



Translation and
Standardization:
Audit World-Building
in Post-Soviet Russia

Andrea Mennicken

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Andrea Mennicken*

Abstract

Within the past thirty years or so, the government of social and economic life has occurred increasingly through international and non-governmental forms of rule and regulation. Yet little is known about the dynamics that international audit standardization projects create below the global level of economic and regulatory activity. This paper examines effects of global audit rule-setting on local organizational forms and practices through a detailed empirical investigation of the use and circulation of International Standards on Auditing (ISAs) within a large post-Soviet Russian audit firm. In the firm studied, much of the appeal of the ISAs was rooted in desires to develop an internationally-oriented business strategy as well as link up with Western audit markets. But the standards became embedded in locally partitioned hierarchies of expertise and credibility. On the one hand, the global aspirations of the firm continued to be couched in former socialist practices of command and control. On the other hand, the accomplishment of compliance with the international standards came to be highly dependent on the definitional powers of the West, represented by the big international audit firms and multilateral organisations, such as the World Bank or the EBRD. The ISAs turned out to be of lower status than the names of the international audit firms and their networks. Becoming defined as working in accordance with international standards became closely linked to the firm's ability to position itself, and the standards respectively, within one of these networks. The paper examines the transformations that the firm underwent in re-defining itself in terms of a globally-oriented business strategy and discusses the implications this had for the roles and relevance of the international auditing standards.

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Introduction

Since the early 1970s, organizations and institutions of global reach have come to shape the government of economic and regulatory activities (Boli and Thomas 1999; Brunsson and Jacobsson 2000; Dodd and Hutter 2000; Held and McGrew 2002; Rothstein et al. 1999; Tamm Hallström 2004). International standardization projects in, for example, industrial production, telecommunications, accounting, finance and management, have contributed to the growing interdependence and interconnectedness of the world (Brunsson and Jacobsson 2000; Czarniawska and Joerges 1996; Loya and Boli 1999; Meyer 2000, 2002; Meyer et al. 1997; Power 2002; Sahlin-Andersson and Engwall 2002*a*). Worldwide standards and models have stimulated the emergence of new governing arrangements. They have helped institutionalize dreams and images of world culture and global market-oriented development, and they have furthered the creation of new, transnational webs of legitimation (Loya and Boli 1999; Meyer et al. 1997).

The importance of international standardization attempts has been widely acknowledged in the literature on globalization and transnational governance (see e.g. Braithwaite and Drahos 2000; Held and McGrew 2002; Loya and Boli 1999; Meyer 2000, 2002; Tamm Hallström 2004). Yet, apart from a few isolated studies (see Brunsson and Jacobsson 2000; Sahlin-Andersson and Engwall 2002*b*) little research has been carried out on the dynamics, effects and problems that international standardization projects create in local day-to-day interactions. The literature on global regulation has paid attention to the rise and spread of transnational rules and standard-setting institutions, but not to their actual involvement in the re-organization of local practices. Studies of global regulation and standardization, for example, have contributed to our understanding of the complex structure of global governance arrangements (Held and McGrew 2002; Koenig-Archibugi 2002), the mechanisms underlying the diffusion of international standards and models (Boli and Thomas 1999; Meyer 2000; Meyer et al. 1997), the impact of global rules on national policy-making (Cortell and Davis 1996) and the strategies of international standard-setters to enhance their authority (Brunsson and Jacobsson 2000; Tamm Hallström 2004). But in all of these studies, the primary focus has been on the standard-setting organizations themselves. Much work has focused on the diffusion of global regulation at the macro-level and on the groups that develop worldwide models and standards. Detailed case studies examining the links and interactions between processes of global rule-setting and local practices are rare.

This paper seeks to redress this shortcoming through a detailed examination of the use and circulation of International Standards on Auditing (ISAs) within a large post-Soviet audit firm as it faces the challenges of globalisation. The analysis shows that global standardization is not just a top-down process as much of the existing literature seems to suggest. It is equally driven by the day-to-day activities of local, peripheral actors and their dreams and desires to belong to a better, more prosperous, globally integrated world (see e.g. Burawoy et al. 2000; Sahlin-Andersson and Engwall 2002*b*). Transnational standard-setting institutions play an important role in the standardization of social and economic life, but equally we need to draw attention to the networks of actors, instruments and activities that support standardizing agendas in local settings. To paraphrase Sahlin-Andersson and Engwall (2002*a*: 6-7), we need to combine broad contextual and historical investigations with detailed case studies to understand how and why the expansion of global models and standards occurs.

To open up the analysis for the complex of actors, rationales, techniques and activities that are involved in the spread and translation of global auditing models and standards, the paper utilizes the works of Latour (1986; 1987) and other proponents of actor-network theory (e.g. Callon 1980, 1986; Law and Hassard 1999). In particular the concepts of translation and network-building are useful concepts from which we can start to develop a heuristic facilitating empirically rich and historically sensitive descriptions of the intersecting discourses, practices and techniques that shape and characterize processes of international audit standardization at local levels. Following Callon (1980; 1986), Latour (1987; 1988) and others, the notion of translation refers to the *work* and *relations* through which seemingly disparate interests and problems are aligned. It emphasizes the constructed nature of the indispensability of international standards and points to the various persuasive strategies, power plays and relations underlying their diffusion. In so doing, the concept helps us draw attention to the controversies, gaps and indeterminacies accompanying the rise and spread of standardization agendas. It highlights the ways in which programmes and practices of audit standardization come to constitute a space within which diverse objectives, interests and strategies are articulated. The notion of network-building helps us draw attention to the fact that ISAs do not engender processes of organizational change and global harmonization without support. In order to turn the ISAs into a connecting device, one needs powerful alliances providing the standards and their users not only with technical resources, but also political influence, legitimacy and credibility.

The Case of Moskva-Audit

The firm studied in this paper was established during the Perestroika period¹ and will henceforth be referred to as Moskva-Audit. Today, Moskva-Audit is one of Russia's leading audit and consulting firms. From early on, it sought a pioneering role in the development of the Russian audit market. In 2002, the firm joined a large global auditing network. This paper focuses on the process of transformation that Moskva-Audit underwent since its foundation in 1990 and the roles that global audit models and standards played in the firm's adaptation to globalized capitalist business structures.

The paper focuses on the use and circulation of international auditing standards within a post-Soviet audit firm, since it is particularly in peripheral market-oriented economies that international standards and world organizational models have gained influence and pose challenges (e.g. Chamisa 2000; Lin and Chan 2000; Meyer et al. 1997; Sucher et al. 1998).² Most international models and standards tend to spread from the centre to the

¹ Access to the firm was through a two-month internship in Moscow in March and April 2002 when this researcher was given access to the audit manuals, internal standards and quality control procedures. Apart from looking at the firm's internal documents and participant observation (Spradley 1980), there were semi-structured interviews (Wengraf 2001) with the Deputy Director of the firm and members of the Audit Methodology Department, Internal Audit Quality Control, Marketing Department and International Standards Department. These interviews complemented those held with audit professionals working for other indigenous or international firms, regulators, academics, Western consultants and representatives of professional associations. In total there were 48 interviews.

² The first international auditing standard was issued by the International Federation of Accountants (IFAC) in 1979, but it is only since the 1990s that these standards have gained considerable attention (Roussey 1996, 1999). In the 1990s, organizations such as the IMF, World Bank, OECD and large multinational audit firms began to promote ISAs against the backdrop of wider debates about global economic governance and international stability. Events, such as the Mexican (1994-95) and South-East Asian (1998) financial crises and the collapse of the Barings bank resulted in serious doubts about the regulatory capacities of state-

periphery of capitalist development (Braithwaite and Drahos 2000; Meyer et al. 1997). It is at the periphery of capitalism that new spaces for standardization are defined (see e.g. Sklair 1995). Here, international standards and models are taken particularly seriously. They are fundamental to the re-defining of organizational identities and regulatory politics. Linked to dreams of Western development, their adoption is seen as a way of becoming modern. At Moskva-Audit, ISAs were also put forward as a device that could help override local differences and gain access to international audit markets. The standards became implicated in a business development strategy driven by the desire to belong to 'the West'. The rules were seen as instruments that can help to develop, protect and present new territories of market-oriented post-Soviet expertise. But, as will be shown later, the actual usefulness of the standards was highly ambivalent. Compliance was not a straightforward process and highly dependent on the definitional powers of the West.

Studying Standards

Following Bowker and Star (2000: 13), the paper defines international auditing standards as a 'set of agreed-upon rules for the production of (textual or material) objects' (such as audits in our case). Unsurprisingly, international standards, including international auditing standards, tend to develop and spread beyond the realms of national governments (see e.g. Brunsson and Jacobsson 2000; Loya and Boli 1999; Rothstein et al. 1999; Tamm Hallström 2004). International standards are usually deployed with the aspiration to make things work together, to traverse space and overcome heterogeneous metrics (Bowker and Star 2000: 14). They are aimed at an enhancement of what Latour (1987) has termed 'action at a distance'.³ They are implicated in ideas of long distance control. They are designed to travel across borders and enhance measures of cross-national comparability, consistency and cooperation.⁴ In auditing, international standards have been put forward as a device to link different regulatory contexts and enhance cross-national comparability (Roussey 1992, 1999).

But international standards do not constitute a homogeneous class of rules or regulatory norms. They vary in scope, detail and objectives (see e.g. Bowker and Star 2000; Brunsson and Jacobsson 2000). As Bowker and Star (2000) have shown, standards can take a formal or informal shape. They can be visible or invisible. They can be used to classify things, to specify production designs or to determine outputs. They can be aimed

bound command-and-control regimes. International standards, including those for auditing, were put forward as a new source and technique of regulation that would help overcome the boundaries of state control and facilitate economic co-ordination and stabilization on an international scale.

³ With the notion of 'action at a distance' Latour (1987: 222) refers to the processes by which a particular point becomes a centre with the capacity to influence other points which are distant from it. 'Action at a distance' can be achieved through the invention of means that are mobile, stable and combinable, such as accounting numbers or maps, which can be moved through space without losing their identity. Within accounting research, the notion of 'action at a distance', *inter alia*, has been used to study how accounting systems become involved in regimes of long distance control. Miller (1991: 738-739), for example, refers the notion of 'action at a distance' to 'attempts by government and other agencies to exert influence over the investment decisions of private and national industries'. Robson (1994) employs the term to examine how inflation accounting became incorporated in government strategies to influence the actions of management, economic organizations and other institutions.

⁴ Etymologically, the word 'standard' was derived from the Latin word *extendere* – to stretch out, to extend, extension (Williams 1983: 296-299). The word referred to dreams of international expansion and cross-national comparability. According to Williams (1983: 296), in modern language the word 'standard' is in addition often used to mark a source of authority or a level of achievement.

at the regulation of processes or the specification of inputs. They can express ideals or refer to already established practices. ISAs aimed at the international regulation of professional conduct, differ from well-established technical norms setting out paper sizes or defining measurement scales. In contrast to output or product standards and norms of calibration, ISAs are primarily concerned with the regulation of procedures and processes. They do not refer to the immediate work environment of auditors, but to the procedures and plans that auditors and audit firms should develop when performing audit work. To adopt a phrase from Brunsson and Jacobsson (2000: 4-5), auditing standards, like other process standards, do not refer to quality actually achieved, but to the types of administrative processes that are supposed to lead to high quality. Or as Power (2002: 195) has put it, they are 'empty of substantive content.'⁵

In most Western countries, ISAs often merely codify existing audit practices instead of transforming or reforming them. For example, in countries like the United Kingdom or the United States, auditing standards constitute an outcome rather than a starting point of processes of audit development and professionalization (Campbell 1985). In Russia, the situation is quite different. Here, the international auditing standards are introduced into an environment where market-oriented auditing is only in its initial phase of development. In such an environment, the same ISAs that in the West function primarily as a mechanism of codification and symbolic representation are now to be turned into a tool to support and accelerate processes of post-communist audit reform and economic transition.

The following analysis takes a closer look at some of the tensions and problems arising from efforts to develop locally workable audit practices from globally circulated representations. It investigates the different struggles and conflicts accompanying Moskva-Audit's attempts to enhance international acceptance through standards and explores to what extent, and with which instruments, activities and relations, international auditing standards could actually be mobilized to transform local post-Soviet audit practices into (imagined) global forms of auditing.

Standardization projects are culturally and strategically complex (e.g. Brunsson and Jacobsson 2000; Loya and Boli 1999; Power 2002; Rothstein et al. 1999). They are aimed at the enhancement of international comparability, but, at the same time, they are always articulated and enacted in specific places (for the case of Eastern European transition see also the studies by Burawoy and Verdery 1999; Stark 1998; Stark and Bruszt 1998). Hence, to obtain a deeper understanding of how processes of international audit standardization work, we need to take a closer look at the different connections that are drawn between the standards, local practices, people and instruments, as well as the wider networks of actors, expectations and demands involved in defining what 'working in accordance with international standards' means. Studying the roles of ISAs within a post-Soviet audit firm helps not only to open for investigation the complex of political and economic rationales, beliefs, hopes and desires, accompanying the rise and spread of the standards. It also helps to better understand the differential effects set off by them.

The remainder of the paper has three parts. The first examines how, at Moskva-Audit, international auditing standards became implicated in agendas of economic and

⁵ International auditing standards follow relatively closely the general structure of audit processes, as for example outlined in many Western textbooks (see e.g. Gray and Manson 2005). For example, the standards deal with such issues as audit planning, gathering and assessment of audit evidence, internal control procedures, use of the work of other experts and the formulation of audit reports. But neither audit objectives nor the actual output of audit processes are made concrete.

organizational change. The second and largest part of the paper takes a look at three sites within which the standards were proposed and used in the firm. These are the Audit Methodology Department, Audit Quality Control Department and International Audit Department. These locales were chosen because they constitute three important sites through which the standards were introduced to the organization and anchored within it. The Audit Methodology Department was the place where the international standards first entered the company. Here, the standards were used and circulated with the aim of providing the daily dynamics of auditing work with a framework of internationally recognizable regularity and normality. Within the second locale, the Audit Quality Control Department, processes and instruments were created to define and control internal compliance with the standards. The third site, the International Audit Department, provided the setting where international audits, in accordance with international standards, were explicitly carried out. The analysis of the three locales is concluded with a more general discussion of prospects and limits of processes of international audit standardization.

Connecting Worlds

Moskva-Audit's history is inextricably linked to Russia's move from socialism to capitalism. Like many other Russian auditing firms, it started its life as a small, self-financed Soviet consulting firm. Under Gorbachev, the Soviet government welcomed the foundation of privately organized consulting firms as part of a wider move to encourage market-economic reform. In 1992, Moskva-Audit began to develop its audit practice.⁶ During 1996 and 1997, Moskva-Audit attracted its first large-scale audit projects. In 1996, the firm also started offering auditing and accounting services in accordance with international accounting and auditing standards. One year later, Moskva-Audit founded its International Audit Department and began to take on audit assignments for the EBRD, the World Bank and subsidiaries of Western multinationals. In 2000, Moskva-Audit, along with seven other leading Russian audit firms, were officially accredited by the World Bank as a World Bank auditor.⁷ The global business ambitions of the firm culminated in its membership of a big international auditing network in 2002. The general director and founder of Moskva-Audit commented on the achievement of the membership:

Our accession to the international audit network marks a new stage in the development of our company. [...] We have always emphasized our commitment to

⁶ In Russia, statutory audits were introduced in December 1993 by presidential decree N 2263. Audits became compulsory for all public joint-stock companies, banks, insurance companies, investment institutions, joint ventures and companies whose total revenues exceeded 500,000 MS (minimum monthly salaries), or whose total assets were worth more than 200,000 MS (based on net book value). In 1997, 500,000 MS was about US\$7 million; 200,000 MS were worth about US\$2.8 million (Enthoven et al. 1998: 87). The introduction of mandatory audits opened up for Moskva-Audit, as for many other newly founded Russian audit firms, important new market opportunities in the audit sector. It made it possible for them to occupy a position in a market which had been until then almost exclusively dominated by the large international accounting firms that had since 1991 established offices in Russia to conduct audits on subsidiaries of multinational firms (Cooper et al. 1998).

⁷ The accreditation was based on a survey that World Bank employees carried out in more than 50 Russian audit firms in July 2000. The survey was to test the degree with which the firms complied with international auditing standards. Out of the 50 firms tested, only 11 including the then Big Five accounting firms (PwC, Arthur Andersen, KPMG, Ernst and Young and Deloitte) were considered to have met international standards. For Moskva-Audit, the results of the survey were of great importance, as a World Bank accreditation added enormously to the firm's credibility, especially in the case of Western clients.

national business and priorities, but we have never hidden our aspiration to gain access to the world community and expand the stage of our professional activity by adding an international dimension to it. Now we have attained this goal.⁸

From early on, Moskva-Audit ascribed to itself a leading role in the development of Russian auditing and the country's transition to capitalism. In this context, international standards, in particular ISAs, came to be put forward as a device that could help Moskva-Audit, and its clients respectively, to link up with the Western world and realise dreams of market-oriented development.

Moskva-Audit began with the adoption of the ISAs at a time when the standards generally had come to assume a key position in debates about the development of auditing in Russia (Mennicken 2004). In the mid-1990s, for auditors, regulators, academics as well as other parties involved in the production and consumption of audits, it had become almost impossible to think of good auditing as independent from international auditing standards. Amongst other things, the standards were presented as solutions to problems of audit quality assurance, as a means to enhance the professional qualification of auditors, as an instrument for the management of public mistrust, and as a tool to deal with issues of the internal organization of audit work. Such beliefs were reinforced by the presence of the big international accounting firms in the emerging Russian auditing market.⁹ These functioned as role models for many of the newly founded Russian audit businesses. The Moskva-Audit management also tried to model itself on the big international accounting firms. It wanted to turn the Russian firm into an internationally recognized business; 'a real alternative to the big [international accounting] firms', as the director and founder once pointed out,¹⁰ and the adoption of international auditing standards was seen as an important step in the realisation of such ideals.

Internally, the management of Moskva-Audit promoted the standards as templates on the basis of which new organizational hierarchies and structures should be devised. The standards were introduced as a means to organize and rationalise audit expertise. 'Working *with* standards' should improve Moskva-Audit's measures of internal control and enhance the economic value of the firm's audit activities. Externally, i.e. to outside audiences, such as clients, regulators and competitors, 'working according to standards' should provide Moskva-Audit with an identity that would underline its pioneering role in the development of Russian audit expertise and demonstrate the firm's level of professionalism.

Moskva-Audit began with the introduction of the standards in the mid-1990s. The adoption, translation and diffusion of the standards took place mainly within three sites. These were the Audit Methodology Department, Audit Control Department and Moskva-Audit's International Audit Division. In the following pages, each locale will be discussed in turn. The analysis focuses on the question of how the standards, and the above-mentioned ideals that had been attached to them, were established at Moskva-Audit. We

⁸ Welcome address of Moskva-Audit's director on the firm's website from February 2003. For reasons of confidentiality, details of the website address cannot be disclosed.

⁹ In the early 1990s, representatives from Coopers and Lybrand, Pricewaterhouse, Ernst and Young and Deloitte, for example, promoted ISAs through their involvement in the development of official Russian translations of international auditing and accounting standards. In addition, they referred explicitly to ISAs in their own work and audit reports. Owing to the absence of Russian audit regulations (until 1993), the firms pushed the international standards as guarantors for audit quality.

¹⁰ The founder and director stated this in a popular Russian business newspaper in 1998. For reasons of confidentiality, the exact reference details cannot be disclosed.

will also investigate how the standards became implicated in the firm's organizational processes and daily interactions.

Throughout the analysis it is shown that the introduction of the standards was far from being a straightforward implementation. The rhetorical appeal of the standards did not easily translate into their practical realization. Working with the standards involved much more than putting a copy of the ISAs on the shelf. International auditing standards are not effective by themselves. They do not constitute unequivocal, ready-made tools that without further ado can be used and acted upon. ISAs have to be *made* to work. Also in the case of Moskva-Audit, the standards had to be taken out of the book and *actively* made part of the organization. The ISAs had to be provided with infrastructures that would allow people to work with and have control over the rules. On the other hand, external parties needed to be convinced that Moskva-Audit was working with the standards. Devices and relations needed to be created that allowed the firm to demonstrate and communicate compliance with the standards. Such processes of organizational localization, technical operationalization and public certification were not trouble-free, nor could their course be determined in advance.

Modelling Standards in Standardized Forms

One of the first centres from which the standards began to be circulated throughout Moskva-Audit was the Audit Methodology Department. It was created in the mid-1990s, the period when Moskva-Audit started to take on its first bigger audit assignments. Initially, the Department was staffed with five people: Yuri Litkov and Alexey Yakunin who both had previously worked for two large international accounting firms in Moscow; Elena Lutskaya who had worked for Moskva-Audit as an auditor since 1992; and two further assistants who helped the team with the administrative work. The Audit Methodology Department was located at the interface between the external representation and internal organization of audit work. On the one hand, the Department had been created to provide Moskva-Audit with an explicit organizational knowledge base that could be used to develop, co-ordinate and control the firm's expanding audit activities. As the following comment from the Head of Audit Methodology illustrates, the development and formal explication of audit methodology should help Moskva-Audit to turn auditing into a regulatory object that could be centrally planned and supervised:

[The development of audit methodology will] eventually enable audit firms to rationalize audit techniques and operating procedures. It will decrease the amount of labour intensive work involved [...] and it will provide additional control over audit processes.¹¹

On the other hand, the Department should contribute to the firm's external legitimacy. It should help demonstrate that Moskva-Audit's audits were performed with due professional care and that generally accepted Western oriented quality criteria had been taken on board.¹² International auditing standards, in this context, were introduced as an

¹¹ This quote was taken from an article that Litkov had published in a Russian accounting newsletter in 1999. For reasons of confidentiality exact publication details cannot be disclosed.

¹² Issues of internal quality assurance and subsequent demands to explicitly demonstrate professional due care had become all the more pressing when, in 1996, the Central Bank articulated concerns about the quality of bank audits (see e.g. *Finansovaya gazeta*, 1996, no. 43). Audit methodology in all its formal rules and procedures, was presented by regulators, academics as well as big audit firms as a mechanism through

instrument that could provide the firm with a frame of externally accepted regularity and internally manageable efficiency. The standards were seen as a regulatory tool, through which societal concerns about due professional care could be projected into the firm and, vice versa, the firm's devotion to modern audit technology could be communicated to society – in particular clients, regulators, peers and other international business partners.¹³ But as noted earlier, the standards above could not bring about such change by themselves. In isolation, they constituted only rather vague textual documents, which neither prescribed nor explained what it would actually mean to use them. The standards themselves did not tell Litkov and his group what a proper, internationally acceptable application of the standards would be like. The standards themselves leave the content of audits largely undefined.¹⁴ And apart from their own, relatively short working experience in two of the big international accounting firms in Moscow, Litkov and Yakunin did not have any knowledge of how the standards had been applied elsewhere in the world.

In addition, the standards did not form a stable reference system. International auditing standards are frequently revised, updated and changed. The International Auditing and Assurance Standards Board (IAASB) regularly reviews existing ISAs, removes old standards and develops completely new standards.¹⁵ For Litkov and his group the standards represented a moving target, constantly changing and therefore not easy to pin down and stabilize within Moskva-Audit's own structures. Furthermore, there was no uniform, officially authorized Russian translation of the ISAs. At the time when Moskva-Audit began to make use of the standards, the first translation attempts had just begun, and they were not considered very reliable.¹⁶ The adoption of the standards was further complicated by developments in the national regulatory scene. When Litkov and his team began the introduction of the standards, the Russian government was beginning to develop a set of national auditing rules (Danilevsky 1994). These rules had been closely modelled on the ISAs, but they were not literal translations (Danilevsky et al. 2001: 11). When Litkov and his group began the adoption of the standards, the national audit rules were still in the process of being drafted and had not been officially endorsed. But it was expected that they would become mandatory in the near future.¹⁷

which the professional level of audit activities could be raised and better controlled (see e.g. Danilevsky 1994; Sheremet and Suyts 2001).

¹³ This point was underlined by the Head of Audit Methodology in an article on 'Internal Standards in Audit Firms' written with colleague and published in a Russian accounting journal in 1999.

¹⁴ That compliance could not be predetermined by the standards is not just a specificity of our case. The undefined and open nature of compliance is a rather general phenomenon of regulatory processes. Sociological studies of regulation in other areas have shown that compliance is rarely a static, *a priori* defined concept. Compliance is a complex, flexible and quite fragile construct. The definition and achievement of compliance is the product of interaction, interpretation, competing demands and principles, as well as the broader social and institutional context within which regulation takes place (Hutter 1997).

¹⁵ For example, between 1999 and 2001 the Board had revised ISA 240 on fraud and error; published a new International Auditing Practice Statement on the audit of derivative financial instruments (IAPS 1012) and issued two Exposure Drafts (ED) with revisions to ISA 700, *The Auditor's Report on Financial Statements*, and suggestions for the regulation of the relationship between banking supervisors and banks' external auditors. See *IFAC Newsletter*, June 2001, pp. 1-2.

¹⁶ The professional association, Russian Collegium of Auditors, was one of the first institutional bodies that promoted the Russian translation of ISAs. The Collegium began with its translation of the standards shortly after its foundation in 1992. It issued its first edition of translated ISAs in 1995. At about the same time, other associations, audit firms and academic institutions began the translating the standards. But it was only in 2000 that these discrete efforts merged into one, uniform IFAC-authorized translation.

¹⁷ With the adoption of the federal audit law in August 2001, the application of national auditing standards became mandatory for all audit firms operating in Russia. The new national auditing standards follow closely the text of the international standards, but they still do not constitute exact translations. The national auditing rules, for example, differ in terms of length, detail and added legal requirements. For example, they

All these developments disturbed the stability of the standards. On their journey into and throughout the Russian auditing world, the ISAs had passed through, and merged with, a variety of different contexts and actors that ascribed to them different ideas, interests and interpretations. As a consequence, the standards had become a rather blurred and multiplied reference point. Litkov and his team had to deal with this confusion. They had to make sense of it and find a way through the different interpretations, Russian translations and governmental regulations that had been attached to the standards. And they had to ensure that their use of the standards was compatible with both governmental interpretations and international definitions of what auditing in accordance with ISAs meant.

Within the firm's internal rules, Moskva-Audit tried to deal with the duplication and local differentiation of the standards through concentration on the similarities of the audit steps described. An internal text was created that tried to fuse the Russian and international rules. Instead of juxtaposing Russian and international audit standards, they were re-joined. In the opening paragraphs of Moskva-Audit's internal audit rules, explicit reference was made to both the international *and* Russian audit standards. The internal rules were built on excerpts taken from both the Russian standards and the international rules. To emphasize international similarity, all texts were permeated with Western audit terminology. References were made to the conduct of 'analytical procedures' (*analiticheskie protsedury*), 'tests of internal control systems' (*testy sredstv vnutrennovo kontrolya*), 'levels of audit risk' (*urovny auditorskovo riska*) and 'materiality thresholds' (*urovny material'nosti*). Further, Litkov and his group tried to re-establish the uniformity of the standards by embedding them in standardized, mechanistic practices. The elusiveness of the standards was addressed through the establishment of a well-structured apparatus of formal rules. Litkov described these mechanistic imageries in the following way:

Audits should require a minimum of creativity [judgement] and a maximum of formality. [...] Auditing is only a technology, a process similar to an assembly line, where specially drilled [*nataskanny*] staff, within short time and the required quality, perform a set of procedures related to a certain algorithm. The [audit] process contains a lot of recurring routine elements that can be highly automated. [...] Standards make it possible to create an efficient system of coherent procedures for [such] audit staff activities.¹⁸

The standards and activities of auditing were linked to images and procedures derived from industrialized ideals of production. Contradictions and local variability of the standards were countered by administrative regularity. A technical rationality of auditing was established that focused on form and procedure rather than the concrete content or output of audit practice.

include detailed regulations about educational requirements for auditors, legal rights and obligations of audit firms, procedures for the conclusion of audit contracts and recommendations for the performance of tax audits (Remizov 2001: 5-21)

¹⁸ The quote was taken from the published article on internal standards by the Head of Audit Methodology in 1999. In auditing literature, the approach that Litkov describes is discussed under the 'mechanistic' label. Dirsmith and McAllister (1982), for example, distinguish between 'mechanistic' and 'organic' audit approaches. According to them, mechanistic audit approaches rely heavily on formalized procedures, whereas unstructured, organic approaches provide more scope for judgement and individual practical reasoning.

To some extent, such mechanistic images of auditing and standardization were grounded in the former professional backgrounds of Litkov and his group, and Soviet ideals of scientific management and control. In the 1960s and 1970s in particular, Soviet economic planning placed great significance on administrative science and mathematical modelling (see e.g. Conyngham 1982; Thompson and Vidmer 1983). Subjects such as cybernetics and linear programming were seen as promising approaches through which, at least in theory, genuine scientific control of the incredibly complex Soviet economy could be achieved (Thompson and Vidmer 1983: 79). Litkov had obtained a degree in mathematics and administrative science during the Soviet period. Before his career as an auditor, he had worked as a programmer for the Soviet military. Yakunin, his colleague, had worked in economic planning for one of the Soviet branch ministries.¹⁹ These experiences reinforced beliefs that auditing standards could be concretized and pinned down with the help of a set of well-defined procedures and algorithmic decision tools. As Litkov expressed in an interview:

I graduated from the Leningrad University, Faculty of Mathematics. I think that it is quite easy for mathematicians and programmers to adapt to the auditing sphere. For us it is quite easy to deal with such issues as risk analysis, sampling technologies, the calculation of materiality levels etc. [...] Everything which concerns auditing, well, that doesn't have any national cores. That is a technology, a science; you have plans; you have instruments.

The adoption of a mechanistic audit approach was further stimulated by the presence of the big international accounting firms and some of the audit methodologies they promulgated. When Moskva-Audit began to develop its audit practice, the big international firms propagated in Russia not only the general importance of international standards, but also a specific organizational model through which it was claimed the standards were to be realized. Following this model, auditing was to be organized along a series of highly structured, well-defined steps. One or two senior experts would lead the audit process, and the major bulk of audit work, the testing of transactions, the collection of source documents, the performance of analytical procedures, would be accomplished by a large group of junior people. The amount of individual judgement was thus reduced to a minimum.²⁰

Observing the economic success and world-wide acceptance of the large international firms, Litkov and his group became convinced that a process-driven and highly formalized approach towards auditing could help them create a space where international auditing standards could be explicitly practised and performed. As a first step, the international standards were translated into internal standards. In the second step, the internal standards were expanded and subdivided into a corpus of further guidelines, procedures, tests and calculative instruments.

¹⁹ The cases of Litkov and Yakunin are not unique. Many of the bigger Russian audit firms hired former natural scientists, engineers and state bureaucrats for the development of their internal audit methodologies.

²⁰ Particularly in the early 1990s, the audit work by Russian audit firms appeared to be much less structured and formalized than that of their international counterparts. The Russian audit teams would generally be very small (4-6 people). Written audit manuals, audit methodologies, procedures for documentation and formal systems of internal control had yet to be devised. And at Moskva-Audit, formalized audit manuals, control systems and documentation procedures were only established in the mid-1990s with the formation of the Audit Methodology Department. In this context, the adoption of Western audit manuals and audit procedures was seen as a first step in the establishment of compliance with international auditing standards.

The associated rules, tables and instructions fulfilled at least three different purposes. Firstly, they were to enable the people at Moskva-Audit to get a better understanding of the international rules. They would also provide the auditors with tangible devices that would allow them to make use of the standards in their work. As Litkov put it in an interview:

Our auditors want to have rules and standards that describe in detail what they should do, and what they don't need to do. The international standards show you how you should think. Our [internal] rules show you how to think and what to do in concrete situations. [...] If I had to show you all our internal documents, that wouldn't be just two or three books, as in the international firms, but several cupboards full of paper.

Secondly, the added manuals, checklists and tables should make it possible to maintain the visibility of the standards throughout the audit work. The added documents constitute an important starting point in the creation of a stage where work which is in accordance with these standards can be explicitly performed. And, last but not least, the added structures should enhance the tractability of the standards. They should help Moskva-Audit management turn the standards into an administratively more convenient format that could be read and controlled at a distance from sites of actual audit practice.

Similarly for both ISAs and RSAs (Russian Standards on Auditing), Moskva-Audit's internal rules were organized along the conduct of a series of standardized steps, beginning with rules on audit planning, the assessment of audit risk, the formulation of audit engagement letters and then leading on to the collection of audit evidence, the documentation of audit processes and the formulation of standardized audit reports. The way in which Litkov and his team sought to integrate the standards had minimal engagement with the specific environment within which Moskva-Audit's auditors were operating. The standards were adopted through the development of rules and standardized methodologies that were either taken from Western institutions or Soviet administrative practices. In so doing, the rules neither drew attention to the specific economic contexts nor the corporate structures of possible audit candidates. The actual contents of audit work remained unspecified.

Within the next locale that we are going to look at, the Department of Audit Quality Control, this logic was continued. Here, the uniformity of procedure laid down by the standards was reinforced through the development of internal controls and documentary mechanisms. These mechanisms sought to render standards practicable through the translation of locally variable audit work into standardized accounts.

Matching Work to Standards

Within the previous locale, the first steps had been undertaken to build a framework of internal rules and classificatory systems that would allow Moskva-Audit to reproduce and disseminate the standards locally. But to create a stage for the day-to-day enactment of the standards, this was inadequate. The firm's audit managers and their teams had to be positioned in relation to the rules. Devices and structures had to be created that would make it possible for Moskva-Audit to actually take the rules to the workplace and demonstrate compliance with the standards. The main locale that became responsible for the development and operation of such mechanisms was the Audit Quality Control Department.

The Audit Quality Control Department was formed in September 1996, shortly after the Methodology Department had been created. The Department had been set up as a locale where control over the standards (and their application) would be explicitly exercised. In 2002, the Department was responsible for supervising the work of more than 230 auditors. One of its major tasks was matching the work of these auditors to standards. It sought to realize this through the development of surveillance structures.

Underlying the creation of the surveillance structures were beliefs that audit quality and the application of audit standards, could only be ensured through enhancing the level of control over individual practitioners and reducing the scope for individual judgement. As the Head of the International Audit Department described it:

The quality of audit work should not depend on the personality... on the person that came to work for the organization. We only have a great deal of certainty that everything is done with quality, if a person works in accordance with standardized programmes.

Thus, the industrial ideal of audit work was sustained. Audit quality and compliance with standards were defined in terms of following standard operating procedures and organizational protocols. Standards came to be associated with images of rational bureaucratic order and formal adherence to rules. Concerns of quality control and compliance were translated into administrative mechanisms of process control.²¹

The establishment of standardized control and reporting mechanisms was stimulated by both the demands of Western agencies, such as the World Bank or EBRD, as they would only award audit contracts to firms which could explicitly demonstrate that standardized, publicly defensible systems of internal quality control had been installed, and Soviet management practices that were rooted in excessive formalization and documentation.²²

In the development of the controls and documentary mechanisms, the Department based itself largely on ISA 220, the international standard dealing with 'Quality Control of Audit Work' (IFAC 2001: 158-162). Among other things, the standard states that:

The audit firm should implement quality control policies and procedures designed to ensure that all audits are conducted in accordance with ISAs or relevant national standards or practices.

(IFAC 2001: 159)

To encourage the application of ISA 220, the IAASB added a 13-page appendix to the standard with illustrative examples of quality control procedures (IFAC 2001: 163-175). Procedures listed in the standard included: the compilation of written representations

²¹ In this respect, the case of Moskva-Audit is similar to other projects of process-based standardization (e.g. ISO 9000), where emphasis is placed on the disciplinary character of the rules and managerial capacity for self-regulation (Power 2002).

²² As in the West, the development in Russia of formal process controls had largely been externally motivated, primarily by regulatory authorities, multilateral agencies, clients and anticipated court cases. When this case study was conducted, Russian auditors, so far, had not been sued for professional negligence. But observing the court activities of their international counterparts, Russian audit firms felt that this could be the case in the future and therefore saw the establishment of formal controls and documentary mechanisms as an important step in preparing for such events. The Deputy Director of Moskva-Audit writing on internal quality control for a Russian accounting newsletter in 1999 stated: 'Audit rules should become the most important argument in the review of court investigations against audit organizations with respect to allegations of professional negligence'.

about the independence, integrity and professional training of auditors; the development of standardized forms to evaluate the performance of personnel; and the assignment of reporting and decision-making responsibilities.

At Moskva-Audit, these procedures served as starting points in the development of its internal quality controls. Two sets of instruments through which the firm tried to control and enforce standards, are examined in more detail below. These are: firstly, a documentation index and standardized filing system which were used to set up an internal reporting system on accomplished audit work; secondly, the development of a numerical compliance code which was used for the measurement of performance in relation to standards. As will be shown, ultimately, both sets of instruments were aimed at matching work to standards through the production of standardized 'documented representations' (Garfinkel 1967: 202) of audit work. An attempt was made to capture the production of audit evidence in the formation of detailed, standardized audit files. Micro-processes of auditing came to be pervaded with self-reporting procedures. Standardized, documented audit accounts should enable participants to re-construct past courses of action as 'showcases' of proper auditing.

Indices, Record-keeping and Standardized Audit Files

The definition and evaluation of compliance with standards became largely grounded in paperwork. In this respect, Moskva-Audit embraced the standards in a similar way as many Western audit firms (see e.g. Power 1999; Van Maanen and Pentland 1994). The basis for matching work to standards became the collection and storage of documentary representations of audit work. One of the core technologies aiding the production of such representations took the form of a standardized 59-page documentation index.

With the help of the indexing system, different audit activities could be provided with numbers, which made it possible for the Department to trace, collect, label and store audit information. A staff member who had previously worked for one of the big international accounting firms in Moscow had brought the documentation index to Moskva-Audit. Originally, the documentation index had been developed by one of the then Big Five firms for their own internal control and documentation purposes. The imported documentation index served to aid control and to demonstrate international openness and enhance similarity with Western practice. The Western origin of the index underlined its authoritativeness and alleged adequacy.

The indexing system replicated the auditing steps embodied in the international standards. It contained indices ranging from 1,000 to 9,800. The indices compartmentalized the audit process into sections on audit planning, evaluation of audit risk, auditor's knowledge of the audited business, description of internal control systems, results of performed audit procedures, minutes of audit team meetings, etc. Each audit activity was provided with a number. Numbers from 1,000 to 1,199, for example, covered activities on audit planning. From 5,000 to 5,999 the audit of assets was documented. Indices ranging from 6,000 to 6,999 were used for reports on the audit of liabilities.

The indexing system provided the Control Department with a grid against which departures from standards could be defined and against which completeness and due care became detectable. The indexing system further defined the responsibility of auditors. It provided the auditors with a frame of objectification that they could use to defend their

judgements and deliver evidence that everything had been done properly. Contingencies related to judgements that might have to be made throughout the audit process, for example about possibilities of fraud, reliability of internal controls or general economic viability of an enterprise could be bracketed. A senior auditor commented on the importance of systematic audit documentation in an interview:

Everything that we note down... well that's our evidence. The formation of our working papers [in correspondence with the indexing system] – that is our audit evidence. That shows that we have actually been doing the audit; that we have done everything correctly. It gives evidence that I expressed my opinion correctly.

The indexing system helped establish a predictable, routinized environment for auditing, one that could be ordered and controlled largely independent of the specificities and complexities of actual audit objects. In so doing, the indexing system constituted much more than a neutral, technical device aiding the production of accurate accounts of 'what happened'. The indexing system itself was a central part of a bigger organizational apparatus of charts, rules, lists and other 'form-giving' devices (Thévenot 1984) that did not only reflect, but made it possible to *perform* work in accordance with standards. In other words, the documents collected and stored with the help of the indexing system (and other descriptive and numerical devices) were not simply mirroring, but constitutive of work in accordance with standards.²³ In Goffman's (1959: 251) terms, they created the stage where standards could be explicitly realized.

Codifying Compliance

A second important instrument that helped the Department establish compliance with standards was a formal compliance code, developed and used for the measurement of audit quality.²⁴ The compliance code attempted to provide an instrument whereby compliance with standards would be made observable through quantification. Compliance with standards was translated into numerical scales and percentages. Expertise was brought into a format so that it could be ranked, compared and evaluated. The compliance code consisted of a list of 36 different criteria which audit quality controllers had to take into account when assessing compliance. The criteria had been subdivided into three main sections focusing on the correctness and completeness of audit work with respect to audit procedures performed, audit reports written, and audit files assembled.

The control criteria ranged from general questions asking, for example, for an overall assessment of the correspondence of the contents of audit procedures, audit reports and audit files with internal rules and Russian laws, to more specific questions addressing issues of documentary uniformity and formal accuracy. Quality controllers had to consider questions such as: does the structure of the audit report comply with the structure provided in the standards; is the audit report free of typographical errors; are sentences clearly formulated; are contact details correctly stated; is every remark of the auditors

²³ The performative – i.e. constitutive – role of audit control instruments, like the indexing system and other self-reporting structures, is not specific to our case as it has been documented elsewhere. See in particular Power (1999: 91-121) and van Maanen and Pentland (1994). For more general accounts on the performativity of accounting and other calculative practices see amongst others: Kalthoff (2000), MacKenzie and Millo (2003) and Miller (1992).

²⁴ According to the Head of the Quality Control Department, the compliance code was developed by the Department and not borrowed or copied, unlike the documentation index.

backed up with evidence, i.e. source documents; have internal control systems been checked; does a memorandum on audit planning exist; has a statement on the independence of auditors been attached; have materiality levels been correctly calculated; are the audit samples that the auditors selected representative; does the selection of the samples correspond with the firm's internal sampling rules?²⁵

The controllers ranked the extent to which each criterion had been met on a scale from zero (for non-compliance) to one (for 100% compliance). In the second step, the ranking given for each criterion was then added to give a total score. The highest total score that an auditor (or audit team) could be awarded was 34.5, and the lowest score was zero. The results were entered into a table. On the basis of the table, diagrams were created visualizing the quality of audit work delivered by each audit team. These diagrams were regularly forwarded to the director and owner of Moskva-Audit to inform him about the performance of his workers. In so doing, the codification system *actively* helped configure compliance (Hopwood 1984; Miller 1992). It helped establish what was involved in following standards thereby, contributing to the creation of images of regularity which also enhanced the external presentability of audit work.

The codification system reduced compliance of standards to a single comparable, quotable and calculable number. This number contributed to the determination of compliance particularly in two respects. Firstly, it provided quality controllers with a frame of objectivity endowing their judgements with neutrality and organizational authority. The compliance coefficients, which stood at the end of each quality assessment, helped attribute individual acts of judgement to the outcome of rule adherence. They provided compliance assessments with a rhetoric of impersonality, which set them apart from interpersonal quarrels and subjective interests. Secondly, the codification system constituted an important means for the reduction of complexity. It made it possible for controllers to conceal difficulties related to processes of quality assessment and supplied them with a grid that made compliance legible from the standpoint of the organization.²⁶ To quote Power (1999), the system made compliance with the standards 'auditable'. It helped the quality controllers at Moskva-Audit to arrive at a common representation of diverse audit practices. The control system might have intersected poorly with the daily realities of audit work. Nonetheless, it provided an important reference point that enabled the organization to embed standards within its internal regulatory systems, and to demonstrate to regulatory and other bodies that standards were being realized.

In sum, what has been described and analysed so far, were attempts to operationalize standards through various 'form-giving' activities. Within the first locale, the Methodology Department, auditing standards had been incorporated into a series of organizational rules, templates, checklists, risk formulae and other standardized

²⁵ Within international auditing and accounting standards, accounting information and errors are considered to be material if their omission, misstatement or failure of detection could influence the economic decisions of users taken on the basis of the audited financial statements (IFAC 2001: 245). The concept of materiality usually refers to a quantitative threshold or cut-off point at which auditors stop their search for further evidence that financial statements have been prepared in accordance with a given financial reporting framework. As auditors cannot check every transaction of a business, they select and audit representative samples of transactions. The international auditing standards do not prescribe the application of a set of specific sampling rules. The determination of sample sizes and sampling strategies (e.g. statistical vs. non-statistical) is left to the judgement of audit practitioners and the internal regulations of audit firms.

²⁶ The above-mentioned points describe general functions of grading and performance measurement. For an insightful empirical analysis of grading practices in schools see in particular Kalthoff (1996). For a more general discussion of implications related to processes of quantification see Porter (1992; 1995).

calculative devices.²⁷ Within the second locale, the Audit Quality Control Department, attempts were made to transcend and objectify local situations into documented and conceptual forms that could be recognized by both Moskva-Audit's internal administration and external institutions, such as the World Bank and state regulators.

But how far did these dimensions of regulatory conformity take Moskva-Audit? How far did the 'form-giving' activities described above help support the boundary-spanning functions of international standards? To what extent did they make it possible to enhance international acceptance? Within the analysis of the next site, the firm's Auditing Department, these questions are addressed. As will be shown, attempting to establish a system of international similitude within the first two Departments could not be fully realized due to the differentiated audit business environment within which Moskva-Audit was operating. Amongst other things, international divisions of audit labour and the strong presence of the big international firms on the Russian audit market re-instituted images of local differences, which Moskva-Audit was trying to overcome.

Bifurcated Practice: Re-entries of Difference

Moskva-Audit exhibited a great deal of resemblance to international firms and audit standards in its formal structures and methodologies. However, these structures were embedded in local differences and variations. Although international auditing standards had been turned into a pervasive, circulating point of reference, they did not constitute a narrow 'passage point'²⁸ that could be easily controlled and utilized to generate legitimacy and enhance international acceptance. A first indication of the ambiguous nature of the established structural similitude is provided by the following observation of the author at the beginning of her seven-week internship at Moskva-Audit:

Moscow, 12 March 2002, 9.30 am. Today, the audit in which I will be participating starts. Natasha²⁹ is already in the office and prepares the audit engagement letter³⁰ (*pismo obyazatelstvo*). She prepares two letters: one which follows Russian standards and one which follows international standards. I ask Natasha what is the difference between the two letters. She says: 'Well, there is not really a difference. It's just... well, we are supposed to carry out two audits, one according to international standards and one according to Russian standards. I could have written two identical letters, but we are supposed to carry out two different audits, therefore I prepared two different letters. But take a look at the letters yourself. You will see that there is not a real difference. The Russian letter is longer and maybe more detailed, but otherwise I can't see any substantial differences.'

²⁷ Other calculative devices, for example, include templates for the calculation of materiality levels and standardized sampling rules.

²⁸ The term 'obligatory passage point', in particular, has been developed and used within the context of actor-network theory (see e.g. Callon et al. 1986; Latour 1987, 1988). It refers to the means and processes by which things or ideas are turned into 'indispensable' entities. According to Latour (1987: 150), 'obligatory passage points' constitute events, persons and activities which people *have* to pass if they want to belong to a certain group of actors (e.g. the accounting profession) or a specific network of activities (e.g. auditing practices).

²⁹ For reasons of confidentiality the name has been changed.

³⁰ In auditing, commonly agreed terms of an audit appointment are recorded in an audit engagement letter (see e.g. ISA 210 'Terms of Audit Engagements'; IFAC 2001: 151-157). These letters are normally sent to clients before an audit engagement commences. According to ISA 210, 'the engagement letter documents and confirms the auditor's acceptance of the appointment, the objective and scope of the audit, the extent of the auditor's responsibilities to the client and the form of any reports' (IFAC 2001: 152).

The observation reveals that the uniform appearance of the internal structures and methodologies could not be fully sustained. When it came to the actual conduct of audit work, similarity was multiplied and uniformity confused. Despite the similarity to international standards that Moskva-Audit showed in its internal rules and forms, distinctions between the local and non-local, between images of Russian and international audit practice, were re-introduced in the execution of actual audit work.

At Moskva-Audit, audits were carried out in two different divisions: the Division for International Standards (*Otdel mezhdunarodnykh standartov*) and the Division for Russian, so-called General (*obschy*) Audits (*Otdel obschego audita*). The Division for International Standards was mainly responsible for the audit of financial statements which had been prepared in accordance with international accounting standards (IAS). The Division further advised clients on how to reconcile Russian accounts with IAS. In contrast, the Russian Audit Division focused mainly on the conduct of Russian statutory audits, which involved checks of financial statements in accordance with the national Chart of Accounts.

With the establishment of the two different audit divisions, the unity of form which management had tried to establish within the first two locales had become porous. Working in accordance with international standards was no longer limited to the faithful and mechanistic application of rules. Within the third locale of our investigation, Moskva-Audit's Audit Department, the meaning of 'working according to international standards' became linked to a specific type of audit. In so doing, differences between the local and non-local were re-introduced. The particularity of Russian auditing was re-emphasized and the universalizing function of the standards undermined. We consider next what underlies the re-entry of local difference, and why the uniformity of the standards was unsustainable.

Firstly, one has to take into account that the introduction of the standards in the previous two locales had been modelled on highly idealized, acontextual audit images which, despite their formal specification, still contained degrees of indeterminacy making it difficult to hold the standards in place. As sociological studies of organizational formalization have shown (see e.g. Luhmann 1964; March and Olsen 1976; Powell and DiMaggio 1991), harmony in form does not automatically and necessarily lead to harmony in content.³¹ And, in Moskva-Audit's case, the inherent indeterminacy of the standards and the interpretative flexibility of their formal specifications opened them up to different interests, strategies and controversies that in turn, destabilized their uniform appearance.

Secondly, it is important to note that similarity is never only internally produced, but also externally ascribed (or denied). How standards make audits known and credible to wider audiences is only loosely coupled to the ways in which the standards are applied. As Mary Douglas (1987: 59) has made us aware in her work on institutional thinking in stating 'sameness is not a quality that can be recognised in things themselves; it is

³¹ Luhmann (1964) and March and Olsen (1976), for example, have pointed out that formal rule systems are essentially ambiguous. Powell and DiMaggio (1991) and other proponents of sociological New Institutionalism have described disparities between form and content of organizational behaviour under the heading 'loose coupling'. This notion highlights the fact that the formulation of rules is often isolated from the practice it formulates. With regard to the diffusion of international models and structures, Meyer et al. (1997: 154) in particular have argued that de-coupling is endemic for such processes because they are based on highly idealized models that cannot simply be imported wholesale as a fully functioning system.

conferred upon elements within a coherent scheme'. Analogies have to be agreed upon. Sameness, at least to a large extent, is conferred and fixed by institutions: i.e. cultural conventions, shared belief systems, common cognitive schemes and other social and cultural structures (Douglas 1987: 45-67). With regard to our case, it follows that to be widely recognized and able to overcome local boundaries, representations of ISA-compliant audits need wider institutional support.³²

Moskva-Audit was operating in an environment that had different views on what counted as auditing, on how to approach it and on what its outcome should be. Auditing still constituted an essentially ambiguous field of activity, with unclear goals and vague contents. As Danilevsky et al. (2001: 22-23) described it:

Until today, neither within the statutes governing audit activities, nor within audit practice itself, has it been possible to lay down unambiguous definitions of such notions as 'audit activities' [*auditorskaya deyatel'nost'*], 'audit' [*audit*], 'audit checks' [*auditorskaya proverka*] and 'audit services' [*auditorskiye uslugi*].

In correspondence with the vague and disputed nature of auditing, auditing standards served as the focus of a highly differentiated field of political and economic interest. What counted as 'working in accordance with standards' was contested. It was challenged by the differing beliefs, demands and expectations within which Moskva-Audit operated. Matters of audit and accounting reform had become implicated in bigger programmes of macro-economic development. But it was still unresolved which concrete direction the development programme should take. Views differed, for example, with respect to desired degrees of state involvement, the importance of foreign direct investment, the significance of international competitiveness and levels of market capitalisation. This led to diverse views on auditing and the roles of auditing standards.

On the one hand, auditing and auditing standards were promoted as a means to enhance state control and stimulate compliance with Russian taxation and accounting laws. Such perspectives were especially propagated by the Ministry of Finance and the Russian taxation authorities (Krikunov 2000, 2001). On the other hand, there were other more capital market-oriented views which regarded auditing as a control mechanism that was called upon to enhance the information content of financial statements for economic decision makers, in particular private shareholders (e.g. Schneidman in Tsyplenkov 1994). Such claims were often articulated by Russia's relatively young profession of financial analysts, national companies which sought to raise finance on Western capital markets, big international accounting firms, multilateral agencies such as the World Bank, IMF and EBRD as well as multinational companies which operate on the Russian market (e.g. Pyatenko 2001; World Bank 1996, 2002).

Leonid Schneidman, who had worked as a senior Russian audit partner for Pricewaterhouse Coopers in Moscow until 2004, commented on the different interests and claims involved in Russian auditing in a popular Russian business journal (*Profil'*, 10 May 1999):

[Russian] auditors with a Western orientation are primarily interested in the correspondence of the financial statements with the actual economic activities of the

³² For this point see also Power (1999). He emphasized that audit techniques and methodologies are never self-evident. For their wide acceptance they have to be rooted in 'a layer of consensus' which reaches beyond the firm.

enterprises that are audited. In principle, this should not only be in the interest of the users of financial reports, i.e. investors, shareholders and creditors, but also in the interest of the government, tax authorities and the public in general. However, many people [auditors and regulators] have a different view on this. They see the major task of auditing as checking compliance of financial statements with the law, in particular tax regulations.

A British audit partner, who worked for another large international audit firm in Moscow when this study was carried out, remarked:

There is a lot of debate. [...] At one end of the spectrum you have the former Finance Ministry controllers [*revizory*] – their view of internal control is to re-perform everything. If you get the same out of it, you are probably right. And then you get the other end of the spectrum, which I guess would be the Big Five trained professionals with experience. These two got such absolutely opposite views of everything, and yet they are all part of the same profession.

In reaction to the differing demands and views, Russian audit practice divided into two strands. Audit activities split into so-called Russian and international audits [*rusскиye i mezhdunarodnye audit*]. The term ‘Russian audit’ was used for the conduct of statutory audits. These were audits which were overseen by the Ministry of Finance and primarily aimed at checks of compliance with national tax and accounting regulations (Krikunov 2002). In contrast, the term ‘international audit’ began to be used for voluntary audits; i.e. audits which were not subjected to any specific regulatory authority and conducted on financial statements that had been prepared or reconciled with IAS, US-GAAP or other Western accounting frameworks. So-called international audits were usually carried out for internationally oriented economic entities; i.e. entities who either were already listed on Western stock markets, in the process of getting listed, or aiming to attract other forms of foreign investment from Western institutions. What were the consequences of this divide with respect to the sphere of activity of the international auditing standards?

What constituted an international or national audit was no longer exclusively defined by the application of auditing standards. Instead, the distinction between national and international had become related to the different accounting and regulatory frameworks within which Russian audit firms and their clients were operating (local vs. non-local; national vs. international). As a consequence, the explicitly recognized sphere of activity of the international auditing standards was particularized. Although many larger Russian audit firms, like Moskva-Audit, considered themselves as a professional community parallel and comparable to those in the West, the realization of these aspirations was rooted in local specificity and accompanied by heterogeneity and difference.

But representations of local specificity, divisions between Russian and international audits, were not only the result of indigenous circumstances, such as specific regulatory traditions, accounting cultures and local accountability styles. Equally, they were also a product of the ‘outside’, of actors and agencies that had entered the scene of Russian auditing from the West. In particular, the presence of the big international accounting firms on the Russian audit market had contributed to the creation of further axes of differentiation and particularization. The international firms claimed to be doing ‘truer’ and ‘better’ international audits than their Russian counterparts on the grounds of their longstanding experience, worldwide interconnectedness and general reputation.

As a result, distinctions between the local and non-local, between the national and international were subjected to further differentiation. The category of ‘international audit’ became subdivided into ‘Russian-international’ and ‘Western-international’ audits. A distinction was made between audits that followed international standards, but were carried out by Russian firms, and audits that were carried out by international firms. International audits from international firms, in this context, were put forward as the more advanced and better audits. In contrast, international audits from local firms were often represented as less sophisticated, less trustworthy and less informative. During interviews conducted with partners from Western audit firms, respondents frequently made distinctions between the kind of audits ‘we, the internationals’ do, and the kind of audits ‘they, the Russians’ do, i.e. between ‘experienced’ Western and ‘inexperienced’ Russian applications of international standards. The following quotes illustrate some of the differences that were ascribed to Russian auditing by Western practitioners. A British senior audit partner who had worked several years for a big international firm in Moscow, for example, pointed to the different degrees of experience:

What they are trying to develop in Russia has taken decades, if not centuries, in the West. I think there is a pretty genuine interest in looking at how it’s done in the West and saying ‘We must do this’ or something like it. But you cannot do it overnight, if there is no culture of having done this. [...] In the Western world, you have years of experience. You have thousands of practitioners. Here, you don’t have that. [...] What’s missing is the experience and maybe the common sense.

Another senior, but Russian audit partner who had worked for a big international firm in Moscow emphasized differences in professional approaches:

When talking about Russian audits and international audits, one needs to be careful to distinguish between them. If you take the [Russian and international] audit standards, in principle, they are not much different from each other. [...] But you find differences in their practical adoption, in the practice of auditing. [...] They [the Russian firms], for example, don’t understand this concept where, during the audit process, you look at the financial statements as a whole. For them only the individual transactions are very important.

Looking back on his time in Russia during the early 1990s, a British former audit partner, who had worked for a large audit firm, reflected more critically:

Russian auditing grew as a business in the time I was there. But it was held in very low esteem when I first went out. It was very much a pure compliance exercise, nobody really cared about it. [...] And we [the Westerners] were quite ignorant.

Whether these quotes, based on first-hand experience or stereotypes, reflect the ‘actual’ realities of Russian auditing is of less importance than that they contribute to the creation of ‘an ideology of difference’ (Said 1985) which undermined the harmonising function of the international auditing standards. Work conducted in accordance with international standards became rooted in divisions of global and local audit labour. Discourses about local specificity and Western superiority reinforced distinctions between the national and international. They furthered the incorporation of the standards in hierarchies of expertise that were led by the big international accounting firms and their networks. As a consequence, practices of Russian firms claiming to perform work in accordance with international standards were de-legitimized. International audits and work in accordance

with international standards came to be marketable only for those firms that were internationally connected and enjoyed worldwide recognition.

Moskva-Audit also came to feel the power of the big international firms. For many years, Moskva-Audit's international audit division stood in the shadow of the activities of the big Western firms. As the following remark of a senior auditor from April 2001 illustrates, the area of international auditing was neither a very lucrative, nor widely accepted business:

Right now we cannot really say that this sector [auditing and accounting services in accordance with international standards] is very profitable. Services in the areas of ISA and IAS are required by foreign firms; and foreign businesses usually work with the Big Five.

And the Head of the international audit division commented:

Usually, ISA-audited financial statements are required by clients who plan to sell shares abroad, who go for the international markets. But unfortunately, in these cases the Big Five prevail in the market, because their stamp counts for much more than ours does. Because [abroad] nobody knows what [Moskva-Audit] is. And consequently, if one talks about international audits, usually the Big Five are chosen.

The above statements indicate that working with international auditing standards was not sufficient in enhancing Moskva-Audit's international acceptance. The international standards did not fulfil their role as a mechanism for linking the firm and its clients with international markets; at least they did not manage to do this on their own. ISAs were an important, but by no means adequate device for the enhancement of Moskva-Audit's international recognition. To become widely accepted on an international scale, Moskva-Audit had to do much more than adopt standards. It had to position itself within a network consisting of a variety of heterogeneous elements, people and activities. To maintain their representing and legitimizing functions the standards, once incorporated in a local setting, had to be linked to the wider sets of ideas, belief systems and institutional contexts within which they had been developed, and through which they had been initially propagated.

For Moskva-Audit's management, this meant that it had to create further linkages to the international world, through international co-operation, the achievement of external accreditation and other internationally-oriented activities. To become part of the international audit world, Moskva-Audit had to find allies who had worldwide acceptance. Following a long series of meetings, talks and negotiations in February 2003, Moskva-Audit managed to become a full member of a big international audit network and changed its name to that of the network. It became part of the network's brand and, thereby, tried to enhance its position within the international division of audit labour.³³ As the Director and founder of Moskva-Audit put it:

With the integration into the international network we can efficiently assist our clients in their entry to the world capital markets, IPOs or fundraising from Western financial institutions. [...] Until recently, international audit was the exclusive

³³ Moskva-Audit was unexceptional in this. By late 2003, most large Russian accounting firms had been integrated into international accounting networks. Examples of such firms include FBK joining the PKF network, UNICON became part of the BDO group, Russaudit joined Baker Tilly International, Rufaudit was affiliated to JPA International, Topaudit gained full membership of RSM International, and Rosexpertiza was affiliated to Moores Rowland International.

domain of 'the Big Four'. Now we can make it possible for our clients to have their IAS-compliant financial statements certified with a 'stamp' of an internationally recognized auditor.³⁴

At the time of this study, it was still too early for a detailed assessment of the effects of these developments. But what can be said is that Moskva-Audit's incorporation into the international network provided the firm with greater chances of being seen and identified as a firm that is able to provide work in accordance with international standards.

In sum, working with auditing standards requires more than investments in form, organizational structure and the institution of ethical codes. It involves also hard representational work, the establishment and cultivation of public relations, the management of diverse expectations, and the formation and maintenance of a balanced network of local and non-local allies. International auditing standards do not provide an objective measure of what auditors should do when conducting an audit. Nor do they constitute an unambiguous yardstick against which different audit practices can easily be measured and compared. What makes an audit compliant with international standards has many facets. The standards themselves constitute a largely uncontrolled entity with respect to local agencies. They do not determine what constitutes compliance. Becoming defined as working in accordance with standards depends on much more than processes of technical implementation. It is also linked to a firm's position within hierarchies of credibility, and its capability to generate acceptance in different frames of reference, regulatory contexts, political programmes and economic circumstances.

From this it also follows that processes of audit standardization can hardly be closed. The homologies that international auditing standards help to produce, for example in areas of audit methodologies and process structures, are always accompanied by difference. Among other things the difference arise out of the global division of audit labour, different accounting frameworks, economic interests, political contexts and local regulatory cultures within which auditors and their clients are operating. Although the adoption of ISAs is often motivated by attempts to imagine and create auditing as a uniform, internationally homogeneous whole, differences between the local and non-local, between big international and smaller indigenous audit firms, can never be completely erased. As the analysis has shown, areas of international auditing themselves are particularized and embedded in hierarchies of expertise, which, to a great extent, are dominated by already established Western audit networks. Processes of audit standardization are implicated in plays of power and exclusion, in struggles for international acceptance and intra-professional distinction. They are embedded in politics of representation and institutional contingencies, which undermine the unifying and inter-connecting capacity of the standards.

Whether ISAs are 'successfully' applied, depends on the viewpoints from which actors speak, as well as on the local circumstances within which the standards take root. In the case of Moskva-Audit, international auditing standards had become embedded in the creation of an order that facilitated the co-existence of different audit worlds rather than global integration and harmonization. Work in accordance with international standards became widely accepted only for those audit firms that were already internationally established and recognized. The ISAs turned out to be of lower status than the names of

³⁴ The quote was taken from Moskva-Audit's website in November 2003. For reasons of confidentiality website details cannot be disclosed. The label 'Big Four' refers to the world's four largest accounting firms, namely PwC, Ernst and Young, KPMG, and Deloitte and Touche.

international audit firms and their networks. For Moskva-Audit, an important part of becoming recognized as working in accordance with international standards consisted in their joining a large international audit network, and the re-naming of the firm to that of the network.

Conclusion

This paper explored the use and circulation of international auditing standards within a Russian audit firm. It was shown that international auditing standards constitute a pervasive, but by no means unequivocal reference point. The firm we investigated tried to stabilize and concretize international auditing standards through the establishment of mechanistic internal rule systems and work processes. Although these rule systems, to some extent, resembled those of large international firms, their creation was not enough to enhance Moskva-Audit's international acceptance. The standards made audits internationally accepted only for a selective group of people and activities, namely those firms which already enjoyed a secure standing on Western audit markets, such as the current Big Four, or indigenous firms which managed to build up relations with globally operating audit networks. The standards became situated in contests for control over identity and professional authority, which, in turn, undermined their stability and unifying capability. The attractiveness that the standards came to enjoy was rooted in beliefs that they could be used as a connecting device to become accepted by, and integrated into, the Western world of audit business. But the integrative power of the standards was undermined by existing divisions of audit labour, processes of intra-professional differentiation, and discrepancies between different local accounting and accountability cultures. In the case of Moskva-Audit, international auditing standards provided strong rhetorical vehicles for the formulation of market-oriented reform demands, but they constituted rather weak tools for the enhancement of international acceptance and the development of local audit practice. The analysis showed that processes of standardization work at different levels. International auditing standards may stimulate the production of uniform representations of audit work, for example with respect to written audit reports, working papers and audit files. But this uniformity does not necessarily lead to greater acceptance and international integration.

From this it also follows that one needs to be careful to distinguish between standard forms of carrying out a process and standards as an abstract concept, a goal or benchmark which actors try to live up to. In the case of Moskva-Audit, international auditing standards were translated into standard forms of carrying out audit processes, but this did not result in the transmission of uniform, clearly identifiable audit ideas. The standards themselves as well as their attempted realization in forms, rules and audit methodologies left the content of audits, for example with respect to audit objectives and output, largely undefined. ISAs might have the capability to produce harmony in form, but they are still far from being able to further convergence of professional approaches, programmes and ethical attitudes to actual audit work.

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