

Accounting Consultation Units: An Organizational Memory Analysis*

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Abstract. Regulators have recently cited concerns about the extent and quality of accounting consultation within accounting firms on difficult client accounting policy issues. In this paper we report the results of research that examines the role of accounting consultation units in public accounting firms. We describe the five largest accounting consultation units in Canada. The accounting consultation units are then examined through the lens of organizational memory theory. We find differences among the accounting consultation units in their ability to act as a source of organizational memory for their firms. These differences include the following: the amount of resources devoted to the consultation function, the structure of the units, the mandate received by the unit from the firm, and the availability and amount of documentation about previous consultations. These differences suggest that firms' accounting consultation units differ in their ability to provide technical accounting advice. This variability may affect the actual or perceived quality of such advice to both clients and external regulators. In addition, this paper introduces organizational memory theory to the accounting literature. This theoretical approach may be useful in expanding the bounds of behavioral auditing research beyond the current emphasis on the individual auditor.

Condensé

Une division de consultation comptable (DCC) est une division d'un cabinet d'expertise comptable qui a pour mission d'aider les associés du cabinet qui exercent la profession à poser, dans les cas difficiles, des jugements relatifs aux états financiers des clients du cabinet (Salterio, 1994 ; Danos et Boley, 1980). Ces jugements ont trait, entre autres, aux sujets suivants : a) le choix de conventions comptables lorsque les normes en vigueur varient ou qu'elles sont inexistantes ; b) le choix de méthodes de mesure et d'évaluation ; et c) les obligations d'information. Les désaccords entre les associés des DCC et les associés en exercice sont normalement résolus aux échelons supérieurs du cabinet (l'échelon de l'associé directeur national, par exemple). Les observateurs externes des cabinets d'expertise comptable sont de plus en plus critiques à l'endroit des cabinets d'expertise comptable qui préconisent des conventions comptables apparemment

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différentes dans des cas semblables, dans les interactions avec les instances de réglementation (Schuetze, 1994 ; Shah, 1996). Selon certaines autorités de réglementation, la DCC a le potentiel nécessaire pour jouer un rôle clé dans le nivellement de ces différences apparentes, grâce à de meilleures recherches (Ontario Securities Commission, OSC, 1996). De fait, selon l'OSC (l'autorité de réglementation des sociétés ouvertes la plus importante au Canada), « le fait de ne pas consulter ces gens [les associés de la DCC] au préalable peut retarder la résolution des problèmes » (OSC, 1996, p. 1-348 [TRADUCTION]). Les sociétés pourraient ainsi devoir engager des coûts supplémentaires s'il n'y a pas de consultation (ou si la consultation laisse à désirer), sans compter les dommages à la réputation du vérificateur qui pourraient résulter d'éventuels problèmes. C'est pourquoi la compréhension des principes et des méthodes des DCC, et de l'envergure des différences entre les cabinets (si différences il y a), est importante dans l'évaluation de la capacité relative des différents cabinets d'expertise comptable à résoudre les problèmes de consultation.

Malgré l'influence étendue que peuvent exercer les DCC en arrière-plan, elles ne sont que bien peu mentionnées dans les publications de recherche en comptabilité et en vérification (par ex., Danos, Eichenseher et Holt, 1989 ; Gibbins et Swieringa, 1995 ; Schultz et Reckers, 1981). Jusqu'à maintenant, aucun de ces chercheurs n'a décrit la DCC ni ne s'est demandé si des formes différentes d'organisation pouvaient mener à des différences d'efficacité. Les principaux buts des auteurs sont ici de décrire les DCC de manière plus exhaustive et d'en faire une première analyse dans une perspective théorique.

Les auteurs ont adopté la méthode de l'entrevue semi-structurée pour recueillir des données au sujet de la mission, des ressources et de la structure d'organisation des DCC dans cinq cabinets d'expertise comptable. L'un des auteurs a interviewé séparément un associé national et un directeur national dans chacune des DCC. L'intervieweur a, de plus, passé en revue le déroulement d'au moins une consultation récente avec chaque sujet interviewé à l'échelon national, dans le but de mieux comprendre le processus. Les auteurs ont aussi obtenu un exemplaire des chapitres du manuel de vérification de tous les cabinets portant sur la DCC. Ces manuels contiennent la description officielle des DCC, notamment comment et quand il convient de faire appel à leurs services.

Dans le cadre de l'étude, d'autres entrevues ont été réalisées dans les bureaux régionaux des cabinets, ce qui constituait une autre source d'information. Un associé de vérification a été interviewé dans chacun des cabinets. L'intervieweur a, là aussi, passé en revue le déroulement d'une consultation récente à laquelle avait participé l'associé régional, afin d'obtenir davantage d'information sur le processus.

Toutes les entrevues (celles des DCC et celles des bureaux régionaux) ont été enregistrées. Un assistant de recherche qui ignorait le but de la recherche transcrivait les bandes enregistrées dans les DCC. L'auteur qui n'avait pas assisté aux entrevues des DCC lisait les transcriptions et écoutait certaines portions sélectionnées des bandes enregistrées pour s'assurer de l'exactitude de la transcription. Les deux auteurs ont lu les chapitres du manuel de vérification qui leur avaient été remis par les associés des DCC. Ils étaient tous deux présents aux entrevues réalisées dans les bureaux régionaux. L'un a transcrit les entrevues, tandis que l'autre a vérifié la transcription. À partir de toutes ces sources, l'auteur qui n'avait pas assisté aux entrevues des DCC a défini la mission perçue, les ressources employées et les processus suivis par chacune des cinq DCC. Ce même auteur a également pris les premières décisions de classification nécessaires à l'analyse de la mémoire organisationnelle. L'auteur qui avait réalisé les entrevues a procédé, de son côté, à la même analyse. Aucune contradiction n'a été relevée entre les analyses des deux auteurs, réalisées à l'aide de ces trois sources de données.

Les auteurs ont examiné les manuels des cabinets afin de définir la mission officielle des DCC en matière de consultation. L'exercice n'a révélé aucune différence entre

les cabinets en ce qui a trait au rôle du DCC dans son ensemble. Quatre manuels exigeaient la consultation du DCC relativement à certaines questions de comptabilité difficiles, et tous les manuels avalisaient le principe de l'importance de l'activité de consultation. Si les auteurs avaient choisi d'aborder leur étude par la lecture des missions « officielles » des DCC telles qu'elles étaient énoncées dans les manuels des cabinets, leurs conclusions auraient donc été les suivantes : peu de différence entre les DCC des cabinets, mais certaines différences dans les questions exigeant la consultation.

Les auteurs ont relevé des différences dans l'effectif des DCC des différents cabinets, différences qui n'étaient pas totalement expliquées par celles du nombre d'associés ou du nombre de clients de vérification. Ils ont également relevé des écarts dans les ressources dont disposait le personnel des DCC. Dans trois cabinets, les bases de données écrites dont disposait le personnel étaient très limitées, tandis que, dans les deux autres, le personnel des DCC avait accès à une base de données informatisées sur les consultations antérieures. En outre, ces deux mêmes cabinets avaient pour principe d'exiger que le personnel des DCC consigne par écrit le déroulement de toutes les consultations, tandis que les trois autres cabinets comptaient avant tout sur le personnel de l'expertise comptable pour documenter la consultation.

Afin de déterminer dans quelle perspective il convenait d'analyser les fonctions de la DCC, les auteurs ont proposé certaines notions fondamentales relatives à la mémoire organisationnelle. La mémoire organisationnelle se compose des mémoires individuelles des membres du cabinet, auxquelles s'ajoutent les méthodes de fonctionnement normalisées du cabinet, la structure organisationnelle et la culture organisationnelle, ainsi que les archives internes et (ou) externes dont dispose l'organisation (Walsh et Ungson, 1991). La mémoire individuelle se compose à la fois de la capacité personnelle du sujet de se remémorer et d'articuler ses expériences, ainsi que de tous les registres et les dossiers qu'il conserve à titre d'aide-mémoire (Cowan, 1988 ; Huber, 1991 ; Weick, 1979). Les normes du cabinet en ce qui a trait aux méthodes de fonctionnement constituent « un schéma qui structure la gestion du contexte. Il s'agit d'un cadre de référence qui balise l'exploration [...] » (Weick, 1979, p. 156 [TRADUCTION]). Les normes orientent la transformation des intrants en extrants (Walsh et Ungson, 1991).

Daft et Weick (1984) ont proposé un modèle d'organisation selon lequel la nature de la mémoire organisationnelle dépend des hypothèses que la direction du cabinet formule au sujet du contexte ainsi que de la profondeur de l'analyse du contexte à laquelle se livre le cabinet. Ils désignent ce modèle sous l'appellation de « système d'interprétation ».

Les organisations qui adoptent un comportement passif à l'égard de l'analyse du contexte sont désignées par Daft et Weick comme étant des « observateurs conditionnés ». Les observateurs conditionnés interprètent habituellement les problèmes selon des schémas traditionnels, établis de longue date. Ces observateurs s'appuient habituellement sur des procédés bien établis et des sources d'information traditionnelles. Ils ne prennent pas non plus de mesures énergiques pour en apprendre davantage sur le contexte. Ils se contentent de répondre à l'ensemble limité des données relatives au problème qui leur sont communiquées. Les cabinets qui adoptent ce comportement bâtissent donc des mémoires organisationnelles relativement limitées.

Les organisations qui adoptent un comportement dynamique dans l'analyse du contexte sont désignées sous l'appellation d'organisations « exploratrices » (Daft et Weick, 1984). Ces organisations s'efforcent de se renseigner sur le contexte dans lequel la décision doit être prise. Elles tentent de découvrir et de bâtir de nouvelles sources d'information. Elles veulent avoir, en vue de prendre leurs décisions, le dossier d'information le plus complet possible au sujet des problèmes qui doivent être résolus. Les cabinets qui adoptent ce comportement bâtissent donc des mémoires organisationnelles relativement plus élaborées et exhaustives.

L'analyse des auteurs révèle des différences entre les DCC en ce qui a trait à leur capacité d'agir comme source de mémoire organisationnelle pour leur cabinet. Les auteurs classent deux cabinets dans la catégorie des organisations exploratrices, deux autres dans celle des observateurs conditionnés et le dernier dans une catégorie associant les deux comportements. Ces différences résultent des facteurs suivants : a) les ressources dont disposent les DCC ; b) la structure des DCC ; c) la mission qui leur est confiée par les cabinets ; et d) la façon dont les DCC s'intègrent à la structure globale du cabinet et à la culture organisationnelle. Les DCC exploratrices (par rapport aux DCC qui sont des observateurs conditionnés) possèdent un important effectif de consultants attachés à un service prestigieux qui se consacre à des études spéciales et qui élabore des bases de données internes. Les consultants des DCC exploratrices veulent être renseignés sur le but poursuivi par le client dans une opération avant de formuler des conseils en matière comptable, et ils préfèrent de beaucoup être consultés avant que le client ne se lance dans une opération. Ils documentent systématiquement les résultats des consultations et s'efforcent de veiller à ce que leurs conseils soient cohérents dans le temps lorsque les cas sont semblables. Dans l'ensemble, les différences que notent les auteurs dans les DCC laissent croire que les cabinets ont peut-être une capacité différente de faire en sorte que les cas similaires soient traités de la même manière.

Cette recherche a toutefois ses limites. En premier lieu, bien que les auteurs aient corroboré ces données dans la mesure du possible (au moyen, par exemple, d'entrevues avec le personnel de différents échelons dans les cabinets, de l'examen du déroulement de consultations véritables, de l'examen de données d'archives, de l'inspection matérielle des ressources), il est possible que la réalité diffère des descriptions livrées dans le cours des entrevues. En second lieu, les auteurs font appel à la théorie de la mémoire organisationnelle, qui doit normalement s'appliquer à l'ensemble d'un cabinet, pour étudier un service d'un cabinet d'expertise comptable. Ils n'ont cependant pu déceler dans les cabinets aucune différence compensatoire qui atténuerait les différences observées dans la capacité des DCC de servir de source de mémoire organisationnelle sur les questions techniques de comptabilité.

Selon les auteurs, l'importance de cette recherche tient à quatre facteurs. Premièrement, ils s'intéressent explicitement au rôle des DCC et en décrivent les fonctions évoquées dans les recherches précédentes. Les DCC sont une composante organisationnelle qu'il importe de comprendre, puisqu'elles jouent, affirme-t-on, un rôle d'arrière-plan essentiel dans la résolution des problèmes comptables difficiles qui se présentent dans l'exercice de la vérification (Danos, Eichenscher et Holt, 1989). Deuxièmement, la perspective des auteurs basée sur la théorie peut amener les cabinets à repenser le fonctionnement de leurs DCC et la nature des méthodes qu'elles emploient. Les autorités de réglementation favorisant la participation accrue des DCC à la résolution des problèmes comptables difficiles (OSC, 1996), ce facteur est d'autant plus important. Troisièmement, les conclusions des auteurs donnent à penser que les DCC qui appartiennent à la catégorie des observateurs conditionnés risquent davantage d'être incohérentes dans le pilotage du cabinet, parce qu'elles s'appuient d'abord sur les mémoires personnelles des consultants et ont recours à des méthodes improvisées pour coordonner le travail. Même si la taille plus modeste des DCC appartenant à cette catégorie peut atténuer l'inquiétude relative à la coordination du travail des consultants, elle ne résout pas davantage l'inquiétude qui a trait à la cohérence des conseils formulés. Quatrièmement, les auteurs proposent une théorie relative à la mémoire organisationnelle qui est inédite dans les publications sur la comptabilité et la vérification. La théorie de la mémoire organisationnelle pourrait avoir des conséquences sur l'élargissement de la portée des recherches sur le jugement des vérificateurs, puisqu'elle s'intéresse à la façon dont la mémoire organisationnelle d'un cabinet peut influencer sur les jugements personnels (Hogarth, 1991 ; Huber, 1991 ; Kim, 1991 ; Solomon, 1987).

An accounting consultation unit (ACU) is an organizational unit of a public accounting firm that has a mandate to assist practice office partners in making the difficult judgments relating to financial statements of the firm's clients (Salterio 1994; Danos and Boley 1980). These judgments include the following: (a) accounting policy selection when there is a choice in current standards or no standard exists; (b) measurement and valuation alternatives; and (c) disclosure requirements. Disagreements between ACU partners and practice office partners are normally resolved at the highest levels of the audit firm (e.g., the national managing partner). External observers of public accounting firms have indicated increasing discomfort with public accounting firms advocating apparently different accounting policies for similar factual situations in interactions with regulators (Schuetze 1994; Shah 1996). Some regulators believe the ACU has the potential to be a key player in reducing such apparent differences through better research (Ontario Securities Commission (OSC) 1996). Indeed, the OSC (the largest public company regulator in Canada) suggests that "failure to consult such individuals (*ACU partners*) beforehand may result in delays in resolving issues." (1-348, italics added). This suggestion implies the potential for additional costs for companies if consultation is not done (or it is done poorly) along with the consequent loss of auditor reputation should problems arise. Therefore, understanding the policies and practices of ACUs, and the extent of differences among firms (if any), is important for assessing the relative ability of different public accounting firms to respond to consultation issues.

Despite the potentially pervasive, behind the scenes, influence of ACUs, they are only rarely mentioned in the accounting and auditing research literature. Danos, Eichenseher, and Holt (1989) found that local office partners rarely consult the ACU, but when they do, they consider it a very important source of information in their decision making. Schultz and Reckers (1981) showed that ACU-like advice affected audit partner judgments on accounting disclosures. Gibbins and Swieringa (1995) suggested that ACUs may be an overlooked source of data for accounting research on recognition, measurement, and disclosure issues. Yet none of these researchers have described the ACU or considered if different organizational forms might lead to differential effectiveness.¹ The major goals of this paper include describing ACUs more extensively and providing an initial analysis of them from a theoretical perspective.

We begin by providing a description of the ACUs for the largest five firms in Canada. This description was developed from a program of semistructured interviews at both the national and the local office levels, walkthroughs of actual consultations with the partners and managers involved in those consultations, and an examination of the audit firm manuals. We introduce the concept of organization memory and make an argument that an ACU is an important source of a public accounting firm's organizational memory. The ACUs are then analyzed through the theoretical lens provided by organizational memory theory.

Our analysis indicates differences among the accounting consultation units in terms of their ability to act as a source of organizational memory for their firms. In particular, we find differences among firms in the resources that are made available for the consulting unit and in the emphasis placed on the consultant's role. Overall, these differences we identify in ACUs suggest that the firms may have differential ability to ensure that similar factual situations are accounted for in the same way.

We believe this research is important for three reasons. First, we explicitly focus on and describe the function of the ACU, which has been alluded to in prior literature. ACUs are an important organizational feature to understand because they are reported to play an important background role in resolving the more difficult accounting issues in audit practice (Danos, Eichenseher, and Holt 1989). Second, our theory-based perspective may lead the firms to reconsider how their ACUs function and the kind of procedures they employ. This development is important in light of a regulatory call for increased ACU involvement on difficult accounting issues (OSC 1996). Third, we introduce theory on organizational memory that is new to the accounting and auditing literature. Organizational memory theory may have implications for expanding the scope of auditor judgment research by considering how individual judgments can be affected by a firm's organizational memory (Hogarth 1991; Huber 1991; Kim 1991; Solomon 1987).

The remainder of the paper is organized as follows. First, we describe the ACUs of the five largest public accounting firms in Canada. Second, we introduce the theory of organizational memory. Third, we examine the role of the ACU in light of this theoretical lens. Finally, we present conclusions and suggestions for further research.

Accounting consultation units in Canada

The ACUs of the five largest public accounting firms in Canada (all Canadian affiliates of Big Six firms) are described in this section. We chose the five largest firms because 80 percent of the audits of the largest 1000 public companies in Canada are carried out by these firms (Greenwood, Cooper, Hinings, and Brown 1993). The sixth largest firm audited only 3.3 percent of the largest 1000 public companies. Although we undertook preliminary research on the sixth through eighth largest firms, we found those firms' ACUs to be (a) very small, (b) organized as "one person" endeavors (and in two cases they had no written consultation policy), and (c) tending to change how they functioned when the incumbent changed.² Therefore, they and all smaller firms were excluded from this study. Furthermore, support for our decision to focus on the five largest firms is available in the Canadian Institute of Chartered Accountants (CICA) study of "best practices" for quality control. This study reported that of the largest 17 firms in Canada, only 6 had a written consultation policy (MacLean 1993). Thus, many firms are eliminated from our study because the existence of a written consultation policy was the starting point for our research.

The method of data collection and analysis

We followed a semistructured interview approach to collecting data about the existing organizational mandate, resources, and structure of the ACUs in the five firms. One author interviewed a national office partner and manager separately in each of the ACUs.³ In addition, we walked through at least one recent consultation with each interviewee at the national office level to gain further insight into the process. As well, we obtained a copy of all firms' audit manual sections describing the ACU. Such manuals provide the formal description of the ACU, including references to how and when consultation is required.

Additional interviews were carried out at the local office level of the firms in our study, providing another source of data. An audit partner from each of the firms was interviewed. These local office audit partners were located at offices some distance away from the ACU and were users of ACU services.⁴ We selected the local office and the partner independently of the firm's ACU staff. The ACU staff were unaware beforehand that we were interviewing local office partners. In addition, a recent consultation in which the local partner was involved was walked through to gain further insights into the process.

All interviews (ACU and local office) were taped. A research assistant who was unaware of the purpose of the research transcribed the ACU tapes. The author who did not attend the ACU interviews read the transcripts and listened to selected portions of the interview tapes to ensure transcript accuracy. Both authors read the audit manual sections supplied by the ACU partners. Both authors were present at the local office interviews. One author transcribed those interviews, and the other checked the transcription. Because the local office interviews were supplementary data, it was felt that an independent transcription was not needed of those interviews. Employing all of these resources, the author who did not attend the ACU interviews identified the perceived mandate, the resources employed, and the processes followed by each of the five ACUs. This same author also made the primary classification decisions required for the organizational memory analysis. The interviewing author independently performed the same analysis. No disagreements were found between the two authors' analyses employing these three data sources.

All procedures that were followed in the walk-throughs were cross-checked with those procedures noted in the interviews by the author who was present at the walk-through. No discrepancies were found between the reported procedures in the interviews and the inquiry walk-throughs that were observed.

This data-gathering approach, employing multiple sources of information, enabled us to triangulate our research to ensure that we understood both the formal and informal aspects of the current institutional arrangements (Jick 1979). In the description and analysis that follows, all of our sources support the interpretation given unless we explicitly note to the contrary. Finally, as part of our analysis, a draft of this paper was circulated to our informants. Their feedback confirmed we had described their ACU correctly. Further, the feedback did not take issue with the substance of our analysis.

The remainder of this section is descriptive. We analyze the ACUs after we present the organizational memory theory that structured the analysis.

Formal mandate of the ACUs

We examined firm manuals to discover the formal mandates of the ACUs on the subject of consultation. These formal mandates indicated no differences across firms with respect to the overall role of an ACU. Four of these firm manuals require consultation on certain sensitive accounting questions, and all manuals endorsed the principle of consultation as being an important activity. Table 1 lists the issues on which consultation is required. The table is derived from the audit manual sections describing the ACU function. Table 1 also breaks down the issues that require consultation by firm. Other accounting issues may be suggested for consultation in the technical accounting manuals maintained by each firm but they are not grouped together for reference. Therefore, if we had approached this study from reading the “official” mandates of the ACUs as expressed in firm manuals, we would have concluded there was little difference among the firms’ ACUs, beyond some differences in issues that required mandatory consultation. As will be shown later in the paper, this conclusion would have been erroneous.

TABLE 1
Analysis of accounting issues for which consultation is mandatory by firm*

Issue	Does firm require consultation?				
	Firm 1	Firm 2	Firm 3	Firm 4	Firm 5
Material departure from <i>CICA Handbook</i> recommendations	No	Yes	Yes	Yes	Yes
Non-arms-length transactions	No	No [†]	Yes	Yes	No
Valuation issues with substantial uncertainty	No	No [†]	Yes	Yes	No
Going concern problem is suspected	No	No [†]	Yes	Yes	No
New type of transaction	No	No [†]	Yes	No	Yes
Corporate restructuring transaction	No	No [†]	No	Yes	No
Future-oriented financial information being disclosed	No	No [†]	No	Yes	No
Total required consultations per ACU manual section	0	1	5	6	2

Notes:

* Analysis is based on the section in a firm’s audit manual that describes accounting consultation units and their duties.

† Consultation is required if a modification from an unqualified audit opinion is contemplated.

Resources available to the ACUs

Personnel

Table 2 shows the ACU staffing for each of the largest five public accounting firms. The table reveals differences in the number of partners and managers assigned to the ACUs.⁵ All ACU partners and managers are full time at the ACU with minimal continuing audit responsibilities (e.g., one of the five partners at Firm 3 had one audit client for which he was nominally the engagement partner). Firms 3 and 4 have more ACU staff than the other firms. Except for Firm 4, these staffing differences do not appear to reflect differences in the number of partners in the firm or the number of public company audit clients that the firm has in Canada.⁶ Firm 4 does, however, have a lower ratio of partners to ACU staff and a lower ratio of *Report on Business* 1000 firms to ACU staff than the other firms. According to the partner in charge of this ACU, these ratios are due to the firm's extensive centralized quality control procedures, which require substantial involvement of ACU staff to review all publicly issued financial statements audited by the firm.

TABLE 2
Staffing of the Accounting Consultation Units*

	Firm 1	Firm 2	Firm 3	Firm 4	Firm 5
Number of Partners	4	2	5	10	2
Number of 'Permanent' Managers [†]	2	3	1		1
Number of 'Rotating' Managers [‡]			5	8	1
Ratio of number of <i>Report on Business</i> 1000 firms audited to number of ACU staff [§]	29:1	23:1	20:1	7:1	32:1

Notes:

* Data about ACU size is based on ACU partner interviews. In all cases the interviewee verified, at our request, the reported numbers through reference to the national office phone list. Local office partner interviews corroborated this ACU size information.

[†] 'Permanent' manager — a manager assigned to the ACU with indefinite term.

[‡] 'Rotating' manager — a manager assigned to the ACU with a defined term, normally three years.

[§] Based on an analysis of the *Report on Business* 1994 rankings.

Documentary

ACUs employ a large set of documentary resources to research accounting problems. These resources include databases of authoritative Canadian and US standards, databases of Canadian and US annual reports, national and international firm-specific manuals, and national office libraries with associated librarians. There is, however, one major difference among the resources the firms use. That difference is an internally developed database of prior consultations. Firms 3 and 4 have a computerized database that they have developed

internally from prior consultations (in addition to having paper files). The ACUs of Firms 3 and 4 issue several hundred written consultations a year that form the basis for the database. The databases are not set up to record numbers of consultations per period, therefore, we can only supply estimates of the numbers of written consultations. Firm 5 has a database in paper files. Firm 5 issues between 50 and 100 written consultations that are the basis for its manual database. Firms 1 and 2 rarely develop (less than 20 per year) written consultations except on “high-risk clients.” Visual inspection during the walk-throughs corroborated all estimates noted in this section.

Structure of a consultation

Our interviews suggest that there are three principal ways that accounting problems are identified and from which the consultation process begins. The first involves a client posing an issue to a practice office partner prior to the client committing to a transaction. The second involves the practice office audit staff discovering the issue during the course of an audit or when reviewing a client’s financial statements. Third, and more rarely, a practice office partner is asked to provide an opinion on an accounting policy of a nonclient.⁷ This request could be of an ‘opinion shopping’ type of query for instance. In all cases, the partner at the local office level normally consults others in the practice office before entering into discussions with the ACU. Local consultation is not mandatory in any of the five firms we studied, but all firms expect some local consultation to occur. In our interviews with both local office partners and national office partners of Firms 3, 4, and 5, we were told local consultation was strongly encouraged.

Each firm’s manual formally requires that practice office personnel document the results of consultations as part of the audit files kept in the local office. The five firms are not consistent, however, in terms of how they monitor the recording of the facts and conclusions of consultations. The ACUs in firms 3 and 4 routinely document consultations with the practice office and send a copy of that documentation to the practice office. The ACU in Firm 2 requires the practice office to generate the documentation and send it to the ACU. According to the ACU partner and manager interviewed, support staff file these documents by client name when they arrive. No systematic follow-up is made to ensure that documentation is received.⁸ These files are not referred to again unless there is some extraordinary event (e.g., lawsuit). The remaining two firms, 1 and 5, have no explicit policy in this area. Our interviews revealed that practice was for the local office to maintain “some” documentation about the consultation in the audit files. Only when “extraordinary” issues arose did the ACUs of firms 1 and 2 actually document the results of the consultation and forward such documentation to the practice office. Our interviewees were unable to identify a set of factors that made one consultation more important than another because all consultations revolved around difficult accounting

issues. This difference in documentation practice will be discussed in the analysis sections, which follow the introduction of organization memory theory.

Organizational memory

To provide a perspective for analyzing the ACU functions, we introduce some basic concepts about organizational memory. Organizational memory is composed of the individual memories of firm members plus the firm's standard operating procedures, organizational structure and organizational culture, as well as any internal and/or external archives that are available to the organization (Walsh and Ungson 1991). The individual's memory is composed of both the person's own capacity to remember and articulate experience, as well as any records and files the person maintains as memory aids (Cowan 1988; Huber 1991; Weick 1979). The firm's standard operating procedure is "a schema that structures dealing with an environment. [It] is a frame of reference that constrains exploration . . ." (Weick 1979, 156). Standard operating procedures guide the transformation of inputs into outputs (Walsh and Ungson 1991).

Organizational structure guides the coding and channeling of information in a firm (Walsh and Ungson 1991). Organizational culture, although subject to many interpretations, can be described as a learned way of perceiving and thinking about problems that are transmitted to members of a given organization (Schein 1984). Archives can be maintained within an organization (e.g., internal databases) as well as by others outside the organization (e.g., the business press and data-collecting agencies like Standard and Poor's). Overall, organizational memory is a key source of an organization's attempt to interpret the environment in which it operates (Sandelands and Stablein 1987). By such interpretation we mean that people try to understand what they have done, define what they have learned, and attempt to solve the problem of what to do next.

Daft and Weick (1984) proposed a model of the organization that suggests the form of its organizational memory depends on the assumptions that the firm's management makes about the environment as well as the extent to which a firm investigates the environment. They call this an "interpretation system."⁹ Several empirical studies have found evidence supportive of this theory (e.g., Thomas, Clark, and Gioia 1993; Milliken 1990).

Organizations that take a passive approach to analyzing the environment are denoted by Daft and Weick (1984) as 'conditioned viewers'. Conditioned viewers usually interpret problems within traditional, long-established boundaries. Such viewers usually rely on well-established procedures and traditional sources of information. Also, they do not take active steps to learn more about the environment. They respond solely to the limited set of problem data given to them. Thus, firms exhibiting this approach would develop relatively limited organizational memories.

Organizations that take an active approach when analyzing the environment are referred to as 'discovering' organizations (Daft and Weick 1984). These organizations are concerned with learning about the environment in which a decision is to be made. They attempt to discover and build new sources of information. They want to have the most complete set of information about the problems to be solved in order to make decisions. Firms that exhibit this approach, therefore, would develop relatively more elaborate and comprehensive organizational memories.

Daft and Weick suggest different organizational resources and processes are employed in developing organizational memory depending on the approach taken to the environment. Therefore, discovering organizations employ extensive resources for searching and documenting information about the environment in comparison to the more passive, conditioned viewing organizations. These more extensive resources are likely to be located in a separate, high-profile department. These departments or units would frequently undertake special studies and reports in addition to developing extensive information databases.

Conditioned viewing organizations tend to be focused on traditional roles and they are concerned with internal (within-the-firm) customers (Daft and Weick 1984). In contrast, the discovering approach responds to external-customer generated demands. The conditioned viewing decision process features limited searches of personal memory and a limited set of resources. In discovering organizations, on the other hand, the focus is on the systematic search of an extensive set of resources to ensure that multiple approaches/alternatives are considered and weighed before making a final decision. The first column of Table 3 summarizes the differences, as suggested by Daft and Weick, between discovering organizations and conditioned viewing organizations.

An organizational memory analysis of ACUs

Before we analyze the ACUs through the lens of organizational memory theory, we comment on the level of organizational analysis. Organizational memory theory was developed at the level of the organization as a whole (e.g., in this case, the public accounting firm). We are using it, however, to analyze a division or subcomponent of an organization (i.e., the ACU). To date, organizational memory researchers have not considered subcomponents of the firm as units of analysis. We argue that as long as we can determine there are no offsetting differences in how the firms are organized, we can apply this theory to analyze differences among ACUs.

To determine whether there were differences among the firms that could offset the ACU differences, we asked all our interviewees to describe other support structures that they used in analyzing difficult accounting judgment issues (an open-ended question). We then reviewed with each interviewee a list of potential additional resources (e.g., industry sector groups, regional referral

TABLE 3

Discovering and conditioned viewing organizations

Theory-based characteristics employed to classify ACUs*	Characteristics of firms 3 and 4 that support classifying them as discovering organizations†
Panel A: Ability to scan environment	
<p>Discovering organizations tend to have these characteristics to a <i>greater extent</i> than conditioned viewing organizations:</p> <p>a. Amount of resources available including both human and data</p> <p>b. The existence of separate departments</p> <p>c. The performance of special studies</p> <p>d. Extent of database resources available</p>	<p>a. Large number of consultants</p> <p>b. High-profile department (e.g., internal newsletters, designated contacts in practice offices, internal e-mail distribution of new developments) to ensure the ACU will be consulted on significant issues.</p> <p>c. Special studies done on a regular basis on new accounting issues</p> <p>d. Developed own database to enable firm to keep track of prior consulting decision decisions in addition to extensive externally purchased databases.</p>
Panel B: Customer focus	
<p>Discovering organizations: focus on the final recipients of the product (the external customer).</p> <p>Conditioned viewing organization: focus on internal customer (within the organization).</p>	<p>a. Consultants want to be informed about the client's goal for the transaction before providing accounting advice.</p> <p>b. Consultants prefer to be consulted before the client undertakes the transaction.</p>
Panel C: Search process employed	
<p>Discovering organizations: feature both informal searches (primarily from memory) <i>and</i> formalized searches of databases and other information about the environment.</p> <p>Conditioned viewing organizations: feature <i>only</i> informal searches (primarily from individual memory).</p>	<p>a. Consultants routinely search databases as part of their preparation of advice in addition to searching the authoritative literature (e.g., <i>CICA Handbook</i>, FASB pronouncements) and searches of personal memory.</p> <p>b. Consultants attempt to ensure consistent responses over time for similar circumstances.</p>
Notes:	
* Based on Daft and Weick 1984.	
† Based on ACU partner and manager interviews, local office partner interview, and a walk-through of a significant consultation recently performed at each ACU.	

services, in-office library resources, international linkages to related firm ACUs in other countries) that might have offset any differences found in an ACU's ability to act as a source of organizational memory. Based on these

inquiries, we were unable to find any evidence among the five firms that suggest the firms employed other resources to compensate for differences in ACUs.¹⁰

Based on the procedures for data analysis outlined in the preceding section, we classified the firms' ACUs according to Daft and Weick's theory. Our classifications indicated that two of the public accounting firms show characteristics associated with discovering organizations and two show characteristics of conditioned viewing organizations. The fifth firm contained certain characteristics similar to both discovering organizations and also conditioned viewing organizations. Therefore, the analysis of the fifth firm is described separately.

Discovering organizations

We classified Firms 3 and 4 as discovering organizations. These discovering ACUs feature separate departments that are well staffed (see Table 2). The ACUs obtain a high profile in their firms by employing local office partners as ACU liaisons, circulating internal newsletters based on their department's activities, using an e-mail list of contacts to disseminate information quickly to practice offices, and making annual visits to most practice offices. Consistent with the discovering organization's emphasis on creating new knowledge about the environment, ACUs of these firms develop proprietary databases based on client-specific research previously completed. The discovering ACUs carry out a broad range of studies relating to important accounting issues. Further, the manuals of these firms mandate that consultation be undertaken with the ACU on a broader range of accounting issues than the other firms (see Table 1).

The two ACUs with characteristics of discovering organizations encourage early identification by practice offices of matters requiring consultation. Practice offices, in turn, are encouraged to have their clients consult the firm about an issue *before* any proposed transaction is started. As the ACU partner in Firm 3 described it, "We get involved. And that's not just with our offices, but with the clients, in dealing with these issues before they are done deals." These ACUs consider it important to understand the clients' business reasons for entering into given transactions before developing a technical accounting response. A Firm 4 ACU partner put it this way: "[You need to know] especially the background about the business. ... You need to know who the stake holders are in the business. You should have an idea of the financial condition of the businessThen you need to know the specifics of the particular transaction or circumstance."

ACUs classified as discovering organizations use extensive searches of databases, both internally developed and externally purchased, as a matter of routine. They wish to have as much information as possible when they formulate a response. All of these activities reflect the perceived mandate of the discovering organization that seeks to respond to the organization's external customer, the audit client.¹¹ The second column of Table 3, summarizes the

characteristics of the two ACUs that lead us to classify them as discovering organizations.

Conditioned viewing organizations

We classified the ACUs of Firms 1 and 2 as conditioned viewing organizations. Consistent with the conditioned viewing perspective, these two ACUs tend to be fairly small (see Table 2). Furthermore, they are relatively low profile in their firms because they have no (or only nominal) local office liaison partners, no special department newsletter, and the practice office visitation programs are not formalized and are undertaken on an ad hoc basis. In contrast to Firms 3 and 4, these ACUs do not maintain their own databases, and they infrequently perform special studies of the environment. In addition, the manuals in these firms require ACU consultation on a limited set of issues (see Table 1).

The ACU partners told us they do not place special emphasis on being consulted before the client enters the transaction. This finding was confirmed by interviews with practice office partners. Further, these two ACUs believe their main role is to arrive at the best technical accounting solution based on what they believe is "good" GAAP. As the ACU partner in Firm 1 put it, "We don't make business judgments. We're making the accounting decisions, as to whether it's ultimately right or wrong." The local office partners confirmed this was the case. Conditioned viewing ACU partners leave it to the practice office partner to deal with the client's business concerns in the proposed resolution to the accounting issue.

Firms 1 and 2 ACUs are generally not interested in the reason why the client has entered the transaction. As the ACU partner in Firm 2 said, "Frequently I'll be dealing with queries ... concerning accounting issues, without knowing who the client is." The consultants of conditioned viewing firms reported they view each problem as unique, rely on personal memory to analyze issues, and relatively rarely conduct searches of the external databases. As the ACU partner of Firm 1 describes it, "Certainly we don't as standard operating procedure ... go back and look at the advice that might have been given on the *same* issue." Our interviews reveal these ACUs view their role as responding to practice office partners' problems, not the audit client. This finding is consistent with an internal customer focus characteristic of conditioned viewing firms.

ACUs as a source of organizational memory

Discovering ACUs seem to have significantly greater ability to provide a firm-wide organizational memory than do conditioned viewing ACUs. The capacity for organizational memory is reinforced in discovering firms by a firm-wide organizational structure that highlights the memory role and an organizational culture that emphasizes consultation. Further, additional documentary resources in discovering firm ACUs provide tangible evidence that the ACU has additional resources that may be useful to practice office personnel.

Organizational structure

The discovering firms (3 and 4) assign managers from various practice offices to their ACUs for approximately a three-year rotation period in support of the ACU partner's research. Such a rotation of managers increases an awareness of the ACU at the practice office level. As the Firm 3 partner explained, "When they [the managers] move back into the practice office, [they] will play a key role there." In addition, the discovering firms have one or more designated partners in each of the practice offices to manage communications from the ACU to the practice office and to encourage practice office consultation with the ACU.

The conditioned viewing firms (1 and 2) appear to believe there is little value in rotation of managers. "We can't see any purpose or fundamental benefit to the practice of having tours of duty" is the way a partner in the ACU of Firm 2 described it. These firms have, at best, a nominal practice office presence. As the Firm 1 ACU partner puts it, "we liaise with affected partners directly" when dealing with a client-specific accounting issue; otherwise there is "no channel."

Organizational culture

The discovering firms (3 and 4) stress in their manuals and within their department-produced newsletters, that consultation should occur at the earliest possible time. As well, the practice office partners state they attempt to promote this attitude with the firm's clients. In discovering firms an emphasis on consultation is reinforced by a firm-wide peer review system. These reviewers look for situations where, in their opinion, consultation with the ACU should have occurred even when such consultation was not specifically mandated by the firm. The partners interviewed in discovering firms emphasized they attempted to treat similar transactions the same way. As the Firm 4 ACU partner described it, "there's no sort of special treatment for one client or another. . . . So even-handedness with the clients is a big issue."

Conditioned viewing firms (1 and 2), on the other hand, have a limited formal communication program with practice offices, little emphasis on timing of consultation, and view each consultation as unique. The Firm 2 ACU partner describes it as "Pretty much every situation is different. . . . I want to treat everything as a fresh start."

Evidence of additional memory

Personnel in discovering ACUs systematically study the environment by such means as developing special studies and reports. One of the reasons that Firms 3 and 4 have larger ACUs is that the ACU partners have responsibilities for ongoing studies of various accounting issues. In addition, as noted previously, Firms 3 and 4 maintain a database of prior consultations. Both of these activities provide additional memory capacity for the firm that does not rely on personal memory of ACU staff members. These activities provide tangible evi-

dence of resources that ACU personnel at discovering firms can bring to a consultation that otherwise would not be available to a practice office partner. ACU partners at Firms 1 and 2, classified as conditioned viewing firms, believe that databases are not very useful. Indeed, Firm 2 started to develop a manual database employing the documentation of the consultations that were provided to the ACU by the practice offices. Firm 2 discontinued the database development because "those subject files just gathered dust," according to the ACU partner.

The decision as to whether or not to have a database seems to depend on the attitude of the ACU partners regarding the value of having precedents available when making current consultation decisions. Firms 3 and 4 value this resource highly and reported extensive use of their computerized databases. The emphasis of the partners of Firms 1 and 2 on the uniqueness of each consultation requires few, if any, precedents, therefore, it would not make sense to incur the costs to develop databases. Again, both of these reactions are consistent with our classification of these four firms into discovering and conditioned viewing organizations.

The mixed organization: Firm 5

The fifth firm, currently, does not clearly fall into either of the two classifications. This firm contains certain characteristics similar to discovering organizations and other characteristics similar to conditioned viewing organizations. Similar to discovering organizations, it maintains a database of prior consultations. Although that database is currently a manual one, there is a proposal to computerize the paper files. The unit is also high profile in its firm as evidenced by the ACU carrying out a variety of special studies and having an active communications program with the practice offices. The firm also employs resources such as internal newsletters, e-mail, and the firm's audit manual to encourage consultation at the earliest possible time. This firm employs extensive searches of databases, both internally developed and externally purchased, as a matter of routine when researching issues. These characteristics are all consistent with classifying the firm as a discovering organization.

On the other hand, the members of the ACU in Firm 5 expressed only limited interest in finding out from the practice office partner the client's business reasons for the transaction. They are oriented to finding the best technical accounting solution, leaving it to the practice office partner to deal with the interface between accounting solution and client needs. The ACU staff views the practice office partner as its primary customer, not the audit client, reflecting an internal focus. This firm's ACU has only a limited number of issues on which formal consultations are required (see Table 1). Finally, although a database of prior consultations is maintained, it is not nearly as comprehensive as the databases maintained by the firms we classified as discovering organizations. This set of characteristics is consistent with classifying the firms as a conditioned viewing organization.

Given these conflicting sets of characteristics, we could not classify the firm as one of the two types outlined by Daft and Weick. Two possibilities exist. One is that this ACU may be in a state of transition from a conditioned viewing orientation to a discovering orientation. Evidence for this interpretation is found in the proposal to computerize the database of prior consultations. On the other hand, there may be forces at work in this firm that would lead to this combination of characteristics being optimal for it. We leave investigation of these possibilities for further research.

Summary

In summary, we conclude there is a differential capacity among the ACUs to act as a source of organizational memory. This difference is a result of (a) the resources available to the ACU, (b) the structure of the ACU, (c) mandate received from the firm, and (d) how the ACU is integrated into the broader firm structure and organizational culture. Especially of note is the lack of any systematic formal documentation of consultations at the national office level in Firms 1 and 2. This state of affairs constitutes a significant barrier to developing an organizational memory for accounting judgments in those firms because they rely solely on the memories of the consultants.

Indeed, when responding to the question about how ACUs prevent providing inconsistent guidance for similar situations, the answers among the two groupings of firms were different. In Firms 3 and 4, the discovering organizations, the interviewees emphasized that consistency was judged relative to the contents of the internal database. Individual consultants needed to resolve any apparent differences with previous consultations before the current consultation was finalized. Further, the reason stated for computerizing the internal database was so that ACU partners would have more current information than a manual system could provide. In Firms 1 and 2, the conditioned viewing organizations, we were told that consistency in guidance is achieved through consistent reasoning by the consultants. The Firm 2 ACU partner stated, "the reasoning pattern is going to be the same consistently." The partners of Firms 1 and 2 reported that consistency among consultants is achieved through informal discussions, not formal practices. Research in accounting and auditing, however, has shown that auditors' memories for information in audit engagement files is biased (e.g., Moeckel and Plumlee 1989) in ways that lead to incorrect inferences being drawn. Although this research was carried out at the audit engagement level, it suggests there may be a greater potential for inconsistent guidance on similar situations being provided by the conditioned viewing firms, given their reliance on personal memory and reasoning.

Conclusion

Our review of the organizational memory literature and its application to the ACUs of the largest five public accounting firms in Canada shows that the five firms exhibit characteristics associated with differences in organizational mem-

ory. We classified two firms (3 and 4) as discovering organizations, two firms (1 and 2) as conditioned viewing organizations, and one firm (5) exhibits characteristics that are a mixture of both types. We argue that these different organizational types, combined with how the ACUs are integrated into the broader firm structure and organizational culture, result in differences in the ability of the ACUs to act as a source of organizational memory.

There are, of course, limitations to our research. First, we rely on interview data for our research. Although we corroborated this data to the extent possible (e.g., interviews with various levels of personnel in the firm, walk-throughs of actual consultations, examinations of archival data, physical inspection of resources), there is the possibility that actual practice may vary from the interview descriptions. Second, we employ organizational memory theory that was developed as a firm level theory to examine one department of the audit firm. We could, however, find no offsetting differences in the firms that would ameliorate the observed differences in the ACU's capacity to serve as a source of organizational memory on technical accounting issues.

Regulatory concern is growing about the amount and results of research auditors perform on financial accounting issues (OSC 1996; Schuetze 1994). The Ontario Securities Commission recently commented "It appears to [OSC] staff that research is often not being done at an early enough stage, is not well documented and is not sufficiently thorough." It goes on to state "[OSC] Staff will increasingly expect that individuals such as those in the national offices of firms will have been consulted." (OSC 1996, 1-348) Clearly, the types of differences in firms organizational memories that we have documented in this paper are reflected by these comments. One approach for future research is to relate our documented organizational memory differences with the OSC staff's analysis of accounting research deficiencies. In one sense, this approach would be an external measure of the "quality" of the research being done, and it may suggest whether the organizational memory differences lead to differences in quality of accounting consultations. Such research would require access to sensitive OSC data — this may be difficult to obtain.

There is another related pair of questions about the organizational memory effects of ACUs. First, do these differences in the capacity for organizational memory result in different responses to consultations with the practice offices for the same or similar issues when initiated by different individuals? Second, do these differences result in the audit firm appearing to agree with different accounting policies in seemingly similar situations? Both of these questions may well be part of the OSC concerns.

Our analysis provides tentative answers to these questions. It suggests that there is a greater potential for inconsistent guidance to be made by conditioned viewing ACUs. This difference is due to their primary reliance on the personal memories of the consultants and informal procedures for coordinating consultations. Although the smaller size of the conditioned viewing ACUs may offset the concern about inter-consultant coordination, it still does not resolve the

concern with consultant consistency. Prior research on memory reliance by auditors extensively documents incorrect inferences being drawn from memory (e.g., Moeckel and Plumlee 1989). Certainly, the anecdotal evidence in the United States provided by Schuetze (1994) suggests that firms appear to agree with different accounting policies in seemingly similar situations. Studies done in the context of other organizations (e.g., hospitals and colleges) would suggest that performance differences might occur with organizational memory differences (Thomas, Clark, and Gioia 1993; Milliken 1990). Future research should consider performance/quality-related questions in more detail, although access to data may be difficult to obtain.

Our research may also assist practitioners in developing consultation policies. Practitioner interest is evidenced by a 1993 CICA-sponsored study group that published a research report (*not* a standard) entitled "Guide for Developing Quality Control Systems in Public Accounting" (MacLean 1993). As part of this report the study group developed a statement of "best practices" on consultation with peers (MacLean 1993, 90). The "best practices" consultation statement is written at a high level of generality. Implementation of these "best practices," however, would move ACUs that we classified as conditioned viewing organizations towards the policies and procedures of ACUs we classified as discovering organizations. The detailed ACU analysis provided in this paper may aid in implementing these "best practices."

Finally, in this study we have described the interaction between an individual audit partner who identifies an accounting issue for consultation and an ACU partner. We have seen that in some firms this interaction results in an entry into the firm's internal database, thereby potentially influencing future decisions by other ACU personnel through on-going organizational memory. Further study of the relationship between individual auditor judgment and how the formation of firm-level organizational memory affects other judgments in the audit firm may be valuable in an attempt to expand the bounds of audit judgment research.

Endnotes

- 1 An ACU must be differentiated from its somewhat better-known related unit — the central research unit (CRU). The CRU's role is to provide potential precedents for practice office partners from databases maintained by the firm for that purpose (Salterio 1994; 1996; Salterio and Koonce, 1997; Danos and Boley, 1980). The CRU provides information to be used by local office partners in resolving an accounting issue. This role stands in contrast to the ACU providing an opinion on how the issue *should* be resolved. Because ACU partner involvement in CRU issues is minimal (because precedent searches are performed by managers), there is little chance that ACU partners would confuse the two functions. ACU managers readily differentiate the two functions as well, given the extensive partner involvement in consultations versus the minimal partner involvement in CRU precedent searches.
- 2 One firm indicated it took part in a worldwide industry-based matrix organization and had only a one-person coordinator in Canada. Another firm indicated a

permanent manager was available to find precedents and provide advice. That person was rarely used in the latter function because of the relatively junior level of the position and the lack of experience of the person occupying the position. The third firm indicated it had two partners supported by two managers carrying out the ACU function. The managers both had extensive additional responsibilities beyond supporting the ACU function. The partners each established their own practices and procedures for carrying out the function, and it was indicated that these could change easily when the person occupying the position changed.

- 3 The role of the manager is to provide research support to the partner during the consultation. Therefore, it is valuable to gain another perspective on the consultation process from the viewpoint of the professional staff person.
- 4 Many partners in the largest five Canadian public accounting firms concentrate on smaller private company clients. The accounting issues that arise in these clients rarely become complex enough to warrant use of a relatively expensive resource — the ACU. Therefore, a large minority of partners in each firm has little or no contact with the ACU due to the nature of their practice. Thus, we restrict our local office interviews to partners who were users of the ACU services.
- 5 Some partners at the ACU had developed a degree of specialization in such areas as public company initial offerings. However, our interviews suggest there is very little specialization along the lines of accounting topics at the ACU.
- 6 To assist in fulfilling our obligation to keep the firms anonymous, we do not disclose the ratio of number of partners in the firm to number of ACU staff because this disclosure would easily lead to the identification of firms.
- 7 For example the type of engagement contemplated by Section 7600 of the *CICA Handbook*. This is analogous to the U.S. *Statement on Auditing Standards (SAS)* No. 50.
- 8 Support staff at this firm were briefly interviewed during the walk-through and they confirmed that no follow-up was done.
- 9 Daft and Weick (1984) suggest that the environment is viewed either as unanalyzable or analyzable, in addition to the active/passive distinction discussed in this section. We do not discuss the assumption relating to environmental analyzability because all of the accounting firms we investigated made the implicit assumption that the environment can be analyzed, at least with respect to the issue of advising clients on accounting issues.
- 10 One potential confounding variable in our analysis is the overall tendency of the audit firm to adopt a structured audit approach (Cushing and Loebbecke 1986). However, these types of analyses of firm structure were based on what is documented in the audit manuals and other aids such as preprinted forms (Prawitt 1995). As we have already noted, if we were to base our analysis on what was documented in firm manuals, we would have concluded there was no difference in consultation practices between firms except for the comprehensiveness of the list of required consultations. Further, we are unable to locate any literature that documents audit-firm approach-structure differences in Canada. We have carried out additional interviews with partners in the ACUs of Big Six firms in the United States. We have observed substantial differences between the ACUs in the U.S.A. and their affiliated Canadian firms' ACUs. This observation suggests that it is not wise to generalize the US based audit structure literature to the Canadian firms, at least in this area.
- 11 In both forms of organization, the ACU's client influence is, except in rare circumstances, through the local office partner.

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