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The construction of auditability: MBA rankings and assurance in practice ☆

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Abstract

For much of the past decade, the audit profession has been enjoined to enter new and novel fields of assurance services. This call implies the importation of constructs from traditional attest financial audits into new domains to provide elevated levels of assurance for information-users and decision-makers. Little is presently known about the process by which audit scope, practices and communications about the work done are developed in these new fields. This paper attempts to shed light on these issues through an in-depth field study of KPMG's "audit" of the *Financial Times* MBA rankings. The audit project is argued to import legitimacy to data provided by International Business Schools as well as imbue a derived legitimacy to the *Financial Times* rankings. At an operational level, audit planning, procedures and communicated written conclusions emerge as a much more negotiated and adaptive practice than rhetoric might suggest.

Introduction

In the past 25 years in much of the English speaking world, the label of "audit" has come to be used with growing frequency to describe a wide range of practices. Especially in the pre-Enron era, assurance services have been widely heralded as a remedy to stagnating audit fees and as the future of the public accounting firms (Elliott, 1995), enabling the penetration of the concepts and terminology of traditional attest auditing into arenas outside of financial accounting.[1] Although the competitive environment of public accounting

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[1] In 1996, the AICPA's Elliott Committee identified six areas (risk assessment, business performance measurement, information systems reliability, electronic commerce, healthcare performance measurement and elder care) considered to have high potential for revenue growth for assurance providers (AICPA, 1996; Elliott, 1995).

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firms has been transformed (Griffin & Lont, 2005) in the aftermath to a number of high-profile financial scandals such as those of Enron, Worldcom and Tyco, the public accounting profession retains a crucial role in regulation and supervision systems and continues to extend its influence into diverse domains of organizational and societal life.

Like any practice, auditing is characterised by both programmatic (normative) and technological (operational) elements (Power, 1997). The former elements relate to ideas and concepts which shape the mission of practice and draw on policy objectives existing in the political sphere. At the level of programmes, broad goals are formulated with practices implicitly assumed to be capable of serving these goals. The programmatic level is the level at which audits, for example, are demanded by regulatory agencies, uncertain social constituencies and policy discourse. In contrast, operational elements are the concrete tasks and routines which constitute the world of the practitioner. The operational bedrock of auditing lies in samples, analytical methods and procedures (e.g., Knechel, Salterio, & Ballou, 2007). At the level of operations, practitioners constantly debate the efficiency of different methods and seek to engender cost-efficient solutions to the daunting challenge of providing assurance over matters that can be considered inherently subjective (e.g., Bell, Peecher, & Solomon, 2005; Robson, Humphrey, Khalifa, & Jones, 2007).

Following Power (1997), we argue that there is a loose coupling between the level of programmatic appeal and the level of audit practice.[2] Power (1997) refers to this as "the essential obscurity" of auditing and regards this as a constitutive feature of practices like auditing whose criteria of effectiveness are opaque – and which therefore invest heavily in due process. Indeed, the power of the idea of "audit" – and its ready exportability from the financial audit context – rests on a vagueness about its scope and meaning and its capacity to lend legitimacy to the new context.

There has been little empirical research examining new auditable contexts in practice, especially in the private sector (Cooper & Robson, 2006). Further, there have been even fewer empirical studies of the substance of evolving discretionary assurance services.[3] In a rare field-based contribution, Radcliffe (1998, 1999) has documented the nature of "efficiency" or "value for money" audits in the public sector of one Canadian province, illustrating the way that auditing can become infused with the wider programmatic aims of public sector reform. In a related study, Gendron, Cooper, and Townley (2007) employ actor-network theory to describe and interpret the processes by which state auditors establish themselves as legitimate arbiters of performance in the public sector. Their work provides a rare window on the fragile and negotiated process of network-building that ultimately enabled state auditors to claim a publicly legitimate role in the implementation of new public management. However, in these studies it was uncontested that the state auditor at least nominally had the right to audit hence the research focused on the subject matter to be audited, why those subjects (and not others) were chosen and how the auditor constructed the claims to expertise necessary to support their legitimate involvement.

In a different context, but also using actor-network theory, Gendron and Barrett (2004) examine attempts by North American accounting institutes, in an unstable and uncertain coalition with some of the then Big 5 accounting firms, to cultivate a market in eCommerce assurance through a longitudinal field study. They find that the attempted top down planned expansion of the audit domain, mobilizing an alliance of professional institutes and some of the

[2] This notion of a loose coupling connects with the "expectations gap" – the gap between external auditors' understanding of their role and duties and the expectations of various user groups and the general public (Epstein & Geiger, 1994; McEnroe & Martin, 2001). We argue that the expectations gap is itself as much a resource for the auditing field as it is a problem. A loose coupling between the potential and operational capacity of audits supports a certain ambiguity about the audit process and its meaning, which in turn supports practitioner discretion and buttresses practitioner power.

[3] Assurance services are defined as 'independent professional services that improve the quality of the information or its context for decision makers.' (AICPA, 1996). The 'audit', from the viewpoint of professional accounting institutes, refers to the audit of financial statements whereas the terms 'attest' and 'assurance' refer to broader engagements beyond financial statements (Knechel et al. 2007, pp. 12–13).

large audit firms, reflects a trial and error process that was both fragile and dynamic.

While these studies provide insights into the way audits are constructed in non-traditional contexts, the antecedents and character of the assurance project they identify are unlikely to be at work in our more market-oriented context. Specifically, there is no established 'right to audit' as in the public sector where new accountability regimes are fostered by a new public management approach to government. Our context also does not reflect a top down industry wide planning exercise that attempts to mobilize a broad constituency of leading audit firms to establish a new market space. Hence we are examining the establishment of an "audit" in a novel private sector context where the auditor is engaged by the *Financial Times* to audit the data provided by the business schools that enter into the *Financial Times* (*FT*) MBA rankings. Thus, the first research question is: what are the antecedents and character of an assurance project in a "new" unregulated context (as opposed to the regulated market for financial attest audits and other non-traditional areas examined in the literature)?

A related concern is the way that assurance operations are devised and enacted in practice. In recent years, a concern with the disconnect between management theory and managerial action has given rise to the so-called "practice" approach in the management literature (Ahrens & Chapman, 2005, 2007; Lounsbury, 2007). Recent contributions in this field have considered strategy as an adaptive and recursive practice (Jarzabkowski, 2004), management control as an array of activity delineated through processes of distributed cognitions (Ahrens & Chapman, 2005, 2007) and technology as a duality of structure and agency (Orlikowski, 2000). All of these studies are concerned with the way in which actors interact with the social and physical features of context in everyday behaviours that constitute "practice". In new assurance contexts, the actual practice of determining scope and generating assurance statements remains largely unexplored by researchers in accounting (Cooper & Robson, 2006).

This operations issue invokes the ideas of best practice, efficiency and legitimacy. As Power (1997, p. 11) puts it, "the issue is how technical routines like the sampling of purchase invoices, the circularization of debtors, the assessment of inherent risks and so on actually come to be regarded as constituting 'reasonable' practice". Audits seek to draw general conclusions from a limited examination of the domain under investigation; however, despite the potential to use statistically credible foundations for sampling, economic pressures have led to a drive to obtain assurance from fewer inputs, and hence into evidence types that are not as easily assessed using sampling means (Bell, Marrs, Solomon, & Thomas, 1997; Bell et al., 2005; Curtis & Turley, 2007). To this end, two exploratory qualitative studies by Humphrey and Moizer (1990) and Fischer (1996) suggest that the design of financial attest audit work is resolved *in situ* and that practice is socially constructed. And in a field study of the introduction of the business risk audit, Curtis and Turley (2007) document the difficulties in translating a new concept developed at the administrative level into actual audit techniques at the practitioner level. In a similar vein, the second research question of this paper is: how do auditors and clients negotiate and determine audit scope, testing procedures and communication of work done in non-traditional engagements?

Due to a number of difficulties in conducting field research in the area, field studies of the gap between the explosion of programmatic demands of auditing and the more localized stories of underlying operational capability drawn from the field are rare (Power, 2000). This article addresses calls for researchers to enter the field to examine practice in auditing (Cohen, Krishnamoorthy, & Wright, 2002; Gendron, 2000, 2001, 2002) as well as various other accounting realms (see, for example, Chua, 1995; Hopwood, 1983). It draws on field research relating to the negotiation and implementation of a non-traditional engagement between KPMG and the *FT*. The data for this research were gathered in July 2004 by one of the authors with the aid of a research assistant and with the consent of the client firm (the *FT*). Complete and virtually unfettered access was granted to the working papers dating back to the origins of the engagement in 2001. The two primary engagement team members, Michele Podhy (the partner) and Patrick

Gaudet (the manager), made themselves available for both formal and informal interviews about the events leading up to the engagement and the process of carrying out the engagements over the period from 2001 to 2004.

Our interpretations of the field data are broadly informed by Power's (1997) observations about the relationships between auditing, accountability, and the programmatic aspirations of neo-liberal governments (Foucault, 1991; Miller & Rose, 1990; Rose, 1992). This study makes three principal contributions. First, it provides field evidence of the power of audit as a competitive resource capable of importing legitimacy to entities across a variety of domains. Second, the study elaborates on the notion of the legitimacy produced in the audit process. Through a detailed study of the unique relationships created by the engagement, the notions of affirmatory and derived legitimacy are explicated. Thirdly, the study provides evidence of the negotiated nature of audit-scope determination, testing and reporting done to third parties in new assurance domains, as the entities involved attempt to balance external credibility with the practicalities of cost, time and available information.

The remainder of the paper is structured as follows. The next section presents an overview of current MBA rankings and the growing, primarily critical, literature surrounding published business school rankings. Section 3 discusses the field work methodology and is followed by an overview of the context and content of the "audit" engagement between KPMG and the *FT*. Two aspects of the engagement are then discussed in detail. The first is the character of the assurance project, including the way legitimacy accrues to both the business school community and the *FT*. The second is the negotiated and adaptive nature of audit planning and testing. Section 7 discusses the major findings of the paper and the final section summarizes the major themes of the paper and identifies a number of avenues for future research.

MBA and business school rankings

> [Numerical scoring systems of business schools are] the equivalent of simply giving every woman a rating of 1–10 and saying we do not have to date. Just marry the one with the best score.
> – John Katzman, president of the *Princeton Review*, quoted in Thompson (2000).

Industry monitors, rankings and league tables have mushroomed in the education sector across a variety of locations in the past twenty years. In the realm of business school education alone, there are now dozens of rankings available that assess program quality, research output, corporate social responsibility and environmental orientation[4]; each attempting to signal or influence the perceptions of important external audiences (Mills, Weatherbee, & Colwell, 2006). More broadly, the rapid growth of rankings and league tables as performance measures offers considerable opportunities for audit firms to respond to increasing demands for assurance. Audit services potentially offer a means of differentiating the growing number of rankings providers.[5]

Business school and MBA rankings have been both castigated and stoutly defended, cast variously as introducing "a kind of democracy in the management development industry" (Bickerstaffe & Ridgers, 2007, p. 65) and "biased, bogus and flawed" (Welch, 2002). In September 2004, Harvard Business School and Wharton Business School announced that they would no longer fully cooperate with news media creating such rankings, refusing to release current and former graduate students' contact information to *BusinessWeek* for the magazine's biennial survey of MBA programs (Yee, 2004). According to a Harvard spokesperson, "our interest is not in restricting information, but in improving the usefulness and transparency of that information ... The media have not paid particular attention to the rigour of their

[4] See, for example, http://www.businessresearch.ca/ and http://www.beyondgreypinstripes.org/results/welcome.cfm.

[5] The relatively slow uptake is likely related to short-term resource issues as accounting firms respond to the burgeoning demand for their services in the wake of the Sarbanes-Oxley legislation.

Table 1
Leading MBA/Business School Rankings by date of commencement

Publication	Survey respondents	Geographical coverage	Inaugural ranking
BusinessWeek	Graduates and corporate recruiters	Ranks business schools internationally every two years	1988
US News & World Report	Academics (presidents, provosts, and deans of admission) for the purpose of peer assessment	Ranks graduate schools every year, including Business schools	1990
The Financial Times	Business Schools and Graduates	Ranks international MBA and EMBA programs every year	1999
Forbes Magazine	Graduates only	Biennial ranking based on return on investment, defined as compensation five years after graduation minus tuition and the forgone salary during school.	2000
The Wall Street Journal	Corporate recruiters only	Ranks international MBA programs every year	2001

method or the real needs of students" (Yee, 2004).[6]

Business school rankings rose to prominence in 1988 when the editors of *BusinessWeek* released the magazine's first ever business school rankings. Until that point, rankings had been limited to less systematic lists of "top" business schools compiled by the deans of schools (often based on research reputation), recent MBA graduates (based on schools they had never attended) or CEOs (often based on schools they had never visited). The stated goal of *BusinessWeek*'s ranking was to focus business schools on customer satisfaction as measured by MBA graduates' perceptions of their education quality and the perceptions of recruiters who recruited on those campuses. Since *BusinessWeek* released its ranking in 1988, the number and scope of rankings throughout the world have burgeoned. While these rankings were initially restricted to the United States, rankings are now available for every conceivable corner of the globe. Arguably, the most influential and widely discussed ranking models are the annual *FT* ranking and the biennial ranking produced by *BusinessWeek*.[7] The *FT* ranking is based on two surveys, one sent to business schools eligible for inclusion and a second to recent graduates of the schools involved.[8] An independent count of faculty research at forty primarily academic research journals is also included in the composite scores. Table 1 provides a summary of the major business school rankings currently published.

To date, research relating to MBA and business school rankings has been focused around two key themes. The first relates to the veracity and statistical properties of the rankings. In a study of the rankings provided by the *US News & World Report* and *BusinessWeek*, Dichev (1999) notes that changes in ranking, in both magazines, have strong tendencies to mean revert, meaning that a school that has moved up in the ranking one year is most likely to move down in the next ranking issue and vice versa. He also notes a lack of co-movement between the two ranking lists that would be expected if they measured the same latent construct.

[6] In a statement released online in response to Harvard and Wharton's decision, *Business Week* said its biennial rankings help students make informed decisions by providing "objective", "unfiltered information" about each school. The statement concluded "just as investors today are clamoring for more transparency on the part of the companies, so should students expect a similar degree of openness and cooperation from the very schools that nurture new business leaders".

[7] Downes (2000) employs a regression model (with an R-squared of 0.48) of the *Business Week* rankings in 1996 and 1999 to argue that "changes from one ranking to the next have a tremendous effect on applications – approximately 3% for each place. Cornell's increase of 10 places would be predicted to lead to an increase of 30% and it was actually 35.2%. Darden's decrease of 6 places predicts an 18% decline and it was actually 17.9%. So much for believing that our potential students cannot be swayed by a weekly news rag ...".

[8] Criteria for inclusion in the survey are: a full-time MBA program that has been running for at least three years and a return of at least 20 per cent on the alumni questionnaire.

In a similar way, Dichev (2001) uses a simple regression model and covariance matrices to provide support for the claim that the *US News* annual ranking of national universities and liberal arts colleges has a strong tendency to mean revert in the space of three years, and that approximately 70–80 per cent of the variation in annual ranking changes is transitory and reversible. Both Downes (2000) and Welch (2002) note the significant and positive correlation between business school rankings and business school size (measured in terms of enrolment).

A second stream of inquiry has presented prescriptive arguments about the implications of shifts occasioned in business school operation by rankings (Mintzberg, 2004; Pfeffer & Fong, 2004). A number of commentators in this area have pointed to dysfunctional outcomes of business school evaluations. Zimmerman (2001) argues that a fixation on ratings has caused schools to divert resources from investment in knowledge creation, such as doctoral education and research, to short-term strategies aimed at improving rankings, such as placement offices and public relation campaigns. The result, Zimmerman concludes, is a looming critical faculty shortage and a narrowing of curricula that threaten the preeminence of American management education. Similarly, DeAngelo, DeAngelo, and Zimmerman (2005) staunchly criticise the short-term "quick fix, look good" packaging fostered by a preoccupation with ranking criteria.[9] In a wide-ranging review of business rankings in Europe, Wedlin (2006) argues that the *FT* rankings have been instrumental in defining what constitutes legitimate management education in Europe as well as re-drawing boundaries between Europe and the United States:

> The *Financial Times* rankings was driven by a desire among European schools to redraw the boundaries of the field of management education, largely in response to a perceived threat that American business schools were dominating and the American rankings were setting boundaries that excluded European schools. The rankings provided a means for European schools to place themselves in the group and to redraw the boundaries of the field to include them, thus to create and to re-create positions and prototypes in the field (Wedlin, 2006, p. 158).

Despite the widespread view that the *FT* takes care of European interests better than other rankings and rankers, Wedlin (2006) argues that rankings have led to the construction of models or templates of management education in Europe that reinforce an American model of the business school.

Using qualitative methods, Zell (2001) and Elsbach and Kramer (1996) investigate the impact of rankings on business school operations, arguing that rankings have resulted in a "customer-focused" and "revenue-driven" orientation that poses a threat to many schools' perceptions of highly valued, core identity attributes. This emergent body of literature has yielded important insights into the operation and impact of rankings in business schools throughout the globe.

Methodology

In light of the emerging state of the research domain and the phenomena under study, field research is well suited to the research questions being investigated. In this study, data were collected from three main sources: (i) semi-structured interviews, (ii) auditor–client written and verbal communications (as documented in the working papers), audit working papers and formal reports to the *FT* and (iii) secondary sources such as news reports, press releases and academic articles. We had access to relevant documents from the initial engagement (i.e., the 2002 engagement) as well as the 2003 and 2004 engagements. In total, 15 days of full-time field work were spent by the author and a research assistant collecting and cataloging the raw materials for the study. Three formal semi-structured interviews were conducted with both Michelle Podhy, the assurance partner on the engagement, and Patrick Gaudet, a senior manager, at KPMG Canada (with the consent of Della Bradshaw, the editor of the *FT* business education section who is responsible for the rankings project).

[9] It is notable that of the top 100 global MBA programs in the *FT* 2006 ranking, 96 refer to their position in rankings on their websites, through press releases, or in brochures (Bradshaw, 2007b, p. 54).

The formal interviews were transcribed by an independent transcription expert and later coded by two of the authors. During the period of field work, the researchers were allowed complete access to all working papers from the first year of the engagement (approximately 1000 pages) as well as any additional working papers they requested from subsequent years with the sole condition that the identity of schools and that of their personnel remain confidential. In total, we estimate we read over two thousand pages of working papers, engagement letters, and other correspondence and we were able to copy selected portions of each provided schools' names and personnel were blacked out on copies. Frequent informal discussions about the meaning of individual working papers and audit programs, as well as the way terms were applied and used took place throughout the field research stage, especially with the engagement manager Patrick Gaudet and his staff. This represents an unprecedented level of access in a study that is not anonymized.

In parallel to this primary data collection, press releases, newspaper clippings and academic journal articles were compiled into a large database and used to corroborate interpretations. The triangulation made possible by multiple data-collection methods provides for stronger substantiation of constructs and theoretical development. The prior literature and emerging theoretical constructs served to direct the investigation of the phenomenon by means of theoretical sampling. Theoretical sampling is an iterative process whereby specific sampling decisions evolve during the research process in light of the emerging conceptual structure until theoretical saturation is achieved. Emerging codes in the archival and interview material included (but were not limited to) the following: negotiation, adaptation, procedures, assurance wording and reputation.

The data analysis undertaken adopts three principal methods proposed by Eisenhardt (1989) and Anderson (1995). The first method of analysis involved arranging the interview transcripts and notes into a chronological order. The transcripts and notes were superimposed on one another and common and unique perceptions of events were identified. This process highlighted areas where further investigation was required. *FT* articles and records were used to corroborate event chronology and prevailing business press opinion.

The second method of data analysis involved dissecting and re-organizing the original transcripts and notes around the key themes identified: the programmatic (normative) nature of assurance services and the technological (operational) elements of assurance practice. As these themes were only loosely coupled with time, this process was critical in identifying the major issues in each theme. Finally, the insights identified were compared with the existing literature to identify the extent of congruence to previous theoretical research.

Whilst primary field data collection took place over an intensive period of fifteen days, there has been an ongoing dialogue between one of the authors and the KPMG team over this engagement. The team has read numerous versions of the related teaching case (Davies & Salterio, 2007) and provided their views on the events and the interpretations of events. Michelle and Patrick have also been present in the classroom twice when the case has been discussed, made presentations based on their involvement with the engagement and the case study to student groups, and have read the early drafts of this paper. In sum, a number of steps were taken to ensure the trustworthiness of this qualitative, naturalistic field study. Table 2 presents an overview of efforts directed at enhancing the trustworthiness of our data analysis using the schema developed by Basu, Dirsmith, and Gupta (1999).

Context: the engagement

The *FT* is one of the leading international business newspapers, with worldwide circulation in excess of 10 million readers daily. It is an operating division of the Pearson Group (which also comprises Pearson Education and Penguin Publishing). Given the *FT*'s status as "the world's most international business newspaper", in the late 1990s its editors saw an opportunity to jump into the growing market of business school rankings by concentrating on an international comparison

Table 2
Criteria and procedures for enhancing trustworthiness of data analysis

Criterion for trustworthiness[a]	Procedures undertaken in this study
Credibility	In-depth interviews with representatives of the auditor (KPMG) with consent of the client and access to client thoughts via early drafts of memorandum and proposed news articles about the "audit" Triangulation of observations: Use of public archival material Official private correspondence between KPMG and FT and Working papers from KPMG Segregation of data gathering and data interpretation functions Field debriefing with respondents Field diary and memos
Transferability	Thick description of field observations Reporting of field observations to other auditors and students
Dependability and confirmability	Triangulation of observations Audit trail from data to findings and copious use of primary sources

[a] These criteria have been adapted from Basu et al. (1999).

of MBA programs. On January 25, 1999 the *FT* published its first ranking of what it considered to be the top 50 MBA programs in Europe and North America. Harvard was first placed overall, edging out Columbia by 5.3 ranking points (both rank and total score were provided in the initial years). Scores were measured on a relative basis, with the school that scored the highest in a category awarded 100 points, and the schools that followed being given a proportion of the 100 points based on how they scored in comparison to the highest-ranked school in the category.

On the day that the rankings were published, Della Bradshaw (editor of the *FT* business education section and responsible for the ranking project) acknowledged that "no system of ranking was perfect". Indeed, she reported that one of the loudest criticisms of such rankings had become that some schools may be "cheating and lying" in their data submissions. Certainly, allegations of data manipulation involving the *BusinessWeek* rankings had become well publicized. In 1998, *BusinessWeek* determined that students at five schools, Dartmouth, Duke, Purdue, The University of Texas at Austin and Washington University, had urged their fellow classmates to enhance their responses in the hope of moving up the rankings (Reingold & Habal, 1998).[10] Shortly afterwards, cynicism attached to the candour of submissions prompted the Dean of the Irvine Graduate School of Management, University of California, to sign a statement attesting the accuracy of the Irvine books, patterned after recently imposed statements required of American chief executive officers and chief financial officers in their filings of corporate documents with the US Securities and Exchange Commission. She also challenged her counterparts across the US to publicly attest the honesty of reporting of the numbers used in business school rankings – to a resounding silence.

In 2000, the *FT* again published its rankings using the same methodology but expanded its coverage to include the top 75 schools worldwide. In late 2000, as Della was beginning to prepare the 2001 rankings, she became particularly concerned with the legitimacy of the rankings. Since the *FT* had noted the increasing influence of business school rankings, its consulting statisticians decided to change the approach used to produce the rankings to a normalized scoring system, which they felt would yield a more accurate overall result. To add even more rigour to the ranking process, Della considered whether she should engage a public accounting firm to audit the data that the schools provided. After making some initial inquiries with firms in the Greater London (UK) area, she was disappointed – not one of the firms felt that they could perform such an engagement. In late October 2000, Della learnt that an assurance partner at KPMG Canada, Michelle Podhy, had been involved with several alternative assurance engagements including "auditing" the data that

[10] At Washington University in St. Louis, students distributed "mock surveys" with *BusinessWeek's* logo, indicating how rankings were calculated and advising students that the *BusinessWeek* survey was not the appropriate forum for criticism. At Texas, several student government leaders circulated a memo reminding students how important it was to keep the school competitive in the rankings. At Dartmouth, students were enjoined to rank the school 9 (on a 1–10 scale) if they hated the school and 10 if they loved it.

the Queen's School of Business (in Kingston, Ontario, Canada) used in marketing its various programs.

Della e-mailed Michelle on 2 November 2000. Michelle told Della that she might be able to perform such an engagement, but that it was too late for it to take place for the 2001 rankings. Given the engagement would have to be proposed, approved, planned and executed, Michelle stated that the two-and-a-half month time frame (the *FT* published its rankings in mid-January) was insufficient to carry out such an engagement. Della promised to call again next year earlier to arrange the engagement.

In October 2001, Michelle was again approached by Della. Della was in the early stages of analyzing the submitted data from the business schools for the 2002 rankings. The conversation started where it had been left off the year before: could KPMG conduct an "audit" or some other form of assurance engagement over the business schools' responses to the *FT* survey? Before developing an engagement proposal, Michelle received more information from Della about the rankings and the measures to be used for the 2002 rankings (see Table 3). Della wanted KPMG to "audit" all the business school-provided information used to calculate the relative scores. Table 3 lists the items used to calculate the rankings in 2002. These criteria have been virtually unchanged since 2002.

Michelle called upon a senior KPMG manager, Patrick Gaudet, to help her consider the engagement proposal. Under the terms of the proposed engagement, the entity under "audit" would be the business school submitting the data to the *FT*, even though the client who engaged KPMG was the *FT*. As participation in the *FT* survey is voluntary, neither the *FT* nor KPMG has a contract with the various business schools.[11] Accordingly, Michelle and Patrick were faced with many initial challenges. These included determining the set of professional standards that would govern the engagement, the appropriate procedures to be employed and the logistical challenge of visiting 25–35 schools per year in a relatively tight time frame (i.e. the months of November and December).

Michelle and Patrick concluded that Section 9100 of the CICA *Assurance Handbook* entitled "Reports on the results of applying specified auditing procedures to financial information other than financial statements" would be the most appropriate framework.[12] This section allows the auditor to use only very specific audit procedures over specific data, with a specified, standard sample size – thus meeting the "audit" objective in a way that satisfied the requirements of both KPMG and the *FT*.

The logistical challenge of the engagement was heightened by the fact that Della wanted the same engagement team to visit every school in order to provide consistency of application of the "audit" procedures and provide for continuity over time. In 2002, ten schools were selected for an initial "audit". Because of geographical proximity, and their history with KPMG (KPMG has audited the University's financial statements for many years), Queen's University was chosen to be the first school for the "audit." The remaining nine schools were selected on the basis of proximity to Kingston, Ontario. In defending this approach, Della commented that selecting schools randomly from the list of participating business schools would have "laid those schools open to suspicions that they had exaggerated their data". That is, there may have been a perception that selection was in fact not random but rather on the basis

[11] In subsequent years, a term and condition for a business school to participate in the survey was to allow KPMG access to the school in order to "audit" the data they submitted to the *FT*.

[12] CICA HB Section 9100 is similar to the International Federation of Accountants (IFAC) International Audit and Assurance Standards Board Related Services Standard 4400 and the US American Institute of Certified Publication Accountants Attestation Standard AT 201. CICA HB Section 5025, which deals with attest or audit level assurance engagements in general, was also considered by Michelle and Patrick. However, they concluded as it would be very difficult to provide the requisite audit level assurance over the data that underlie the *FT* ranking tables given the time constraints and nature of the data. Thus, they concluded that a specified procedure engagement was the most they could offer. Further, KPMG had some experience using a similar type of exception reporting at both the Queen's School of Business and the Province of Ontario's Department of Health (in reporting on various hospitals' Y2K compliance).

Table 3
2002 *FT* Ranking Measures

Data from			
1998 Graduates		**Business Schools**	
Item	**Description**	**Item**	**Description**
1. Weighted Salary (20%)[1]	The average 'salary today'[2] with adjustment for salary variation between industry sectors	9. Women students (2%)	% of female students
2. Percentage Increase (20%)	% increase in weighted salaries from the start of the MBA program	10. Women faculty (2%)	% of full-time faculty
3. Value for Money (3%)	The rate of return for each dollar spent between the start of the MBA to three years after graduation	11. Women on the board (1%)	% of female members of the advisory board
4. Career Progress (3%)	Measures the extent to which alumni have progressed, measured by size of company and level of seniority	12. International students (4%)	% of students whose citizenship differs from the country in which they are studying.
5. Aims Achieved (3%)	% of respondents who fulfilled the aims they associated with the MBA	13. International faculty (4%)	% of faculty whose citizenship differs from their country of employment
6. Placement success (2%)	% of students that took up employment with a company introduced by the business school	14. International board (2%)	% of the board whose citizenship differs from the country in which the business school is based
7. Employed at three months (2%)	% of graduates with jobs three months after completing their MBA	15. International mobility (6%)	A rating system that measures the school with the most internationally mobile alumni based on the movements of 1998 graduates
8. Alumni recommendation (2%)	Graduates were asked to name three business schools from which they would recruit MBA graduates	16. International experience (2%)	Weighted average of four criteria that measure international exposure during their MBA
		17. Languages (2%)	Number of extra languages required on completion of the MBA.
		18. Faculty with doctorates (5%)	% of faculty with a doctorate
		19. Faculty doctoral ranking (5%)	Number of doctoral graduates from each business school during the past three years (additional points for placement at a top 50 full-time MBA school.
		20. Faculty research ranking (10%)	Calculated using the number of faculty publications in 35[3] international academic and practitioner journals (weighted for faculty size)

▢ Denotes item subjected to audit procedures

[1] Bracketed figures refer to importance weights. Items 1-8 focus on career progress, 9-17 on diversity and 18-20 on idea generation. For description of each criterion see http://rankings.ft.com/rankings/mba/rankings.html.

[2] Salary today is an average of salaries three years after graduation from the 2000, 2001 and 2002 surveys.

[3] This list was expanded from 35 to 40 journals in 2003.

Note that this ranking methodology has been virtually unchanged since 2002.

of suspicion. She further commented that "the geographical approach had two further advantages: it made the audits easier to complete and meant that schools throughout the top 100 table were included" (Bradshaw, 2002).

During the 2002, 2003, and 2004 engagements, many immaterial errors were found and reported to Della in the very extensive and detailed reports that were provided by KPMG on each and every school visited (an average report ran 12–15 pages per school, reporting each procedure performed and its results, along with any KPMG team observations). She required every school where an exception was found, however minor, to correct their submissions. Interestingly, most of the errors that the engagement team found were more conservative interpretations of the questions resulting in the schools under-reporting on relevant criteria. One school, however, when it learned it had been chosen for "audit" withdrew from the survey with no explanation.[13]

Characterizing the new assurance project

An inherent conflict of interest in the traditional audit of financial statements is that the entity under audit pays the public accounting firm for the audit on the entity's financial statements for the benefit of third parties (Goldman & Barlev, 1974; Moore, Tetlock, Tanlu, & Bazerman, 2006). This issue has exercised researchers (e.g. Chaney & Philipick, 2002; Gunz & McCutcheon, 1991) and regulators throughout the globe (in the United States, the Sarbanes-Oxley Act of 2002 represents the latest legislative approach to managing this inherent conflict). To this end, there is a small but growing academic literature suggesting alternative mechanisms for appointing (Mayhew & Pike, 2004) or compensating (Ronen, 2002) the auditor to avoid this inherent conflict of interest. Proposals for such alternative compensation arrangements include having third parties, such as insurance companies, hire auditors to carry out the audit of financial statements as a term and condition of underwriting financial statement insurance for a public company (Bhattacharjee, Moreno, & Yardley, 2005).

Our setting mirrors in some ways these alternative appointment and compensation proposals. The *FT* pays for the "audit" of the data it requested from the entity under "audit", the business school, but the only contractual obligation the auditor has is to the *FT*.[14] In other words, the inherent conflict of interest found in the financial audit is not present. Fig. 1 characterizes the features of the *FT* Rankings engagement and contrasts it to a conventional financial statement audit.

The nature of these engagement relationships, in contrast to the traditional attest audit, provides a number of insights into the production of legitimacy through the operation of "auditing".

The production of legitimacy

The incursion of assurance services into non-traditional markets is consistent with a number of observed shifts in programmatic emphasis at the political and the social levels. At the political level, numerous scholars have documented a growing commitment, within advanced liberal democracies, to the programmatic commitments of neo-liberalism (Rose, 1992; Rose & Miller, 1992). Neo-liberalism, as the label given to the dominant governmental rationality of contemporary advanced liberal democracies, is predicated on the belief that the proper role of the state is to create a space of "regulated freedom" (Rose & Miller, 1992, p. 158), within which free and self-determining citizens assume active responsibility for their choices and their life outcomes. Neo-liberalism also entails a related social commitment to enhanced accountability by and for organizations and individuals.

As Power (1997) has observed, the appeal of auditing within the broader context of neo-liberalism derives from its capacity to instantiate

[13] The withdrawal of a school from the rankings as a result of being selected for audit flows naturally from the signalling hypothesis (Datar, Feltham, & Hughes 1991; Melumad & Thoman 1990; Spence, 1973). Under signalling, in order to signal credibly the signaller (i.e. the school) must incur costs and if they do not incur them then they are disciplined by either being revealed as a "cheater" by the audit or forced to withdraw from the "market" (i.e. the rankings). All schools that participate in the rankings must commit to incur the costs of both reporting the data and maintaining data in a form susceptible to audit.

[14] The tripartite nature of the relations between the Universities, KPMG and the *FT* presented numerous challenges relating to privacy, policies and accountability which emerged and re-emerged throughout the course of the engagement. In the working papers dated January 16, 2003, Patrick Gaudet noted "in some jurisdictions, due to laws or internal policies concerning privacy of information, it was difficult to obtain supporting documentation. In such instances this was documented in the findings as well where appropriate alternative audit procedures were performed ... Some of the business schools were also unsure of what types of student activities should be included as overseas projects or study tours. KPMG reviewed the reasonableness of the activities included and if questions arose the *FT* was contacted for further clarification".

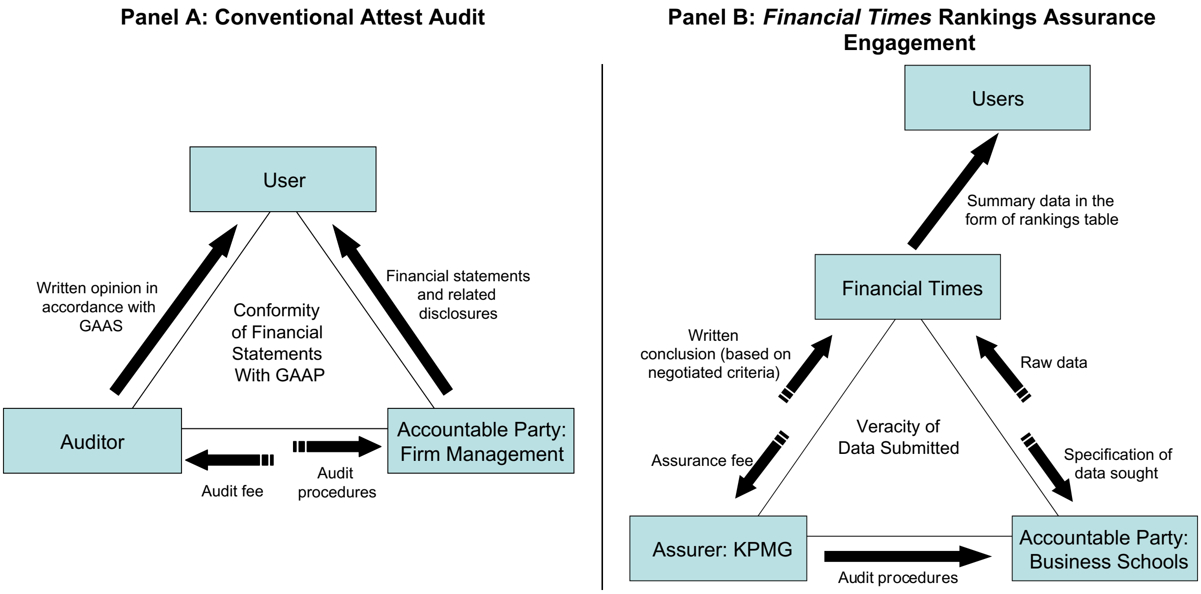

Fig. 1. The relationship between parties in a conventional financial statement audit compared with the *Financial Times* Rankings assurance engagement.

these programmatic political aims by constructing new and novel relations of accountability, and by inscribing these within systems that permit the discharge of accountability through third-party audits. Indeed, Power (1997, p. 134) considers the capacity of audit to "operationalize and realize accountability" to be the "core programmatic value" of auditing. Audit accomplishes this by embedding relevant aspects of the individual's or the organization's actions into formalized systems that can then be validated by internal or external audit (Power, 1997, p. 53). Once individual or organizational action has been captured in a system that is amenable to audit, then audit becomes a means – perhaps the primary means – of lending legitimacy to the individual or the organization. As Power argues, this legitimacy accrues to the audited entity without regard to the actual efficacy of the audit to instantiate the specific programmatic aims for which it was undertaken.

These legitimacy arguments help explain why the most common business school response, at least publicly, was enthusiasm for the prospect of an assurance mechanism that would ensure that competing schools report truthfully.[15] Deszo Horvath, Dean of the Schulich School (York University, Canada), claimed: "We at the Schulich School of Business welcomed the introduction of the audit as a regular part of the annual *FT* survey. I believe the use of auditing will be good for all of the schools involved in the annual ranking" (Bradshaw, 2002). In her discussion of the "audit" project published with the release of the 2002 rankings, Della further commented:

> Other schools said the audit helped them decide how better to collect the data in future. Some non-participating schools lobbied to be included in this year's audit while others suggested they might pay for their own audit to be carried out with an approved auditor on an annual basis (Bradshaw, 2002).

These self-design processes aimed at making business schools more readily amenable to audit proce-

[15] Privately there appeared to be some initial reluctance among the inaugural auditees to participate in the audit until there was assurance that peer schools had agreed to cooperate. Hence, as noted in footnote 9, the *FT* made inclusion in the rankings from 2003 onwards conditional on schools agreeing to be audited.

dures are a rational response in the face of an audit and represent a key element in the process of auditability (see Power, 1996).

Apparently then, business schools view the "audit" as bestowing or enforcing legitimacy on the actions of their competitors, thus ensuring "a level playing field" across all participating schools. With respect to the "audit" of their own reporting, however, business schools seem only to perceive what might be termed an "affirmatory legitimacy"; that is, affirmation that their reputation remains untarnished in the face of a reputational risk that would be realized if the KPMG "audit" were to reveal exceptions in their reported data.[16] Commenting on this, Michelle explains that "[the schools] are very careful. And I think that, again, on their part, there is a reputational risk thing the same as we worry about at KPMG. They are just not willing to go there. And the schools who do not want us in [have] dropped out..." (Interview, 14 July 2004). Presumably for similar reasons, schools that were notified of the prospect of an upcoming "audit" engaged in "self-audit" or double checking of their data. When the KPMG team arrived, discrepancies were typically tabulated and presented to the team for verification. And if the reception given the team can be taken as an indication, it appears that participating business schools – even the most elite among them – take the *FT* "audit" very seriously. As Michelle describes it, "[Patrick] has been everywhere. And they treat him like, they get out their kid gloves and whatever Patrick wants, he gets, because they are trying to be nice" (Interview, 14 July 2004).

Thus, our evidence suggests that participating schools attend seriously to the requirements of the "audit", and that they do so because they fear a loss of legitimacy if the "audit" should reveal exceptions. This evidence is consistent with the proposition that audits confer reputational benefits (e.g., legitimacy, safety, efficiency, etc.) upon audited organizations. What makes this observation particularly surprising in this context, however, is that, under the terms of the engagement, only Della Bradshaw at the *FT* is apprised of any exceptions in the audited data. As Della, in turn, requires only that the school correct the data prior to the publication of the rankings, the reputational risk apparently perceived by the participating schools seems unmerited; the results of the audit procedures are never made public. Apparently, the concept of legitimacy is so thoroughly enmeshed in the programmatic appeal of audit that it cannot readily be dismissed from consideration, even in those instances where it may not be at issue.

Our field study also suggests that the legitimation benefits bestowed by the audit can extend beyond those organizations whose accounts are audited. As previously discussed, the *FT* engagement differs from a conventional attest audit in that the accountable party (i.e., the auditee) does not purchase the audit services on their own behalf. As conventionally conceived, audits confer reputational benefits ("legitimacy") on the organizations whose accounts are audited, thus suggesting that legitimacy is one of the "products" that the organization purchases with its audit dollars (see Fig. 1, Panel A). In the *FT* case, however, the purchasing organization is distinct from the "audited" organization, thus raising questions about what the *FT* is buying with the KPMG "audit."

On the basis of our field work, it appears that an aura of legitimacy accrues from the "audit", not just to the auditees, but to the *FT* itself. Della has publicly pointed to the value of having the rankings audited (Bradshaw, 2002). By harnessing auditing as a competitive resource, the *FT* encourages readers to view their rankings as possessed of greater integrity than rankings derived from unaudited data. But such legitimacy seems, at best, a derived legitimacy, one that takes its meaning from the primary legitimacy bestowed by the "audit" on the participating schools (see Fig. 1, Panel B).

[16] That is, while the participating schools evidently embrace the belief that the "audit" bestows legitimacy on the data supplied, there seems to be an asymmetry in how this legitimacy is perceived to accrue to themselves vis-à-vis their competitor schools. With respect to their competitors, "audit" is seen to actively *grant* legitimacy (where previously legitimacy was open to question) by ensuring the accuracy of the reported data. With respect to themselves, however, the "audit" is conceived as an *affirmatory* mechanism; a "clean audit" leaves intact a pre-existing legitimacy, while the discovery and communication of reporting errors pose a threat to this legitimacy.

This reveals that the power of audit and its basic acceptance by society across a range of different contexts may be even greater than might have been previously supposed. The mere mention of audit apparently confers legitimacy, not only on the audited entities, but also secondarily on the entity that employs the data from the audited entities (that is, a legitimacy that is derived from the audit of other distinct entities). This occurs despite the fact that the *FT* compiles its rankings using a combination of audited business school data, unaudited data from the same source and unaudited data that the *FT* collects itself, and despite the fact that the unaudited data far outweighs the audited data in terms of relative contribution to the ranking (63% of the ranking methodology is not subject to audit procedures, see Table 3). It also occurs despite the fact that the most important elements of the rankings, the selection of data to be included and the algorithm that combines these data into a single rank, are neither the responsibility of, nor audited by, KPMG.

In sum, audit appears to have a robust capability to imbue legitimacy, not just to entities whose accounts are audited, but also – at least in some circumstances – to those who make use of these audited data. Our study thus suggests that, as the audited entities, business schools are sufficiently concerned about the power of "audit" to affect their reputations that they attend seriously to it, even where there is limited evident basis for a reputational effect. And as a user of the audited data, the *FT* enjoys a derived legitimacy that imbues its rankings with an aura of integrity that extends well beyond the limited reach of the "audit". This robust capability is even more remarkable when one considers that it was a matter of some dispute whether this particular "audit" could even be performed within the institutional framework of auditing. We now turn to the construction of the "audit" engagement itself.

Consensus building in audit planning, testing and reporting

A striking feature of the emerging engagement was consensus building and adaptation across each major element in the construction of the "audit": planning the audit scope, designing the audit procedures and crafting of the public report of the "audit". This section treats these three formative areas – audit planning, testing and reporting – in turn.

Audit scope deals with the extent of the subject matter that the auditor will examine. A review of KPMG's correspondence with the *FT* reveals there was considerable negotiation in planning the "audit" and attempting to resolve the tension between external credibility and pragmatism. The following exchanges typify this process:

> For our purposes, there are clearly some areas where there is little controversy. For example, it is quite hard to get the number of women faculty wrong! But when we talk about the percentage of international students and faculty I feel some schools may be miscalculating. There may be a case, therefore, for auditing just these two categories for a number of schools ...
> – E-mail from Della Bradshaw to Michelle Podhy (2 November 2000).

> I don't believe we will be able to audit the information related to the students employed three months after graduation. This will be difficult to audit as each school may have varying ways of measuring this and they may not be susceptible to audit procedures ...
> – E-mail from Patrick Gaudet to Della Bradshaw (11 November 2001).

The limited scope of the "audit" (salary related data, for example, was not examined even though it comprises the key component of the *FT* rankings constituting 40% of ranking scores[17]) is particularly noteworthy given that the ranking process itself has been criticized for failing to take into

[17] Indeed these data are collected directly by the FT so, in principle, it should be more susceptible to audit procedures than data collected from business schools. Furthermore, it is not raw salary data that are employed but salary data that are transformed by a process of "adjustment for salary variation between industry sectors"; a process that is not disclosed by the FT making this heavily weighted measure rather opaque.

account key, albeit more subjective, measures of student experience and curriculum. For example, as Thompson (2000) puts it, "do the big shot professors actually teach? . . . Are there unknown professors who are better teachers? Or is it the graduate students who teach? What is the intellectual atmosphere like on campus?"

In addition to negotiating audit scope, audit testing procedures were also the outcome of negotiation both internally and externally with the *FT*. Working papers and internal KPMG team correspondence pointed to the emergent nature of the design of testing procedures.

> I may need access to this type of information [HR files and private student files], however, there may be alternate sources documentation available for testing in the business school. I completed one of the business school audits yesterday and I was able to find source documentation within the business school. For example:
> – I may be able to test whether a faculty member has a PhD. or not by reviewing the published faculty biographies in the business schools academic calendar or another publication.
> – I may be able to test whether a faculty or advisory board member is an international member from e-mails confirming this directly from the individual faculty and advisory board members.
> – I may be able to test whether a student is enrolled in the MBA program, their gender and their nationality from information contained on student data forms in the school of business or a listing from the University registrar's department.
> – KPMG working paper (29 November 2001).
>
> Our audit tasks are about obtaining supporting documentation and we sort of agreed with Della what that supporting documentation can be.
> – Interview with Patrick Gaudet (14 July 2004).

Additionally, sampling in terms of both sample size and sampling technique (selection of schools on the basis of geography – a form of "block" sampling long discouraged in auditing textbooks (e.g. Chapter 16 of Knechel et al., 2007) for most sampling applications) appeared to be set more symbolically to appease the client rather than the outcome of an assessment of risk taking into account the assertions being tested.

> We agreed to a specific sample size that was consistent for each of the schools. Because one of the things that was important sort of from a logistical perspective was that each of these audits no matter how large the MBA program was, that we would be able to complete an audit in a day. So if you have a school like the Wharton School that has 400 students, we decided that the business editor just wanted a sample size big enough that she was comfortable that the information was accurate. So we weren't taking a look at sample size saying OK we're going to look at 20% of the students, it was just a fixed number. We're going to look at this number of students on a random basis at all schools . . . So a lot of times that's ten or fifteen [students].
> – Interview with Patrick Gaudet (21 July 2004).

When asked about the one-day field work limit, Michelle Podhy replied "that's just how we priced and sort of what worked" in the context of the time available (November and December), the staffing demands of the *FT* (the requirement that the same KPMG team performs the "audit" each year), and budget issues within the *FT*. This provides evidence that resource availability constrains audit practices even in this novel domain.

As audit files were created, checklists created and ticked, and performance measured and monitored, "susceptibility to audit procedures" became the primary driver of the work's scope. From KPMG's viewpoint, the preferred focus of procedures was largely "factual" in nature, with the requirement that the schools have credible data from which to draw their questionnaire responses. The following comment is typical of this auditor preference for a more limited scope and easily verified procedures:

Table 4
Examples of Specified Audit Procedures Relating to the Financial Times, 2004 MBA Survey, November 11, 2003

Area	Purpose	Procedure
Faculty	Verification of the percentage of faculty who have a doctoral degree	KPMG will agree the total number of faculty with doctoral degrees from the listing to the amount submitted to the Financial Times, 2004 MBA Survey KPMG will recalculate the percentage of faculty who have a doctoral degree based on the listing obtained from the business school KPMG will trace five faculty members who have doctoral degrees to supporting documentation in the academic institution to verify that they are female faculty
Board members	Verification of the percentage of international Board members	KPMG will agree the total number of international Board members from the listing to the amount submitted to the Financial Times, 2004 MBA Survey KPMG will recalculate the percentage of international Board members based on the listing obtained from the business school KPMG will trace five International Board members from the listing obtained from the business school to supporting documentation in the academic institution to verify that they are international Board members
MBA students	Verification of the percentage of female students	KPMG will agree the total number of female students from the listing to the amount submitted to the Financial Times, 2004 MBA Survey KPMG will recalculate the percentage of female students based on the listing obtained from the business school KPMG will trace five female students of the MBA programme to supporting documentation in the academic institution to verify that they are female students
Graduate employment	Verification of the percentage of graduates who had accepted a job offer or were in employment three months after graduation	KPMG will obtain a listing of graduates with an accepted job offer or were employed three months after graduation and agree the total to the total number of employed graduates submitted to the Financial Times, 2004 MBA Survey KPMG will recalculate the percentage of graduates with an accepted job offer or employed three months after graduation based on the listing obtained from the business school KPMG will request confirmations from ten graduates for each business school from the listing requesting confirmation of their employment status from selected business schools on a trial basis. KPMG will select two business schools in the United Kingdom and two business schools in the United States
Language requirements	Verification of the number of spoken languages required for MBA programme students upon graduation	KPMG will obtain the language requirements to graduate for MBA programme students from the academic institution and agree them to the number submitted to the Financial Times, 2004 MBA Survey
International studies	Verification of the amount of international exchanges completed by students of the last graduating class of the MBA programme	KPMG will obtain a listing of MBA programme students from the last graduating class who have completed exchanges with international business schools and agree the number of students to the number submitted to the Financial Times, 2004 MBA Survey KPMG will recalculate the percentage of students who completed international exchanges KPMG will agree two international exchanges to supporting documentation in the academic institution
Doctoral Graduates	Verification of the number of doctoral graduates of the business school	KPMG will trace two doctoral graduates of the business school to supporting documentation in the academic institution

> . . . if it's student salaries then that's not clear and we . . . wanted to be able to audit it and not just take the word of management or that particular client as you know. We wanted wherever we could to get third party verification . . . there is certainly a number of things there that are more soft and we knew right off the bat we couldn't do anything with that throughout the process.
> – Interview with Michelle Podhy (14 July 2004).

To date KPMG's objections to the feasibility of auditing certain measures have not led to any changes in the measures used in the *FT* ranking methodology.[18] However, the "audit" has necessitated the tightening of some of the definitions used by the *FT* in constructing the rankings:

> A good example of that is international status. At a lot of the American schools they are considering students with a green card as American students whereas from sort of the perspective of everyone else, they would be an international student. When I was in England last fall, one of the common things was if they had a French student because of the EU they would consider a French student as a domestic student whereas the *FT* wanted to treat that student as a foreign student because they are not from that country. So that was one of the things where they started creating additional sort of definitions and tightening up what the criteria is with the school as we are coming across these anomalies as we're visiting the schools.
> – Interview with Patrick Gaudet (14 July 2004).

Table 4 outlines typical examples of the procedures that were the outcome of this negotiation of the nature and extent of audit scope. As can be seen, the language of financial audits – "documentation", "verification", "confirmations", "trace", "agree" – permeated work notes and the entire engagement.

Indeed, the use of technically precise audit terminology in the reporting about the engagement was the source of some debate between Della and Patrick and Michelle. A draft article describing the nature of the auditing process for the 2002 was edited from "...it was decided to use KPMG in Kingston to audit the pilot 10 schools" to "...it was decided to use KPMG in Kingston to **perform specified audit procedures at** the pilot 10 schools (emphasis in original)". Seven changes were made in total, with the majority along similar lines, replacing the terms "revise their submissions" with "review their submissions" and "audit" to "specified audit procedures". These changes reflect the tension between Della seeking a broader statement and Michelle seeking a more narrowly defined statement consistent with the professional standards (CICA Handbook Section 9100) she had proposed as governing the engagement.

> . . . we got her to change audit to defining what it was more than just using audit. Because it's not an audit. I mean we have to be very careful;. This is not an audit in the sense of the assurance world and what an audit stands for. Because we have not audited the data at Harvard and we can't give an opinion. We have not given an opinion . . . And that's lost on many, as you know.
> – Interview with Michelle Podhy (14 July 2004).

It seems that the opaqueness of audit practice to users – the "audit blackbox" – means that qualifications and caveats may have limited resonance with users, thus contributing to the inherent expectation gap.[19]

In the actual disclosure on the 2004 *FT* survey, Michelle (the KPMG audit partner) sought to communicate the following three points: (1) an audit was not conducted over the input data and no opinion was expressed; (2) that KPMG performed procedures on behalf of the *FT* and reported the results of those procedures to the *FT*, and (3) that KPMG does not take responsibility for the

[18] It is an open question as to whether over time audits will have a normalizing and standardizing effect on ranking systems themselves.

[19] We thank an anonymous reviewer for this insight.

measures used in the rankings themselves nor does KPMG participate in the actual aggregation of the data into ranks. Communicating the precise details of this message to users represents a daunting challenge and again entailed a process of negotiation between the *FT* and KPMG, especially in the initial years of the engagement. This sort of report content negotiation harkens to the negotiations that are encountered by auditors of financial statements when they deal with problematic financial accounting and disclosure issues that could lead to the auditor modifying the wording of the audit report if the issues are not resolved appropriately (Gibbins, McCracken, & Salterio, 2007).

The published rankings in 2004 included an additional column entitled "Audit Year*". This column listed the most recent year that KPMG staff visited the school to perform the specified audit procedures. A footnote, designated by the "*" at the bottom of the ranking table stated the following:

> * KPMG reported on the results of obtaining evidence and applying specified audit procedures relating to selected data for the *Financial Times* 2004 MBA survey ranking for selected business schools. Inquiries into the process can be made be contacting Michelle Podhy and Patrick Gaudet of KPMG by e-mail at mpodhy@kpmg.ca. The specified audit procedures were carried out during November and December 2003. The audit date denotes the survey for which specified audit procedures were conducted.

The technical references to "evidence" and "specified audit procedures" corresponds with Van Maanen and Pentland's (1994, p. 54) conclusion that "audit reports are a symbol of legitimacy" which do not so much communicate information as "give off" legitimacy by virtue of a rhetoric of "neutrality, objectivity, dispassion, expertise." The difficulty in communicating the nature of the engagement was underlined by Michelle Podhy:

> I'm getting e-mails daily still ... [on] how do you come up with [the rankings criteria]? They think that we are responsible for the ranking because our name is in the paper to say, and what we have done is star the schools that are selected for audit and then also there is our footnote as to which parts of the data we have applied the specified audit procedures to. We are very careful to remind people we have not done an audit, of course, because we cannot give an opinion on any of this. The client just said, you know, tell me how many females there are, they said there's 30, go and see if there's 30. It just specified audit procedure and we just report any exceptions if there are any.
> – Interview with Michelle Podhy (14 July 2004).

Discussion and implications

The first research question of the paper was to explore the antecedents and character of an assurance project in a "new" unregulated context. The field study presented here suggests that the symbolic capital of the notion of the audit is a central element of the demand for audit and assurance services in new marketplaces. Power (1997) argues that the fashion of auditing signifies a distinctive, if unevenly distributed, phase in the development of advanced economic systems as they grapple with the production of new or enhanced risks and uncertainties, the erosion of social trust, fiscal crisis and the need for control. He groups these forces under the broad rubric "audit society". In this environment, it is likely that "audits" will increasingly be seen as a competitive or discursive resource able to distinguish "reliable" providers of information from others.

It is clear from the field study that a major driver in the *FT* decision to engage KPMG was the suspicion attached to MBA rankings (akin to the fraud suspicion inherent in financial statement audits) and a desire to distinguish the *FT*'s rankings and import the legitimacy associated with traditional attest audits. In this sense, the introduction of an "audit" can be seen as a form of brand management by the *FT* in the competitive game between providers of rankings. This is not to say, however, that Della viewed the "audit" as a purely symbolic exercise undertaken only to create an illusion of legitimacy; rather, Della's decision to engage KPMG needs to be understood as emerging out of a broader social context in which suspicion of dishonest reporting was widespread, and in which "audit" is accorded an almost mystical power to discern the truth. Given this context, that Della turned to "audit" to provide the source of the *FT*'s differentiating legitimacy speaks both to her own faith in the efficacy of "audit" and to the social legitimacy accorded audit practice. Indeed, it is the social belief in the potency of audit that effectively converts it into a competitive or discursive resource to be deployed by information providers. In introducing the 2007 rankings, Della claimed "it has become accepted that audited data are the way forward – they enable applicants and recruiters to make valid comparisons" (Bradshaw, 2007a). As Power (2000, p. 117) summarizes, "being audited *per se* is a badge of legitimacy".

Legitimacy has long been recognized as a central concept in auditing. Organizations perceived to be legitimate find it easier to attract economic resources (in our context, student applications and fees that go with their enrolment) and gain the support required for successful operation. Although the concept of legitimacy has been invoked in a range of auditing studies and some audit researchers have even referred to legitimacy as a "theory" (e.g. Mobus, 2005; Ogden & Clarke, 2005), there has been little delineation of the concept. Unique features of the *FT* Rankings engagement provide insights into the nature of legitimacy produced by the operation of auditing and the power of auditing. In particular, the nature of the relationships created allows us to distinguish between two different types of legitimacy: affirmatory legitimacy and derived legitimacy. Schools participating in the "audit" appeared to see the audit process as bestowing legitimacy on the dubitable data provided by competitor schools while at the same time, with respect to their own submission, simply affirming their pre-existing legitimacy. That is, from each school's perspective, the process simply endowed them with an *affirmatory* legitimacy (which only a publicly communicated "failed" audit could jeopardize). In contrast, the party paying for the "audit", the *FT*, enjoyed a legitimacy *derived* from the application of a set of limited audit procedures to a set of third parties, which reflects the power of the term "audit" in modern society. Future research could usefully seek to further delineate different types of legitimacy.

The second research question was to investigate the way that auditors and clients negotiate and determine the scope, procedures and communications about the "audit" when applied to non-traditional entities and relationships. An analysis of working papers and correspondence between the *FT* and KPMG suggests that the conduct of the "audit", both in terms of audit planning and audit testing, was the outcome of an extensive negotiation and set of compromises between external credibility and pragmatic imperatives – rather than a strict conformance with the blueprints, idealizations, definitions and concepts often publicly invoked by audit practitioners. In terms of engagement scope, the design of audit procedures, and communication of work done, issues were resolved via negotiation between the *FT* and KPMG as well as in situ by Patrick Gaudet and Michelle Podhy within KPMG. Auditability must be constructed as a series of legitimate yet pragmatic techniques.

The assurance project then emerges as a much more negotiated and interactive practice than generally presented. While auditing in general has to be made to look as if it works incontrovertibly, there was evidence of both controversy and prioritization of that which can be measured in auditable terms over that which is perhaps more ambiguous (and potentially useful to aspiring students). What emerges then from the field data is a view of auditing as a collection of negotiated and highly adapted pragmatic routines which may add credibility to the rankings, but in a way that cannot be easily communicated to users. Audit procedures, like the statistical underpinnings of the rankings themselves, are opaque enough that very few users outside of the *FT* can figure out exactly how they work, yet clear enough to convey legitimacy.[20]

[20] Power (2007) notes a similar tendency within the profession to reduce the history of audit practice to a simplistic account of progressive improvement in audit technique, thus providing a "schematic narrative" that enables practitioners' self-understanding of the past and the future of audit practice.

Conclusion and future research

Given the increasing prevalence of new realms for auditing in the UK, Australia, New Zealand, Europe and North America, there is a need for more detailed empirical and comparative studies on the extension of audit-type practices into new arenas, including their effects and consequences (Power, 2003, p. 387). New objects and practices are continually being subjected to audit. In many cases, this is a non-trivial development: as in the case of business school rankings, the very process of performing the "audit" itself often renders a construction of performance as much as a measurement of it.

This article aims to respond to calls for studies addressing the complex "back stage" of audit practice in its social and organizational context (Power, 2003, p. 380). It makes three principal contributions. First, it provides field evidence of a new audit context that speaks to the power of audit as a competitive resource capable of importing legitimacy to entities across a variety of domains. Second, the paper elaborates on the notion of the legitimacy produced in the audit process. Through an analysis of the unique relationships created by the engagement, the notions of affirmatory and derived legitimacy are introduced. Finally, the paper provides evidence of the social construction of assurance and the recursive development of audit scope, testing procedures and reporting.

A number of implications and avenues for further research can be drawn from the empirical data and analysis presented here. Specifically, the field study provides support for the notion of the "audit" as a competitive or discursive resource in new marketplaces and provides a counterpoint to rationalized accounts of the audit judgment process. In this sense, field research in emerging assurance markets has considerable potential to enrich a research literature dominated by experimental psychology and analytical economics. Moreover, although beyond the scope of the present paper, the parallels between business school rankings and the nature and impact of value-for-money audits in the public sector (see Radcliffe, 1998, 1999) are stark. Where organizations do not have clear measures of productivity which relate their inputs to their outputs, the audit of efficiency and effectiveness is in fact a process of defining and operationalizing measures of performance for the audited entity. That is, the efficiency and effectiveness of organizations are not so much verified as constructed around the audit process itself. Future researchers could usefully examine the way in which making effectiveness auditable is closely bound up with defining performance and installing a management system to measure that performance.

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