilised market for audit services. Yet, such criticisms did not stop their later rise and spread.

³⁸ See e.g. the securities rating published in the business journal *Kommersant*, No. 104, 27.01.1991, the article "Rating of the leaders in exchange market structures", *Kommersant*, No. 38, 23.9.1991, or the article "How to use the rating of banks", *Izvestiya-Ekspertiza*, No. 52, 22.03.1995.

³⁹ On the importance of insurance firm ratings see the article by E. Kolomin, *Finansovaya gazeta*, No. 18, 1994. Regarding university rankings, see *Kariera* (No. 2, 01.05.1998). The reputation of the 100 largest Russian corporations (financial and industrial sector) and Russian regions are rated in the journal *Ekspert* (see e.g. issues No. 12, 31.03.1997 and No. 17, 12.05.1997).

of the “largest” [krupnyshikh] and the “leading” [vedushiy], as a “who is who” [kto est’ kto] to aid auditor choice.⁴⁰

Press articles with audit firm rankings carried titles, such as “*The first ten audit firms in 1995*” [Pervaya desyatka auditorskikh firm po rezul’tatam 1995 goda] (*Kommersant-Daily*, No. 56, 04.04.1996); “*Auditors exist, auditing not, the market is developing*” [Auditory est’, audita net, rynek razvivaetsya] (*Kommersant-Daily*, No. 56, 04.04.1996); “*In Russia a civilised market for auditing and consulting services is emerging*” [V Rossii poyavlyaetsya tsivilizovannyi rynek auditorskikh i konsul’tativnykh uslug] (*Finansovye Izvestiya*, No. 64, 20.06.1996); “*Who is who on the audit market*” [Kto est’ kto na pynke auditorov] (*Finansovye Izvestiya*, No. 72, 23.07.1996); “*The largest firms on the Russian and world market for audit-consulting services*” [Krupneyshie firmy na rossiyskom i mirovom rynke auditorsko-konsul’tatsionnykh uslug] (*Finansovaya gazeta*, No. 33, 12.08.1996); “*Market, competition, ranking*” [Rynek, konkurenciya, reyting] (*Ekonomika i Zhizn*, No. 29, 17.07.1997); “*Auditing the auditors*” [Audit auditorov] (*Den’gi*, No. 42, 13.11.1997).

Large audit firms, like FBK, Unicon or Rosexpertiza sought to utilise the rankings to demonstrate the “civilised nature” of the audit market, show their competitive ability, and introduce (at least rhetorically) quality differentials between large and small firms (see e.g. *Finansovaya gazeta*, No. 64, 20.06.1996; *Ekspert*, No. 35, 16.09.1996). The rankings should inform potential clients and the larger public about the “leading figures” in the Russian audit and consulting market (*Kommersant-Daily*, No. 56, 04.04.1996). They should demonstrate their influence and “melt down myths about the ‘indispensability’ of Western [audit] firms” (*Finansovaya gazeta*, No. 64, 20.06.1996). In 1996, more than 3,000 audit firms operated in Russia (*Kommersant-Daily*, No. 56, 04.04.1996). By 2007, this number had increased to more than 7,000 (see Table 1 above). Between 2004 and 2007, the total revenues of registered audit firms had also doubled from 20.5 to 41.7 billion Roubles (see Table 4 below). During these years, the 50 largest audit firms listed in the audit firm rankings, conducted by the rating agency Expert-RA, picked up about 80% of these revenues (see Table 5 below).

Insert Tables 4 and 5 about here

⁴⁰ See e.g. audit firm rankings published in *Den’gi* (No. 42, 13.11.1997), *Ekspert* (No. 35, 16.09.1996, No. 12, 30.03.1998), *Finansovye Izvestiya* (No. 72, 23.07.1996).

The rankings came to be regarded as an important instrument that could help make a small subset of “quality” Russian audit firms more widely known, exhibit their prosperity and professionalism, and “oust non-professionals from the market” [vytesnenie neprofessionalov c rynka] (ibid.). The rankings should prove that the firms were able to “seriously compete” with the international audit firms – the then Big Six in particular (*Kommersant-Daily*, No. 216, 17.12.1996). Attempts were made to establish a Russian alternative, a Russian “Big Nine” (or Big Ten), to the Western “Big Six” (*Finansovaya Izvestiya*, No. 72, 23.07.1996), and contribute to the formation of an “audit elite” (*Ekspert*, No. 35, 20.09.1999).

The rankings were not representative of the whole audit market. Participation in them was (and still is) voluntary. Only the largest 100-150 firms of those applying for inclusion in the ranking came to be listed. In this respect, the rankings were of a very specific form, in which differentiation within the rankings mattered less than the difference between who came to be included and who was not. Firms who managed to be included gained more visibility, and audit firm leadership came to be equated with a firm’s inclusion in the rankings. The rankings were controversially discussed, and did not only receive affirmative attention. Yet, in particular for the larger firms, the rankings came to constitute an important vehicle of representation and market differentiation. They corroborated their leading role and significance by shifting attention away from questions of audit quality to measures of corporate successfulness. Audit firm size came to be put forward as a surrogate for audit quality, driving professional distinction and status differentiation.⁴¹

As Espeland and Sauder (2007; Sauder & Espeland, 2009) have pointed out for rankings more generally, rankings shape what we pay attention to. They create and obscure relations among entities, and they change the form and locus of attention. Also in the context of this study, audit firm rankings contributed to a “simplification and de-contextualisation” (Espeland & Sauder, 2007) of knowledge. The audit firm rankings could be circulated widely in popular Russian business journals, such as *Ekspert* or *Profil*. No specialist knowledge appeared to be needed for their interpretation. In the rankings, audit successfulness came to be redefined in terms of market successfulness, and questions seeking to address

⁴¹ It is interesting to note that audit firm size is also commonly used as a proxy for quality in audit research (see e.g. DeAngelo, 1981; Palmrose, 1988).

issues of audit quality came to be displaced. Audit firm size was put forward as a surrogate for audit quality, driving professional distinction and status differentiation. As national licensing and audit certification mechanisms did not have much credentialising and differentiating power, rankings focusing on audit firm size came to be regarded as one possible alternative mechanism of distinction and status differentiation. Albeit not uncritically, Guttseit and Ostrovsky, who at government level were involved in matters of audit and accounting reform and research, for example wrote:

Audit firm rankings will, as a rule, pick out and rank only the best ones [...]. The striving of audit firms for a high place in solid rankings can strongly support the enhancement of the quality of audit services. (Guttseit & Ostrovsky, 1998, p. 87)

Whether or not the rankings actually corresponded with different levels of audit quality did not matter much. In any case, large firms were provided with an important platform for their marketing and brand creation. The rankings could be used as rhetorical vehicle to gain public visibility, and advance firm size and corporate powerfulness as indicators of audit quality and professional leadership. With the help of the rankings, at least rhetorically, boundaries could be erected between different groups of audit market participants. Boundaries could be erected between those who were included and those who were excluded from the ranking, between small and large audit firms. Following the rankings, also textbooks and other media began to divide and classify audit market participants by size. Four groups of audit firms came to be identified: the then Big Six (now Big Four); second-tier international audit networks; large and medium-sized Russian audit firms; and small firms and partnerships (Danilevsky et al., 2002; Pyatenko, 1997, 1998; Terekhov, 2001). Taking the big accounting firms as a benchmark, generally larger firms came to be portrayed as the firms of higher quality, with better trained personnel, more resources, more efficient structures and rigour. Later in 2001, when the new Federal Audit Law was adopted, very small partnerships were no longer allowed. Licenses were only given to audit organisations consisting of five or more certified audit professionals (Danilevsky et al., 2002). All this contributed to a further corporatisation of the emerging Russian audit profession. Professional prestige accrued not to individual accountants/auditors or professional associations, but to particular prestigious firms portraying themselves as enforcing high standards.

Audit firm branding and marketing became decisive for the erection of intra-occupational boundaries, status group formations and internal differentiation. In contrast, traditional mechanisms of professional organisation and closure, such as state licensing, state-accredited professional examinations and professional associations, did not have much differentiating and organising power. Such structures were developed, but they did not contribute much to the enhancement of professional status, prestige and credibility. Instead, notions of professionalism came to be intertwined with activities of organisational marketing, demonstrations of corporate influence and the establishment of administrative efficiency. This finding is consistent with Cooper and Robson's (2006) reminder that professional firms, particularly large international firms, are increasingly important in accounting professionalisation and regulatory processes (see also Anderson-Gough, Grey & Robson, 1998; Caramanis, 1999, 2002; Cooper et al., 1998; Dezalay & Sugarman, 1995; Empson, 2004; Greenwood & Suddaby, 2006; Greenwood et al., 2006; Hanlon, 1998; Hinings et al., 1999; Ramirez, 2009; Robson et al., 1994; Suddaby et al., 2007). In the case studied, audit firm rankings and other marketing devices reinforced the central standing of audit firms. Through the rankings and other branding activities, audit firms (and not professional associations) were promoted as the main entities involved in the organisation and transformation of audit expertise. Attention was thus directed away from the individual professional to the audit organisation. Projects aimed at increasing professional status and external recognition came to be carried forward at the level of audit firms and their positioning in the emerging audit market.

In so doing, the relationship between auditing, audit professionalism and markets came to be reworked. The new audit entrepreneurs did not want "to escape from market evaluations" (Burrage, 2006), but sought to actively embrace and shape them (e.g. through the audit firm rankings). In contrast to the 18th century lawyers in England and France that Burrage (2006) studied, the Russian auditors did not seek to construct "private enclaves" in which market rules could be "modified or suspended and declined" (Burrage, 2006, p. 20). "The market" was not perceived as a threat to professionalism, but as a platform allowing for professional development and the enhancement of public recognition. Looking at the West and large multinational accounting firms, "the market" was appealed to as a mechanism for

the promotion of audit development. “The market” came to be seen as a space in which audit quality differentials and mechanisms of professional distinction could be worked out and demonstrated. On the other hand, one could argue that a market as such – a market as envisaged in textbooks – never came to be realised. Neither audit firms, nor their marketing instruments (e.g. audit firm rankings) came to function as neutral, objective information intermediaries. Auditing was turned into a market-oriented activity, but status and reputation of the audit firms did not come to be determined by an abstract market mechanism. They were actively created, crafted and shaped, by the audit firms themselves and their representational instruments.

Discussion and Conclusion

This paper has examined the roles that images and ideas of market creation played in the re-articulation of relations between government, audit expertise and professional organisation in post-Soviet Russia. A ‘linked ecologies’ approach, together with concepts drawn from the governmentality literature and social studies of science and technology, has been used to trace how audit and market ideals mutually shape and condition one another. It is suggested that the notion of linked ecologies helps in developing a more nuanced and dynamic account of the multiple relations that came to be formed between audit, and ideas and instruments of post-Soviet market creation. This allows us to examine not only the roles of governmental reform programmes in transforming “the ethos of government” (Rose, 1999) from one of bureaucracy to one of business. It also allows us to investigate how such programmes came to be reworked through new entrepreneurial selves and their newly founded audit firms, which had emerged as a result of the reform programmes.

In post-Soviet Russia, many factors contributed to the rise and spread of audit expertise that went beyond the immediate control demands from shareholders, investors and other financial market participants. Auditing emerged at a time when shareholders and financial markets did not yet exist, and it was appealed to as a mechanism to bring such markets into being. On the other hand, auditing itself came to be redefined as a site of market creation. Audit expertise itself was marketised, and ideas and images of audit and market creation came to co-constitute and redefine each other. Looking at audit and markets as linked

ecologies, this paper paid attention on the one hand to the different *relationships* and the *dynamics* evolving between abstract globalised ideas and models of audit and market development, and, on the other hand, the more specific and localised programmes and technologies of audit and audit market creation. In the case studied, new Russian audit entrepreneurs and their firms came to be actively engaged in making audit marketable. They actively sought to create an audience for auditing and, in this process, the meaning of markets and the roles of auditing in them came to be redefined.

Auditing came to be shifted away from Western textbook ideals, which had depicted it largely as a mechanism to reduce information asymmetry and enhance market accountability. Instead, auditing came to be viewed as a platform for corporate development and entrepreneurial self-realisation. Auditors sought to reinvent themselves as business consultants, and construed themselves as “business doctors who heal”. Audit success was redefined in terms of corporate success, and projects aimed at increasing professional status and external recognition were carried forward at the level of audit firms and their positioning in the emerging audit market. Notions of good or bad, professional or unprofessional auditing came to be linked to audit firm size and corporate influence. In the market-oriented corporatisation of audit activities, the then Big Six accounting firms played a major role as role models. Their international standing and local presence reinforced beliefs that the foundation of commercial, market-oriented audit firms constituted the right response to inspection reform demands. The big firms came to be seen as entities that had successfully embraced market ideals, and that exhibited high standards of professionalism. They had a “trade mark” that particularly larger Russian audit firms aspired to (Pyatenko, 2001, p. 36). The big firms were further important in the spreading and local transfer of Western marketing and branding instruments.

Local Russian audit firms adopted these instruments, along with audit firm rankings similar to those published in the International Accounting Bulletin, to enhance their reputation and local standing. Yet, as this paper has showed, the audit firm rankings, together with other marketing instruments, helped shift attention away from auditing itself, and toward mechanisms of its representation and marketability. Activities and instruments aimed at making auditing widely “presentable” and “communicable” came to the fore, eclipsing from

public scrutiny questions concerning the characteristics of audit methodology, the audit knowledge base, and issues concerning professional qualification. Put differently, audit firm rankings and other marketing instruments contributed to “deflecting attention” (Espeland & Sauder, 2007) away from audit content and related questions of accountability, governance and audit quality control. In the process, market ideals were redefined too. Ideals close to classic and neoclassic notions, which viewed the market as an abstract mechanism for the coordination of economic exchange, were reworked. Markets came to be envisaged as consisting of competing powerful corporate entities, and as a space in need of being actively ordered and organised.

What do these developments imply with respect to the broader roles of audit in the construction of markets? The paper showed how new Russian audit entrepreneurs, together with their audit firms, actively created the markets they sought to rule. They perceived the role of an auditor as that of “a creator, a strategist, a founder and developer of new markets and the methods of their mastering” (Pyatenko, 1998, p. 39). In the case studied, auditing did not fulfil the function of spurring capital market development. Between 1991 and 1999, Russian capital markets remained relatively underdeveloped (OECD, 2005; World Bank Office Moscow, 2004), and audits for local IPOs and internationally listed Russian companies were mainly conducted by the big international accounting firms. Yet, Russian audit firms contributed to the construction of markets in other ways.

From early on, Russian audit firms sought to offer both control and consulting services. In adopting and spreading Western technologies of marketing, strategic management, enterprise resource planning and IT management, they provided new Russian enterprises with valuable business advice. They helped them set up market-oriented business infrastructures. They introduced notions of client management, highlighted the relevance of PR, and provided consulting services in the areas of procurement and supply chain management (see e.g. Pyatenko, 1998, 2001). Further, they helped their clients to get the accounting books in order, deal with tax inspectorates and adapt to the rapidly changing legal environment. The audit firms contributed to the reduction of legal risk, and protected clients from the taxation authorities. Finally, the audit firms themselves came to be seen as successful market actors and functioned as role models for other firms, for example, with respect to their

expertise in reputation management, client management and personnel training (Danilevsky, 1995a, b; Pyatenko, 1998, 2001).

It would be useful to carry out further investigations into how auditing interacts with different forms of market-oriented business management. More generally, it would be useful to gain deeper insight into the dynamics of client-auditor relationships, and to analyse how these contribute to shifts in strategies of market building and audit practice. This study showed how the market relevance of auditing is something that needs to be actively built. Yet, former Soviet calculative practices and inspection technologies were not entirely changed or replaced, and we need to be careful not to overstate the transformative power of auditing. What auditing and “governing through markets” means is something that needs to be worked out, over and over again. In this process, the meaning of auditing and markets is neither clear-cut, nor can it be presumed. In utilising a linked ecologies approach, this paper sought to make more room for the complexities and paradoxes that derive from attempts to spread and utilise somewhat ambiguous and ill-defined Western concepts of market-oriented auditing.

In the case studied, the rise and spread of auditing was not automatically accompanied by an intensification of processes of neoliberalisation, enhanced levels of market accountability and organisational or individual scrutiny. Nor did it lead to the spread and uniform application of a set of new and distinct audit technologies. At least to some extent, auditing was built onto the very same bookkeeping and inspection practices that it was asked to reform. Distinctions between socialist inspection and market-oriented auditing therefore were not so much worked out on the grounds of changes in accounting frameworks, economic calculation and checking styles. Similar to the former state inspections, auditing – or at least the core activity of auditing, the checking of financial statements – continued to be regarded by many as a somewhat ritualistic compliance exercise. Yet, because of the audit firms’ corporate success, their marketing activities, their careful client management, and their attempts to expand notions of auditing to include consulting and other advisory services, the audit industry could sustain itself and further expand. Auditing became a label for a mix of different activities ranging from transaction checking to strategic consulting. This does not mean that old inspection practices no longer had a place. Rather, new services (e.g. valuation services, IFRS reconciliations) and audit methodologies (e.g. Western audit risk models and

sampling techniques) were added on. In the long run, these new services and technologies may change the way in which audits are carried out. This change, however, is likely to be much more incremental than the process of audit commercialisation and privatisation that this paper has studied.

To conclude, audit is not something that represents an unproblematic, stable logic. Nor is it linked necessarily to readily defined rationalities of neoliberalism or audit professionalism. Linkages between audit and markets, and between politics and expertise, are open to conflict, contradiction and instability. Auditing, similar to the neoliberal project of marketisation itself, can embrace a multiplicity of different voices, views and practices (see also the study by Kipnis, 2008). From this, it follows that we need to be careful not to see audit as a fixed instrument and an uncontroversial expression of neoliberal modes of governing. Effects of auditing, and how these feed back, cannot be deduced from the programmes – for example programmes of professionalisation or market-oriented transformation – that accompany its rise and expansion. Equally important are local concerns and practices, that pick such programmes up, transform and rework them, and thereby contribute not only to the further spread of auditing and markets, but also to their own reformulation and transformation.

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Table 1: Number of registered and licensed audit firms in Russia

	1996	1997	1999	2000	2001	2007	2008
Approximate number of registered and licensed audit firms in the Russian Federation ^a	ca. 3,289 [*]	ca. 4,329 [*]	ca. 4,708 [*]	ca. 6,600 [*]	ca. 7,500 [*]	ca. 7,100 ^{**}	ca. 6,400 ^{**}

^a Figures from 1996 and 1997 give information about issued audit firm licenses. Figures from 1999-2001 provide information about licensed and “actually operating” [deystvuyushchie] audit firms, small partnerships as well as sole traders. Figures from 2007 and 2008 relate to registered audit firms only, which since 2002 need to have at least five nationally certified auditors amongst their staff.

^{*} Source (1996-2001): Reports on audit development and audit firm licensing issued by the Russian Ministry of Finance, published in *Finansovaya Gazeta* No. 43, 18.10.1996; *Auditorskie Vedomosti* No. 1, 1997, p. 5; *Finansovaya Gazeta* No. 4, 22.01.1999; *Finansovaya Gazeta* No. 36, 06.09.2000; *Auditorskie Vedomosti* No. 2, 2001, p. 23.

^{**} Source (2007-2008): “Svedeniya o raspredelenii auditorov, auditorских organizatsiy i individual’nykh auditorov po federal’nym okrugam” [Information about the spread of auditors, audit organisations and individual auditors across federal regions], issued by the Russian Ministry of Finance on 25.01.2008 and 01.01.2007. Cf. <http://www1.minfin.ru/ru/accounting/audit/basics/programs/> (accessed in March 2009).

Table 2: Extract of Russian audit firm ranking published in journal *Ekspert* in 1998 showing 10 largest audit firms out of 100 firms included in the ranking

Rank	Name of Auditing- and- Consulting Group	Central Office’s Location	Aggregate Revenues for 1997 (million roubles)**	Average number of specialists in 1997	Revenue per specialist in 1997 (million roubles)	Aggregate Revenues for 1996 (million roubles)	Increase in Revenue (%)	Average number of specialists in 1996	Revenue per specialist in 1996 (million roubles)	Increase in Revenue per specialist (%)
1	Price Waterhouse	Moscow	438,000	815	537.4	228,000	92.1	570	400.0	34.4
2	Unicon	Moscow	94,098	414	227.3	78,057	20.6	346	225.6	0.7
3	Rosexpertiza	Moscow	44,763	241	185.7	35,026	27.8	173	202.5	-8.3
4	Top-Audit	Moscow	34,645	80	433.1	32,603	6.3	73	446.6	-3.0
5	FBK	Moscow	32,561	139	234.2	25,711	26.6	126	204.1	14.8
6	MKPZN	Moscow	32,500	231	140.7	26,200	24.0	239	109.6	28.3
7	Business-Audit	Moscow	26,097	130	200.7	24,574	6.2	132	186.2	7.8
8	BDO Rufaudit	Moscow	25,339	76	333.4	21,870	15.9	81	270.0	23.5
9	Gorislavtsev & Co	Moscow	23,011	76	302.8	10,855	112.0	61	177.9	70.1
10	Rusaudit Marillion	Moscow	17,547	78	225.0	11,845	48.1	77	153.8	46.2

Source: Journal *Ekspert* No. 12, 30.03.1998, English translation provided by author

^{**} Revenues are construed as total revenues from auditing and consulting operations for the entire affiliated group; in subsequent years revenues from auditing and consulting are disclosed separately (e.g. *Ekspert* No. 14, 14.04.2003 and Table 2 below)

Table 3: Extract of Russian audit firm ranking published in journal *Ekspert* in 2009 showing 10 largest audit firms out of 100 firms included in the ranking

Rank 2008	Rank 2007	Name of Auditing-and-Consulting Group	Central Office's Location	Aggregate Revenues for 2008 (thousand roubles)**	Proportionate Revenue from auditing (%)	Increase in Revenue 2007-2008 (%)	Number of specialists/certified auditors	Increase in number of specialists 2007-2008 (%)	Revenue per specialist in 2008 (thousand roubles)	Number of branch offices and subsidiaries
1	1	Price Waterhouse Coopers	Moscow	8,480,797	50.0	27.9	1,966/1,172	17.7	4,314	N.A.
2	2	BDO Unicon	Moscow	4,112,926	41.8	34.6	1,807/431	17.7	2,276	24
3	3	Intercom-Audit	Moscow	2,849,900	44.0	22.2	1,683/773	-20.3	1,693	330
4	6	Razvitie Biznes-Sistem (RBS)	Moscow	2,604,010	28.2	33.8	774/98	64.0	3,364	11
5	5	FinExpertiza	Moscow	2,585,969	41.1	32.5	690/295	-1.7	3,748	28
6	4	FBK (PKF)	Moscow	2,322,778	43.9	13.2	858/167	-15.8	2,707	12
7	9	Energy Consulting	Moscow	2,127,511	20.1	53.7	537/64	30.7	3,962	11
8	8	Rosexpertiza	Moscow	2,112,552	61.5	15.0	641/197	0.5	3,296	22
9	7	RSM Top-Audit	Moscow	2,027,368	35.2	4.6	1,324/482	-43.4	1,531	103
10	11	SV-Audit	Moscow	1,870,757	61.8	47.2	400/220	24.2	4,677	8

Source: Journal *Ekspert* No. 11, 23.03.2009, English translation provided by author

** Revenues are construed as total revenues from auditing and consulting operations for the entire affiliated group

Table 4: Total revenues of registered and licensed audit firms in Russia, 2004-2007, as estimated by the Russian Ministry of Finance

	2004	2005	2006	2007
Total revenues (million roubles)	20,545.7	28,857.0	34,392.5	41,731.3

Source: "Predvaritel'nye pokazateli rynka auditorskikh uslug v Rossiyskoy Federatsii za 2007g." [Preliminary indicators of the market of audit services in the Russian Federation, 2007], issued by the Russian Ministry of Finance in 2008. Cf. http://www1.minfin.ru/common/img/uploaded/library/2008/07/pokaz_030708.pdf (accessed in March 2009).

Table 5: Total revenues of 50 largest audit firms retrieved from the audit firm rankings conducted by the rating agency Expert-RA, 2004-2007

	2004	2005	2006	2007
Total revenues (million roubles)	17,946.9	21,808.0	29,335.8	39,417.6

Source: Audit firm rankings published in the journal *Ekspert*, issues No. 12, 28.03.2005; No. 12, 27.03.2006; No. 12, 26.03.2007; No. 12, 24.03.2008.