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## Comparative analysis of the development of audit markets in Russia and China

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**Abstract.** As an important part of the market economic system, the audit market not only directly relates to the optimization of the resource allocation function of the entire market system, but also determines the actual status and development space of the audit industry in the economic and social development. This article uses historical data on the development of audit markets in Russia and China for the period 2006–2020 and conducts a comparative analysis of influencing factors such as changes in laws and regulations in the audit field, changes in audit technology, international convergence of auditing standards, independence principles, auditor ethics, and the current state of audit market activities to reveal the current differentiated development of audit markets in Russia and China. The article shows that the continuous improvement and development of these influencing factors have played a positive role in the socio-economic development of the audit market in Russia and China, but the development of the audit market in China also suffers many challenges such as slow digital transformation, small market share of local audit organizations, and decreasing share of non-audit revenue year by year. To promote the healthy development of the Chinese audit market, this article proposes that audit organizations and individual auditors must strictly adhere to the bottom line of professional ethics, vigorously promote digital transformation, improve the quality of audit services, enhance brand building, strengthen the professionalism of the audit team, and improve the international competitiveness of local Chinese firms.

**Keywords:** audit market, audit market differences between Russia and China, audit influencing factors, number of auditors, audit revenue

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### Introduction

The long-term good neighborly and friendly relations between China and Russia, the close economic and humanistic interactions as well as the similar experience of being countries with economies in transition make it significant to study and learn from the development of the Russian audit market, which will not only help strengthen the understanding, communication and cooperation

between the audit professions of China and Russia, but also promote the common development of the audit professions of both countries. With the continuous development of the capital market, the audit market is becoming more and more important. In recent years, research related to the development of the audit market has become a hot issue of concern and discussion. Auditors can effectively maintain market safety, control market risks and improve market efficiency, which becomes an essential part of capital market regulation. Excessive competition or excessive concentration in the audit market will have certain side effects on the market efficiency. Therefore, in order to promote a healthy development of the capital market, it is increasingly important to maintain a moderate level of audit market concentration. However, relevant departments can only promote a healthy development of the audit market faster if they clearly understand the current development status of the audit market, the audit market structure and the audit market concentration.

### **1. The emergence of the audit market in Russia and China**

From the perspective of the emergence of the audit market, both Russian and Chinese audit markets are the result of the economic system transition from a planned economy to a market economy. From the early period of the founding of the People's Republic of China to the period before the reform and opening up, China's ownership structure was basically a single public ownership economy. Since the reform and opening up, China began to gradually establish a socialist market economy system; the gradual diversification of ownership structure and the plurality of property rights subjects provided conditions for the establishment of an audit system [1]. China's audit market has gone through more than 30 years (a relatively short period of time compared with the hundreds of years of development in Western developed countries), but has already experienced many twists and turns in the development process, from the need for a policy to start reconstruction, to a later government intervention, and then an independent development. Thus, the audit market is gradually deepening the market. However, the current concentration of China's audit market is low compared with that of developed countries, and the overall size is also small. It is imperative to expand the size of the audit market and optimize the audit market structure. Then, what kind of development history the Chinese audit market has experienced, what characteristics the Chinese audit market presents today, what factors have influenced the development of the audit market in China – these questions have aroused my interest.

In the Soviet Union period, Russia implemented a highly centralized planned economic system [2]. In the early 1990s, Russia began reforms to transit from a planned economy to a market economy. Along with the reform and transformation of the economic system, auditing, which is one of the important elements of economic activity, took its own reform steps. With the large-scale privatization of state-owned enterprises and the separation of property owners and operators, the Russian government audit model was transformed by introducing external audits and reconstructing internal audits of enterprises in order to meet the

requirements of property owners for independent checks of accounting [3]. It can be said that over the past 30 years Russian auditing has achieved milestones, developed auditing laws and regulations, introduced international auditing standards, and played an active role in the economic development of Russia.

For related research on the development of auditing in Russia, Professor Yuri N. Guzov used logical addition to the time-dominant factors of the development of audit norms and methods to create the periodization of development of auditing activity in Russia. He proposed the following stages: (1) prehistory (1987–1993); (2) formation of audit in Russia (1993–2001); (3) government regulation and licensing (2001–2008); (4) self-regulation of auditing (2009 – present) [4]. Regarding the criteria of staging the history or factors of audit development in Russia, Guzov analyzed the changes in audit legislation, improvement of the standardization of auditing activities, changes in audit technology, the principle of audit independence, auditor’s professional ethics, internationalization of Russian auditing standards, changes in the types of audit reports, the state of the Russian audit market, and the development of types in audit activities. These factors are classified as “active” and “passive”. “Active” factors are those that cause changes and improvements in other factors, while “passive” factors are those that are influenced by other factors and result in changes [4, 5]. The classification of audit impact factors is shown in Table 1.

**Table 1. Typology of audit development factors**

Number	Audit development factor	Type of factor
1	Changes in legislation in the field of auditing	Active
2	Improvements in the standardization practice of audit activity	Active
3	Change in audit technique approach	Passive
4	Evolution of the principle of independence	Passive
5	Introduction of ethical standards and codes of professional conduct for auditors	Active
6	Integration of auditing standards into the international system	Active
7	Changes in the forms of audit reports	Passive
8	Situation of the audit market	Passive
9	Development of types of audit activity	Passive
10	Evolution of the academic coverage of audit theory and practice	Active

*Source:* developed by the author.

## **2. Hypothesis formulation**

In this article, while studying the conceptual issues of the current and future development of the audit market in China, I propose a hypothesis: the criteria on the staging of auditing in Russia Professor Guzov proposed can be used to analyze the historical stages of audit development in China as well.

Using the logical addition method to the time-dependent factors of audit norms and methods development, this article aims to analyze the number of Chinese and Russian audit organizations, the revenues of audit organizations, the distribution of auditors, the influence of the international “Big Four” on the audit market of China and Russia in order to reveal the differences between the current audit markets of China and Russia, and determine what China can learn from so that the Chinese audit market can develop steadily and healthily. The object of this study is the audit market in Russia and China, the focus is audit activities in both countries.

### 3. Literature review

To confirm the feasibility of selecting these criteria, this article summarizes the literature on Chinese auditing available in the China Journal Database (CNKI) by journal search method.

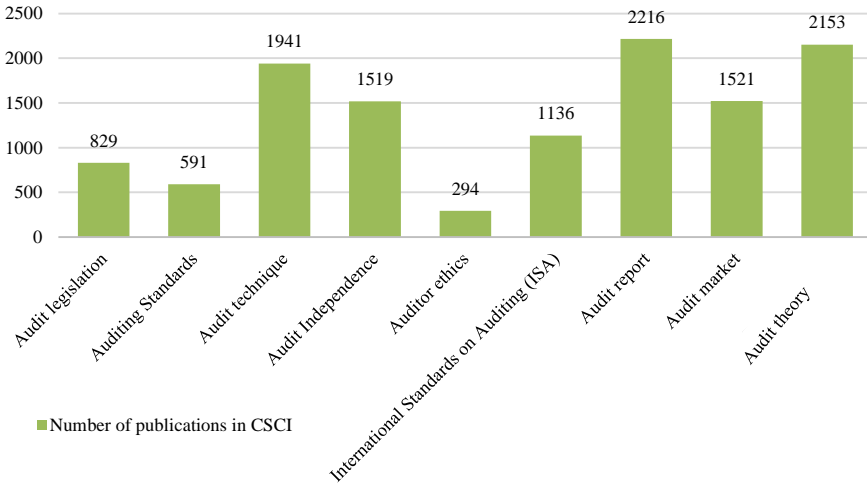


Fig. 1. The results of the content analysis of publications in the CSCI database by keywords that determine the factors for the development of the audit

Based on the China Journal Database (CNKI), <https://chn.oversea.cnki.net/index/> (accessed:12.31.2021)

There have been more than 187,000 research papers on the topic of auditing in China since 1983, which is sufficient to verify the rapid development of auditing in China. I further compiled the literature published in CSCI journals between 1983 and 2021 by indexing keywords with similar identifying factors (Figure 1) and by counting the number of articles issued. The purpose was to explore their research hotspots and development directions and to determine whether these factors have had a profound impact on the development of auditing.

An analysis of the audit literature shows that Chinese scholars focus more on audit theory and audit reports (about 36% of the total), while, at the practical level, studies related to audit techniques, audit independence and auditor ethics are also of high importance (about 31% of the total); At the legal level, there is also a very important influence of Chinese audit legislation and auditing standards on the development of auditing (about 21% of the total); Finally, there are studies related to the audit market (about 12% of the total), Therefore, these factors are extremely important for the development of auditing in China and play an important role in the development of the audit market in China.

#### **4. Timeline of factors influencing the development of auditing in Russia and China**

##### ***4.1. Changes in legislation in the field of auditing***

The chronology of the emergence of this factor is related to the Constitution of the People's Republic of China<sup>1</sup>, adopted at the Fifth Session of the Fifth National People's Congress on 4 December 1982, which provides that the State Council and government agencies establish audit departments to audit and supervise the financial revenues and expenditures of government departments at all levels, financial institutions of the state, and enterprises and institutions, which opened a new chapter in the development of auditing in China. The establishment of the National Audit Office of the People's Republic of China on 15 September 1983 marked the formal establishment of China's auditing system. The Ministry of Finance approved the establishment of Shanghai Accounting Firm, which is also the first accounting firm since the founding of the People's Republic of China [6].

In 1985 the State Council of China promulgated the Interim Provisions on Auditing Work<sup>2</sup>, the enactment and implementation of which laid the foundation

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<sup>1</sup> Constitution of the People's Republic of China: adopted at the Fifth Session of the Fifth National People's Congress and promulgated by the Announcement of the National People's Congress on 4 December 1982; amended in accordance with the Amendment to the Constitution of the People's Republic of China adopted at the First Session of the Seventh National People's Congress on 12 April 1988, the Amendment to the Constitution of the People's Republic of China adopted at the First Session of the Eighth National People's Congress on 29 March 1993, the Amendment to the Constitution of the People's Republic of China adopted at the Second Session of the Ninth National People's Congress on 15 March 1999, the Amendment to the Constitution of the People's Republic of China adopted at the Second Session of the Tenth National People's Congress on 14 March 2004, and the Amendment to the Constitution of the People's Republic of China adopted at the First Session of the Thirteenth National People's Congress on 11 March 2018, [http://english.www.gov.cn/archive/lawsregulations/201911/20/content\\_WS5ed8856ec6d0b3f0e9499913.html](http://english.www.gov.cn/archive/lawsregulations/201911/20/content_WS5ed8856ec6d0b3f0e9499913.html) (accessed: 20.01.2022).

<sup>2</sup> The Interim Provisions on Auditing Work: promulgated by the State Council on 29 August 1985, the Interim Provisions have been repealed since 1 January 1989, [http://www.gd.gov.cn/zwgk/gongbao/1985/10/content/post\\_3354570.html](http://www.gd.gov.cn/zwgk/gongbao/1985/10/content/post_3354570.html) (accessed: 20.01.2022).

for the promulgation of China's auditing law. In October 1986, the Ministry of Finance promulgated the Interim Management Measures for Accounting Firms, and, on 30 November 1988, the Audit Regulations of the People's Republic of China<sup>1</sup> were promulgated. This marked the initial formation of a more complete auditing system in China and the gradual increase in the degree of legalization, institutionalization and standardization of auditing work. The Audit Regulations of the People's Republic of China pointed out that the focus of audit work gradually shifted to finance and key construction projects, and expanded the scope and object of audit to Sino-foreign joint ventures, comprehensively defining the socialist audit system, of which government audit is the main body, and internal audit and social audit are important components. In November 1988, the Ministry of Finance established the Chinese Institute of Certified Public Accountants (CICPA) with reference to international practice, during which the number of registered accounting firms and certified public accountants increased greatly, and by 1991 there were 459 Chinese accounting firms and 6,722 approved certified public accountants, mainly facing the society to carry out various tasks such as audit, verification and consultation, and accepting government commissions to undertake various audit matters and economic authentication work [7, 8, 9].

On 1 January 1994, the official implementation of the Law of the People's Republic of China on Certified Public Accountants<sup>2</sup> and, on 1 January 1995, the implementation of the Law of the People's Republic of China on Auditing<sup>3</sup> marked that auditing in China really stepped into the legalized track. It is an important milestone in the history of modern Chinese auditing. The specific functions, rights, objectives, auditing standards and auditing procedures of auditing institutions and their auditors were formally established. The talent selection system for the auditing profession was established as well: certified public accountants (CPAs) are required to pass a nationwide unified examination system, which guarantees the healthy development of the auditing service market and provides a legal basis for the conduct of auditing activities. The promulgation of

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<sup>1</sup> The Audit Regulations of the People's Republic of China: promulgated by State Council Decree No. 21 on 30 November 1988, [http://dfz.shaanxi.gov.cn/sqzlk/xbsxs/szdy/sjz/201610/t20161024\\_691719.html](http://dfz.shaanxi.gov.cn/sqzlk/xbsxs/szdy/sjz/201610/t20161024_691719.html) (accessed: 20.01.2022).

<sup>2</sup> Law of the People's Republic of China on Certified Public Accountants: adopted at the Fourth Meeting of the Standing Committee of the Eighth National People's Congress on 31 October 1993, promulgated by Order No. 13 of the President of the People's Republic of China on 31 October 1993, and effective as of 1 January 1994., <http://english.mofcom.gov.cn/aarticle/lawsdata/chineselaw/200211/20021100053439.html> (accessed: 20.01.2022).

<sup>3</sup> Audit Law of the People's Republic of China: adopted at the 9th Meeting of the Standing Committee of the Eighth National People's Congress on 31 August 1994, first amended in accordance with the Decision on Amending the Audit Law of the People's Republic of China of the Twentieth Session of the Standing Committee of the Tenth National People's Congress on 28 February 2006, second amended in accordance with the Decision on Amending the Audit Law of the People's Republic of China of the Thirty-First Session of the Standing Committee of the Thirteenth National People's Congress on 23 October 2021, <https://www.audit.gov.cn/n10018889/n10137162/n10137201/c10191187/content.html> (accessed: 20.01.2022).

the Audit Law stipulated the main content of audit activities, which is divided into the following areas:

- audit of government funds;
- financial audit;
- state-owned enterprise audit;
- audit of social security funds and donated funds.

In Russia, the emergence of this factor was noted by the adoption of the Decree of the Council of Ministers of the USSR, which was established in 1987 on the basis of the resolution of the Cabinet of Ministers of the USSR; it was the first audit firm in modern Russian history and was a sort of a national policy corporation solely engaged in the mandated audit of foreign joint venture companies [5, 10].

Decree of the President of Russia No. 2263 dated 22 December 1993 introduced the provisional regulations of audit in the Russian Federation<sup>1</sup>. It was the first legislative document regulating auditing activity in Russia, the adoption of the provisional regulations of audit has positively contributed to the strengthening of auditing supervision, increasing the authority of auditing, providing a legal basis for the certification of auditors and the conduct of auditing activities, dividing the certification of auditors or auditing firms into four types: general auditing, bank auditing, insurance auditing, and auditing of securities transactions [11].

The Federal Law on Auditing Activity<sup>2</sup>, adopted by the Duma of the Russian Federation on 7 August 2001, establishes the legal status of auditing in Russia and guarantees the effectiveness and implementation of audit activity. 23,600 licenses were issued by the Central Commission on Licensing of Accredited Auditors of the Ministry of Finance of Russia in 1994–2001, including 14,700 audit firms and 8,900 auditors. At the same time, 36,500 professional skills certificates were issued for auditors during this period, and their valid number amounted to 24,900 [12].

The new Federal Law on Auditing Activity<sup>3</sup> of 30 December 2008 stipulates that auditors must be accredited by professional organizations to work in open joint-stock companies, finance companies, insurance companies, etc. As of today, the industry self-regulatory organizations in Russia are the Association of Auditors and the Russian Union of Auditors, while in the newly drafted Audit

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<sup>1</sup> The provisional regulations of audit in the Russian Federation: The Decree of the President of Russia No. 2263 dated 22 December 1993, as amended by Decree of the President of the Russian Federation No. 1360 of 26 November 2001, <https://normativ.kontur.ru/document?moduleId=1&documentId=60706&#h137> (accessed: 20.01.2022).

<sup>2</sup> The Federal Law on Auditing Activity: adopted by the State Duma on 13 July 2001, as amended by Federal Laws No. 164-FZ of 14 December 2001, No. 196-FZ of 30 December 2001, No. 219-FZ of 30 December 2004, No. 19-FZ of 02 February 2006, No. 19-FZ of 03 November 2006, No. 183-FZ of 30 December 2008, No. 307-FZ, [https://www.consultant.ru/document/cons\\_doc\\_LAW\\_32838/](https://www.consultant.ru/document/cons_doc_LAW_32838/) (accessed: 20.01.2022).

<sup>3</sup> The new Federal Law on Auditing Activity: No. 307-FZ adopted by the State Duma on 30 December 2008, as amended by Federal Laws on 30 December 2021 and supplemented on 1 January 2022, <https://legalacts.ru/doc/federalnyi-zakon-ot-30122008-n-307-fz-ob/> (accessed: 20.01.2022).

Law of 2021, the Central Bank of Russia, together with the Ministry of Finance, becomes the regulatory body for audit activities.

In comparison with Russia, there are differences in the background of the development of the Audit Law of the People's Republic of China and the Law of the Russian Federation on Auditing Activity. The Audit Law of the PRC was developed on the basis of the restoration and reconstruction of the audit market in China, while the Federal Law on Audit Activity of the Russian Federation was created along with the changes in the country's political system and economic system, but both are designed to regulate and protect the conduct of audits. In terms of content, the Law of the Russian Federation on Auditing Activity is more detailed and covers a wider range of issues, specifying the position, rights and obligations of auditors and audit firms, as well as defining the rights and obligations of audited entities, and the scope of performing mandatory audits. The PRC Audit Law, on the other hand, is formulated more around auditors. Besides, the quality of work of audit firms and auditors is also clearly defined in the Law of the Russian Federation on Auditing Activity, which is worth studying in China.

By comparing the degree of improvement of audit laws and regulations in China and Russia, the continuous improvement of audit laws and regulations in both countries provides guarantees for auditing work, while increasing the requirements for auditors' professionalism and quality control of audit activities, which also has a great impact on the market of audit services in China and Russia. On the other hand, stricter and more specific rules and legislation help to create a healthy environment for the development of the audit market.

#### ***4.2. Improvements in the standardization practice of audit activity***

The auditing standards system in China includes basic auditing standards, specific standards, practice bulletins, and practice regulation guidelines. Since 1994, the CICPA has been formulating Auditing Standards for Chinese Certified Public Accountants. During 1995–1998, 6 independent auditing standards, 28 specific standards, 10 practice bulletins, and 5 practice guidelines were formulated, totaling 48 items<sup>1</sup>. At the same time, in order to adapt to the needs of market development, the Ministry of Finance issued 39 accounting standards for enterprises and 48 auditing standards for certified public accountants on 15 February 2006, which marked the formal establishment of an auditing standard system adapted to the development of the Chinese market economy and reflected the requirement of convergence with international auditing standards<sup>2</sup>. In order to

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<sup>1</sup> Notice on the issued First Batch of Independent Auditing Standards for Chinese Certified Public Accountants: effective as of 1 January 1996, [https://czj.sh.gov.cn/zys\\_8908/zcfg\\_8983/zcfb\\_8985/hj\\_9035/cwhjjbdgf/20030326/0017-157693.html](https://czj.sh.gov.cn/zys_8908/zcfg_8983/zcfb_8985/hj_9035/cwhjjbdgf/20030326/0017-157693.html) (accessed: 22.01.2022).

<sup>2</sup> Auditing Standards Certified Public Accountants of China: on 15 February 2006, the Chinese Institute of Certified Public Accountants issued the auditing standards for Chinese certified public accountants and revised them on 1 November 2010, 23 December 2016, 20 February 2019, 7 May 2021, and 5 January 2022, respectively, [https://www.cicpa.org.cn/ztzl1/Professional\\_standards/xxztx/zyzz/sjzz/index.html](https://www.cicpa.org.cn/ztzl1/Professional_standards/xxztx/zyzz/sjzz/index.html) (accessed: 22.01.2022).



achieve the demand for high quality accounting information for the reform and development of the capital market and to maintain the continuous and comprehensive convergence between Chinese auditing standards and international standards, the CICPA revised 38 Chinese auditing standards and application guidelines for CPAs in 2010. The revised auditing standards were officially issued by the Ministry of Finance in November 2010. The continuous improvement of the auditing standard system has strengthened the auditors' practice responsibilities and refined the guidance for auditors to reveal and prevent market risks.

The advancement of Russian auditing standards has been divided into three stages. The first generation of auditing standards, called Russian Standards, was approved by the Presidential Commission on Audit Activities of the Russian Federation and was issued between 1995–2001 with 39 standards, the content of which was more in line with systemic auditing. With the recovery of the Russian economy, this background required the development of a set of high-quality auditing standards; therefore, the second generation of Russian auditing standards was completed between 2002–2008, and the Federal Rules (Standards) of Auditing Activities (PSAD)<sup>1</sup> gradually replaced the Russian Standards with a total of 34 rules, which were developed on the basis of the analysis of international auditing standards and, in essence, completed the transition from systemic auditing to risk-oriented auditing. The third generation of auditing standards was developed and adopted by the Ministry of Finance of the Russian Federation in the period from 2010 to 2011, when 11 auditing standards were developed [5]. In terms of content, these standards completed convergence with international auditing.

From the perspective of continuous improvement of auditing standards in China and Russia, the auditing standards in both countries have high authority and strong binding force because the development of auditing standards in both countries is led by government departments. This is a major difference from the United States. The U.S. auditing standards are set by the American Institute of Certified Public Accountants and are less dependent on law and government [13]. In addition to this, Chinese auditing standards have a strong hierarchy and are more rigorous in their structural design. Russia, on the other hand, internationalizes its auditing standards while taking full account of the localization of the standards so that Russian auditing standards cover a wider range of topics and are more detailed.

In conclusion, the improved auditing standards in Russia and China are related to all factors of audit development. The improvement of standards has had a profound impact on audit reports, the principle of independence and the audit market.

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<sup>1</sup> Federal Rules (Standards) of Auditing Activities (PSAD): Decree of the Government of the Russian Federation No. 696 of 23 September 2002 (as amended on 22 December 2011), On Approval of Federal Rules (Standards) of Auditing, [https://www.consultant.ru/document/cons\\_doc\\_LAW\\_38848/](https://www.consultant.ru/document/cons_doc_LAW_38848/) (accessed: 22.01.2022).

### ***4.3. Change in audit technique approach***

Auditing arises from the separation between the asset owner and the asset operator and changes with the change of economic relations. With the changes in the audit environment and audit objects, audit techniques and methods have evolved [14–17]. With the transformation of Chinese planned economy to market economy and the continuous emergence of joint stock companies, the application of early auditing techniques in China was more on account basis auditing and system basis auditing techniques, which improved audit efficiency and ensured audit quality by conducting detailed audits of corporate finances and reviewing various aspects of internal control. However, with the rapid development of enterprises, this also has certain audit risks. On 15 February 2006, the Ministry of Finance promulgated auditing practice standards, marking the beginning of China's adoption of a modern risk-based audit model, with a risk-based benchmark, improved audit efficiency, reduced audit winds, and improved audit quality [18].

In Russia, changes in audit techniques have evolved along with changes in the audit environment. From the initial detailed auditing, it evolved to a risk-based approach in the 1990s. With the introduction of relevant laws and regulations industry standards, audit techniques have also progressed [19].

The development of auditing techniques provides a solid basis for auditors to express their audit opinions fairly and provides reasonable assurance that auditors will perform their duties and reduce risks. However, since risk-based auditing has been developing in Russia and China for a relatively short period of time, from the current point of view, large accounting firms in Russia and China use modern risk-based auditing, while small and medium-sized accounting firms use traditional auditing techniques more often. Since most of the clients of small and medium-sized firms do not have very sound internal controls and the overall statements and project balances are more risky, direct use of substantive testing is more effective in saving costs than testing after conducting risk assessment analysis.

### ***4.4. Evolution of the principle of independence***

Before the 1990s, there were relatively few studies on the independence of auditors in China, and the principle of independence was not observed or attended to in practice. The principle was proposed on 6 June 1999 by Li Jinghua, director of the Audit Office of the People's Republic of China, on behalf of the State Council. The audit failure of certified public accountants in the Yin Guang Xia incident in 2002 illustrates that the good functioning of the market economy relies heavily on audit independence [20]. This also brought audit independence back into the spotlight. On 14 October 2009, the CICPA promulgated the Code of Ethics for Chinese Certified Public Accountants No. 4 – Requirements for Independence in Audit and Review Engagements (fully revised on 17 December 2020), which includes the responsibilities of accounting firms and certified pub-

lic accountants in audit and review engagements and defines in detail the concept of auditors' independence in substance and form [21].

In Russia, the normative document on the principle of audit independence was introduced in 1993, while the real compliance and practice took place in 2005–2008, and in 2012 the Rules on the Independence of Auditors and Audit Organizations were developed, which positioned the concept of auditor independence in detail [22].

It can be seen that Russia paid attention to the independence of auditors earlier and introduced relevant normative documents. Since Russian auditing is of judicial type and Chinese auditing is of administrative type, it is obvious that audit independence is stronger in Russia than in China. As for the concept of the principle of audit independence, it is largely the same in China as in Russia. Independence is the basis of the auditor's existence, and it is gradually strengthened with the development of the audit market.

#### ***4.5. Introduction of ethical standards and codes of professional conduct for auditors***

On October 14, 2009, the CICPA issued the Code of Ethics for Chinese Certified Public Accountants and the Code of Ethics for Non-practicing Members of the CICPA (fully revised on December 17, 2020), which include the basic principles of professional ethics, the framework for professional ethics, the specific requirements for the provision of professional services and the requirements for audit independence.

In Russia, the first Code of Ethics for the Auditing Profession was developed and adopted by the Russian Association of Auditors in 2003 (amended in 2007), and in 2008 a new Law on Auditing introduced the norms for the mandatory implementation of the Code of Ethics for Auditors. Currently in use is a new version of the Code of Ethics for Auditors (effective as of 2012), which includes the basic principles of professional ethics, the conceptual approach to their observance and their application in specific situations.

Both Russia and China have become more international in the development of ethical standards for the auditing profession, which contain the basic principles of professional ethics, relevant concepts and some specific requirements for professional services. The more the Code of Ethics for the Audit Profession is popularized, the more the audit market is regulated for development.

#### ***4.6. Integration of auditing standards into the international system***

Since 2005, the CICPA has been actively revising Chinese accounting standards and auditing standards in order to maintain consistency with IFRSs and International Standards on Auditing (ISAs) as far as possible, and implemented them on January 1, 2007. During this period, mainland China and Hong Kong signed the Joint Statement on Equivalence of Accounting and Auditing Standards, which achieved the equivalence of accounting and auditing standards for enterprises in mainland China with Hong Kong Financial Reporting Standards

and Auditing Standards, respectively. This marked the convergence of accounting and auditing standards promulgated in mainland China in 2006 with international standards equivalents. Starting from 2009, considering some new issues faced in the audit practice in China that needed to be solved, as well as the results of the clarification project on the absorption of international auditing standards, the Chinese Institute of Certified Public Accountants initiated the revision of Chinese auditing standards, issued by the Ministry of Finance in November 2010, with more emphasis on risk identification and response, and a broader scope of application, achieving a continuous and comprehensive convergence with international auditing standards [23].

In Russia, the development of auditing standards began in 1995, and, between 2001 and 2006, Russia drew on well-established international auditing standards and issued the first Auditing Standards with the participation of the International Center for Financial Accounting System Reform, but the direct adoption of the ISAs in translation was not successful due to the complexity of direct translation from English to Russian. As a result, the final auditing standard was developed as a statement of international standards close to the Russian language and the customary Russian way. In contrast, since 2016, Russia has been using ISAs for audit activities, which increases the possibility of audit application in practice, promotes the international development of the Russian audit market, and has a positive impact on maintaining the order of the Russian capitalist market and advancing the international harmonization of Russian auditing standards [24].

The study shows that both Russia and China are actively promoting the internationalization of accounting and auditing standards, which provides more possibilities for the development of the auditing market and promotes the development of the auditor profession.

#### ***4.7. Changes in the forms of audit reports***

In 2006, the CICPA formulated the Auditing Standard No. 1501 – Audit Report (revised on 5 January 2022), which classifies audit reports into four types: unqualified opinion, qualified opinion, adverse opinion and audit report with no opinion. The amended auditing standards classify audit reports into standard and non-standard ones. A standard audit report is an unqualified audit report without additional explanatory paragraphs, emphasis of matter paragraphs or any qualifying terms; a non-standard audit report includes an unqualified audit report with emphasis of matter paragraphs and a non-unqualified audit report. Such a division strictly limits the scope of the standard audit report and more standardizes the expression of the audit opinion.

In Russia, there are standards on audit reports, which were prepared in 1996 on the basis of International Standards on Auditing and are divided into four types, as in the early days in China: unqualified, qualified, adverse, and unavailable audit reports. 2016 saw the introduction of ISAs and a new format for audit reports in Russia – unqualified critical audit matters, which better reflects the

value of audit reports, improves the usefulness of financial information and increases transparency for users of information [5].

With the continuous development of the audit market, the types of audit reports are also being improved, the content of audit reports has been more adjusted, the requirements for auditors have been further improved, and, at the same time, the convenience for information users has been brought.

#### ***4.8. Situation of the audit market***

With the establishment of the Chinese CPA audit system, the development of the audit market has also been continuously improved. In the past 20 years, the main body of the audit market in China has changed from direct government participation before decoupling and restructuring to indirect government participation after decoupling and restructuring, and then to indirect government intervention after joining the WTO. In the early stage of audit market development (1986–1993), the number of auditors in China reached 15,000 and the number of audit organizations reached 2,500, while with the establishment of the audit system in China and the continuous standardization of the audit market (1993–2005), the number of auditors increased from 15,000 to 69,000, the number of audit organizations increased from 2,500 to 4,627, and the revenue of audit organizations reached 13 billion yuan.

In comparison with China, in the development of the Russian audit market as of 2005, the number of audit organizations conducting audit activities increased from the initial 800–900 to 4,700, and the revenue of audit organizations reached 28.9 billion rubles (equivalent to 8.25 billion yuan at the exchange rate of that year). It is obvious that as of 2005 the development of the audit market in Russia and China achieved an unprecedented development, and the audit market had a promising development and a large growth.

Statistical observations related to the audit market in Russia and China began in 2006, so this article uses data related to the development of the audit market in Russia and China for the period 2006–2020 and selects core quantitative indicators of audit market development, including the revenue of audit organizations, the number of audit organizations, and the number of auditors, to conduct an in-depth comparative analysis of the development of the concentration of the audit market in Russia and China and the progressive evolution of the types of market structures in the future.

##### ***4.8.1. Number of audit organizations***

In terms of the number of audit organizations, by the end of 2020, there were 9,800 Chinese CPA firms and the number of Russian audit organizations reached 4,200. Compared to 2006, the number of audit organizations in China has increased by 5,173, while the number of audit organizations in Russia has decreased by 1,900 (Figure 2).



Fig. 2. Changes in the number of audit organizations in China and Russia from 2006 to 2020  
 Based on: The Chinese Institute of Certified Public Accountants, <https://www.cicpa.org.cn/ztzl1/swszhpm/> (accessed: 30.01.2022);  
 Ministry of Finance of the Russian Federation, <https://minfin.gov.ru/en/key/accounting/> (accessed: 16.02.2022)

As can be seen in Figure 2, the number of audit organizations in China shows a significant growth trend from 2006 to 2020, which is closely related to the Ministry of Finance, the Administration for Industry and Commerce and other departments promoting the conversion of large and medium-sized accounting firms to special general partnerships and guiding small firms to give preference to the general partnership form of organization. The number of CPA firms in China has risen significantly due to the unlimited joint and several liability of partnership firms for the quality of practice.

The development of Russia in the period 2006–2011 is characterized by a small increase in the number of audit organizations, while in the period 2012–2020 there is a significant decreasing trend in the number of audit organizations, which is due to the shrinking of the Russian audit market with the enactment of the new audit act, which makes the Bank of Russia the regulator of the audit market, and a sharp decline in the number of small audit organizations as the number of mandatory audit organizations decreases.

#### 4.8.2. Audit organization revenue

With the continuous development of CPA firms, audit revenue is also growing rapidly. From the relevant data (Figure 3), China’s national CPA firm business revenue was only 31 billion yuan in 2008, increasing to 79.3 billion yuan in 2018 and breaking the 100 billion yuan mark to 110.8 billion yuan in 2020. Figure 3 shows that the revenue of audit organizations in China climbed year by year since 2006, which is due to the decoupling and restructuring of Chinese

CPA firms, the continuous improvement of the audit market system, the rapid development of the market economy, and the impact of the digital economy, thus promoting the rapid development of the audit market and the expansion of the scale of audit organization business revenue.



Fig. 3. Changes in the revenue of audit organizations in China and Russia from 2006 to 2020 (billion yuan).

Based on: The Chinese Institute of Certified Public Accountants, <https://www.cicpa.org.cn/ztzl1/swszhpm/> (accessed: 16.02.2022);

Ministry of Finance of the Russian Federation, <https://minfin.gov.ru/en/key/accounting/> (accessed: 16.02.2022)

Compared to the business revenue of China’s audit organizations, Russia’s business revenue remained largely stable and unchanged from 2006–2014, and since 2014, as Russia experienced the financial crisis, it also affected the development rate of the audit field and its size. Figure 3 shows a small decline in audit organization revenue from 2014–2020, from 8.6 billion yuan in 2014 to 5.7 billion in 2020. However, in the overall view of the two countries, the gap between the revenues of audit organizations of the two countries is growing, with China’s business revenues reaching 19 times those of Russia in 2020.

#### 4.8.3. Distribution of the number of auditors

By the end of 2020, the number of CPAs in the audit profession in China reached 286 thousand. The data shows (Figure 4) that from 2006 to 2020, the number of CPAs increased by about 216 thousand, all in a growing trend. The change in the number of auditors in Russia is divided into two phases, from 2006 to 2009, the number of auditors grew rapidly, and from 2009 to 2020, the growth rate of the number of auditors slowed down and was characterized by a sharp decrease due to audit self-regulation and the introduction of the new unified qualification.

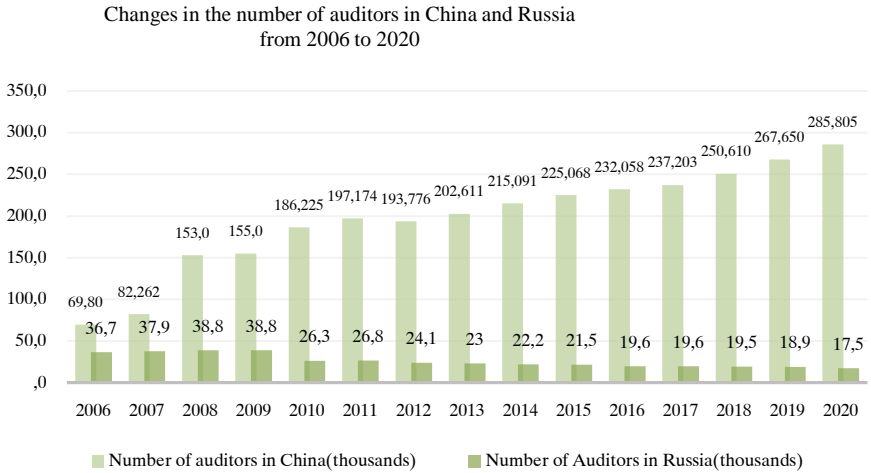


Fig. 4. Changes in the number of auditors in China and Russia from 2006 to 2020  
Based on: The Chinese Institute of Certified Public Accountants, <https://www.cicpa.org.cn/ztzl1/swszhpm/> (accessed: 16.02.2022); Ministry of Finance of the Russian Federation, <https://minfin.gov.ru/en/key/accounting/> (accessed: 16.02.2022)

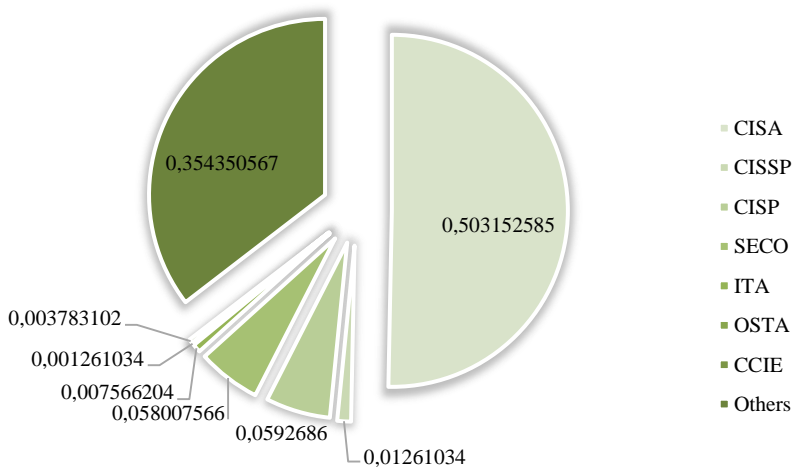


Fig. 5. Proportion of IT professionals in China’s top 100 audit organizations in 2022  
Based on: The Chinese Institute of Certified Public Accountants, <https://www.cicpa.org.cn/ztzl1/swszhpm/> (accessed: 16.02.2022)

In terms of the number of IT professionals (Figure 5), the top 100 audit organizations in China in 2020 have a total of 793 IT professionals. These include: 399 information system auditors (CISA) (50.32%), 10 certified information sys-



tem security professionals (CISSP), 47 China information security professionals (CISP), 46 software engineering cost engineers, 6 IT auditors (ITA), 1 OSTA senior software engineer, 3 Cisco network experts (CCIE), and 281 persons obtained other related information system technology certifications. With the continuous development of digital economy auditing, the demand for the number of related IT professionals is also rising, which has higher requirements for the professionalism and professional ability of auditors, and is a new challenge for auditors.

#### 4.8.4. Information about the “Big Four” CPA firms

The presence of the “Big Four” CPA firms in China has greatly contributed to the development of local CPA firms. Since the completion of the conversion of the “Big Four” accounting firms from limited liability companies to special general partnerships in 2012, international CPA firms and major domestic CPA firms have begun to compete on a level playing field. However, the market share of the “Big Four” CPA firms in China is much higher than that of the non-Big Four CPA firms. Therefore, this article selects the audit market concentration index to study the current situation of the international “Big Four” in the audit market in China and Russia.

Concentration ratio is the sum of the market shares of the top  $n$  largest firms in the relevant market of an industry, and is a measure of the degree of concentration of the market structure of the industry as a whole [25]. Its calculation formula is as follows:

$$CR_n = \frac{\sum_{i=1}^n X_i}{\sum_{i=1}^N X_i} \quad (1)$$

In Equation 1,  $CR_n$  represents the audit industry concentration index, which is the sum of the market shares of the top  $n$  audit organizations in the industry;  $X_i$  represents the audit revenue and number of auditors of the  $i$ -th audit organization; and  $N$  represents the total number of audit organizations in the industry [26].

This article measures the market concentration of the top four audit organizations in the audit market, mainly based on the industry revenue of audit organizations and the number of auditors, in order to reflect the degree of competition in the audit market (Table 2).

**Table 2. 2006–2020 China–Russia Audit Market Concentration Index Statistics**

Years	Audit Organization Revenue in China CR4	Audit Organization Revenue in Russia CR4	Number of auditors in China CR4	Number of auditors in Russia CR4
2006	-	22.9%	1.9%	1.3%
2007	-	24.4%	2.3%	1.4%
2008	29.1%	31.2%	3.0%	1.5%
2009	32.8%	27.0%	2.8%	1.9%
2010	24.3%	10.1%	3.2%	2.2%

Years	Audit Organization Revenue in China CR4	Audit Organization Revenue in Russia CR4	Number of auditors in China CR4	Number of auditors in Russia CR4
2011	21.6%	34.3%	3.6%	2.8%
2012	19.8%	42.6%	2.9%	2.5%
2013	19.7%	46.7%	4.5%	2.5%
2014	19.6%	46.9%	6.0%	2.7%
2015	18.5%	47.2%	5.1%	2.8%
2016	21.4%	45.7%	6.2%	3.3%
2017	22.8%	44.6%	5.1%	4.0%
2018	21.7%	46.9%	5.1%	4.6%
2019	19.9%	44.0%	4.5%	5.0%
2020	19.1%	45.1%	1.8%	5.3%

Based on: The Chinese Institute of Certified Public Accountants, <https://www.cicpa.org.cn/ztzl/swszhp/> (accessed: 23.02.2022); Ministry of Finance of the Russian Federation, <https://minfin.gov.ru/en/key/accounting/> (accessed: 23.02.2022).

From Table 2, it is clear that the concentration of Chinese audit market is increasing year by year in terms of the number of auditors. but the concentration of Chinese audit market (CR4) is decreasing in terms of the revenue of audit organizations. For a long time, the international “Big Four” have been in the top four positions of Chinese audit organizations, but, in terms of audit revenue, China’s local audit firms have an absolute advantage. This also reflects the effectiveness of China’s strategy of consolidating audit firms, the optimization of the audit market structure, the rapid development of Chinese local firms, and the steady increase in market share, and the further narrowing of the revenue gap between local firms and the international “Big Four”.

In contrast, since 2006, the concentration of the Russian audit market has been increasing, both in terms of the revenue of audit organizations and the number of auditors, with the international “Big Four” occupying the majority of the Russian audit market, which to some extent indicates the existence of structural barriers for large and medium-sized audit organizations in the Russian audit market.

#### ***4.9. Development of types of audit activity***

With the development of audit practice, the scope of audit organizations’ business is increasing, and non-audit business mainly includes consulting, taxation, and accounting outsourcing services. In Russia, the share of non-audit revenue in total audit revenue was 35% in 2005, and, as of 2018, the share of non-audit revenue was 44–52%, which shows that the main revenue of Russian audit organizations now comes from the provision of consulting, accounting services, etc., which, on the one hand, also indicates that the monopoly of the audit market is also gradually increasing. In China, the share of non-audit revenue in total

industry revenue has been slowly declining year on year since 2006, with non-audit revenue accounting for 27% in 2011 and 15% by 2020, a 12% decline compared to 2011 (Figure 6). This also indicates that the development of non-audit services in China is relatively lagging behind and that the overall share is low.

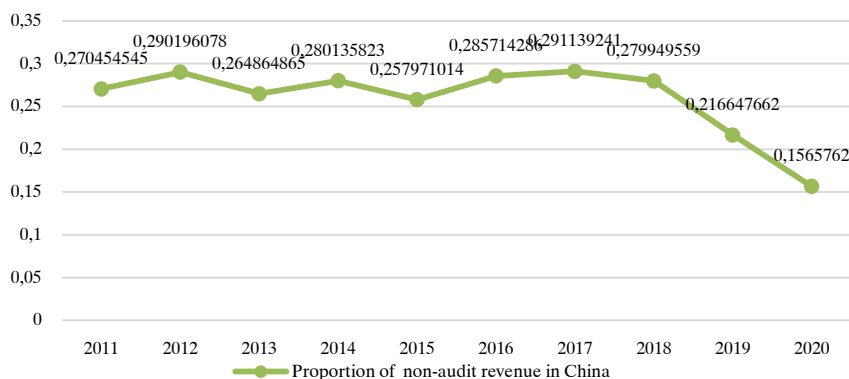


Fig. 6. Proportion of non-audit revenue in China from 2011 to 2020  
 Based on: The Chinese Institute of Certified Public Accountants,  
<https://www.cicpa.org.cn/ztzl1/swszhpm/> (accessed: 23.02.2022).

#### 4.10. Evolution of the academic coverage of audit theory and practice

Since the resumption of the auditing system in China, experts and scholars have focused on learning and introducing advanced foreign experience and devoted themselves to research on the development of auditing theory.

These include the works “Research on the Basic Theory of Auditing” (1988) and “Research on the Technical Methods of Auditing” (1988) published by the Audit Research Institute of the Audit Office of the PRC, “Research on the Structure of Audit Theory” (2001) by Cai Chun, “Principles of Modern Auditing” (1999) by Kang Zhongqi, And other works, as well as “The Philosophy of Auditing” translated by Wenshuo (Motz, R.K. & Sharaff, H.A., 1990), Liu Xiaolun and Chen Guanting translated “Montgomery Auditing” (Defliese, P., Jaenicke, H., O’Reilly, V. & Hirsch, M., 1997), and other translations of auditing works have laid a solid foundation for the development of socialist auditing theory and practice with Chinese characteristics.

In 2003, under the promotion of the Chinese Institute of Certified Public Accountants, Professor Xie Rong’s “Risk-Oriented Auditing Technology and Method” initiated the systematic research on China’s modern risk-oriented auditing. In February 2004, Chen Yugui’s “The Origin and Development of Risk-Oriented Auditing Methods” opened the prelude to the comprehensive attention of the domestic theoretical circles to modern risk-oriented auditing [27, 28]. During this period, information about audit research shows that experts and scholars mostly focus on research on audit content, audit techniques and meth-

ods, audit evidence, audit procedures, etc. With the progress of information technology, more experts and scholars nowadays do the research of big data auditing and artificial intelligence auditing, which provides a solid theoretical basis for the modern development of auditing.

In addition, nowadays more higher education institutions in China are offering CPA, ACCA and other specialized training courses, which improve the quality of auditors and provide guarantee for the development of auditing in China.

### 5. Conclusions and recommendations

This article has systematically studied the current state of development of the Chinese audit market and other issues by applying a hypothetical approach, and the research proves that these same criteria proposed by Professor Guzov regarding audit staging can be used to analyze the historical stages of audit development in China. Since the reform and opening up of China, the addition of the considered chronological order of factors presents the history of audit development in China divided into the following time periods.

Period 1: 1979–1986, “wild” development (origination of China audit);

Period 2: 1986–1993, normative development of audit in China;

Period 3: 1993–2005, institutional innovation of auditing;

Period 4: 2006 until currently, international development of auditing.

In addition to this, the article reveals the current differentiated development of the Chinese audit market from the Russian audit market through a comparative analysis of the development history of the audit market in China and Russia.

**Table 3. Logframe matrix for monitoring factors affecting the development of audit in China within the distinct time periods (yes, available influence; no, absence of influence)**

Impact factors	1979–1986	1986–1993	1993–2005	2006–until currently
1A	yes	yes	yes	yes
2A	no	no	yes	yes
3P	no	yes	yes	yes
4P	no	no	yes	yes
5A	no	no	no	yes
6A	no	no	no	yes
7P	no	no	no	yes
8P	no	yes	yes	yes
9P	no	yes	yes	yes
10A	no	yes	yes	yes

Source: developed by the author.

At the level of audit laws and regulations, with the continuous improvement of audit laws and regulations in both countries, the continuous improvement of audit standards provides guarantees for auditing, increased requirements for the professionalism of auditors, as well as quality control of audit activities, which

provides for the healthy development of the audit market. Compared to China, where the Law of the People's Republic of China on Auditing is formulated more around auditors, the Law of the Russian Federation on Auditing Activity clarifies the positioning, rights and obligations of auditors and audit firms, as well as defines the rights and obligations of audited entities and the scope of performing mandatory audits. In particular, the quality of work of audit firms and auditors is also clearly defined, which provides a reference for the standardized development of the Chinese audit market. At the same time, China and Russia actively promote the internationalization of accounting and auditing standards, as well as the popularization of the Code of Ethics for Auditors, which provides the basis for the standardization of the auditing market, improves the possibility of applying auditing in practice, promotes the development of the auditor profession, and has a positive impact on the international harmonization of auditing standards in China and Russia.

At the level of audit techniques development, innovations in audit techniques provide a solid basis for auditors to fairly express their audit opinions and provide reasonable assurance that auditors will perform their duties and reduce risks. However, from the current point of view, large audit organizations in Russia and China use modern risk-oriented auditing, while small and medium-sized accounting firms use traditional audit techniques more often.

In addition, there are differences between the Russian and Chinese audit markets in 2006–2020 in terms of the number of audit organizations, audit revenue, the number of auditors, the status of international “Big Four” firms, and non-audit activities. In China, the number of audit organizations, audit revenue and the number of auditors have been increasing year by year due to the decoupling and restructuring of Chinese CPA firms, the continuous improvement of the audit market system and the internationalization, which have contributed to the stable development of the audit market. The increase in the market share of local Chinese firms has further narrowed the revenue gap between local firms and the international “Big Four”. However, the share of non-audit revenue in the total industry revenue in China is slowly decreasing year by year, which indicates that the development of non-audit services in China is relatively lagging behind. With the development of the digital economy, the audit market is facing serious challenges and the demand for IT professionals has further increased.

In Russia, the number of audit organizations, audit revenue, and the number of auditors showed a slight overall growth from 2006 to 2014, but, since 2014, there has been a decreasing trend due to the financial crisis in Russia, which also affected the development rate and scale of the audit market. The fact that the international “Big Four” hold the majority of the market share in the Russian audit market is partly an indication of the structural barriers to large and medium-sized audit organizations in the Russian audit market. The increase in the share of non-audit revenue also indicates the trend of increasing monopoly in the Russian audit market.

Therefore, in order to maintain the trend of stable development in the Chinese audit market in the future, audit organizations and auditors must (1) strictly

adhere to the bottom line of professional ethics, improve the governance structure of firms, vigorously promote digital transformation, improve the service quality of small and medium-sized accounting firms in China, enhance the brand building of firms based on localization, and increase the audit market share; (2) strengthen the audit team, improve the professionalism of auditors, and actively and effectively improve the development environment of the audit profession; (3) further strengthen and improve industry supervision through more timely and stronger regulatory inspections, provide timely risk alerts to firms, strengthen international exchanges and cooperation, and enhance the visibility of accounting firms, thereby strengthening international competitiveness.

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