CLAN TYPE CONTROLS OVER AUDIT QUALITY – AUDIT SENIORS' PERSPECTIVES

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ABSTRACT

Previous research on audit quality has highlighted the difficulty of using formal controls in the audit environment and the suitability of more informal types of control such as 'clan controls' has been advocated. This study examines audit seniors' perceptions of the existence and operation of clan type controls in audit firms. Findings based on semi-structured interviews with 16 audit seniors from all of the 'Big Four' audit firms suggest that audit seniors are explicitly aware of the existence of two types of informal controls (informal communication and role modelling) which are consistent with the features of clan control. Additionally, valuable insights were obtained into the practical operation of these forms of clan control. In particular, some potential limitations of their effectiveness were highlighted, such as the accuracy of information transmitted through informal channels of communication, variability in styles of audit partners and the existence of more than one clan in the firms.

INTRODUCTION

The control of audit cost and audit quality is a critical concern for audit firms, and the conflict between cost and quality has been well documented in the literature (McNair, 1991; Sweeney and Pierce, 2004). Audit firms are labour intensive and therefore management of time is the dominant factor for cost control. Time can be monitored using formal time recording procedures such as budgets and timesheets (Rhode, 1978). The assessment of audit quality can prove more problematic however, as the output of an audit is difficult to measure and auditors are often uncertain as to what constitutes a good audit' (Power, 2003). In addition,

supervision is a limited form of control in the audit setting, as managers are not usually present at the audit location to supervise seniors (Sweeney and Pierce, 2004), and audit seniors are under time pressure which limits the time they can devote to supervising or reviewing the work of junior staff (Sweeney and Pierce, 2004). Consequently, it has been argued that the characteristics of the audit environment render formal behavioural and output controls less effective in the control of audit quality (Dirsmith and Covaleski, 1985). As a result, audit firms employ formal controls to the extent that they are feasible but they may also rely on informal mechanisms such as clan controls (Macintosh, 1985). Clan controls are a subtle and illusive yet powerful type of social control that require the existence of certain conditions to operate successfully, such as exclusive membership, commitment to organisational goals and agreement on appropriate behaviours (Macintosh, 1985). It has been suggested that these conditions may be present in the audit environment (Macintosh, 1985) and that audit partners are members of a clan and consequently use clan controls to control audit quality (Pierce and Sweeney, 2005).

Previous research in this area in Ireland has focused on audit partners' perspectives of the use of clan controls to control audit quality (Pierce and Sweeney, 2005). However as audit partners are in the unique position of being owner/ managers of the firm, image management concerns may have influenced their responses (Pierce and Sweeney, 2005). In the audit setting, audit seniors perform the majority of the audit fieldwork and have been found in previous studies to exploit the weaknesses of formal controls (McNair, 1991; Sweeney and Pierce, 2004). Hence their perspective on the use of clan type controls is important and, therefore, the purpose of this research is to examine the existence and operation of clan type controls from the audit seniors' perspective. The next section sets out the background literature on clan controls and its application to the audit environment. Thereafter, the research objective is developed, followed by details of the research method and data analysis. Finally, the findings are presented, followed by a detailed discussion and conclusion.

BACKGROUND LITERATURE

Management Control Literature

Different categorisations of controls have been provided in the management control literature such as Ouchi's (1979) classification of market, bureaucratic and clan controls. Market and bureaucratic controls are types of formal control that require the efficient operation of a market and the rules of a bureaucracy to operate successfully (Ouchi, 1979). Ouchi argued that in the absence of the conditions necessary for these formal controls, a more subtle and illusive form of control, called clan control, which is based on social agreements, can operate. Clan controls are particularly applicable in an audit setting, as formal controls such as market and bureaucratic controls cannot operate easily in that environment, but the conditions necessary for clan controls are often present there (Macintosh, 1985).

Pre-Conditions Necessary for Clan Controls

Clan controls possess many distinctive and intangible qualities and require the existence of certain pre-conditions to operate successfully (Macintosh, 1985). Under a clan control system, members believe their own personal interests are best served by complete immersion in the interests of the whole and commitment towards organisational goals runs high (Macintosh, 1985). The members of the clan become so completely socialised that their personal goals become the same as the goals of the clan (Ouchi, 1980) and they instinctually make decisions that are in the best interests of the clan (Ouchi and Price, 1993). Clan members need to feel a sense of communion, solidarity and belonging and this enables them to act as close team members and helps to ensure overall loyalty to the clan (Alvesson and Lindkvist, 1993). The members of a clan share a profound common agreement on what constitutes appropriate behaviour and clans exercise authority that is based on traditions and rituals rather than strict legal form (Ouchi, 1979). Information in the clan is passed on using a combination of rituals, stories and ceremonies which members learn over time and therefore a clan cannot cope with diversity of membership or a high turnover (Ouchi, 1979). Finally, in a clan control system, performance evaluation takes place through subtle reading of signals, which is only possible among intimate co-workers and cannot be translated into explicit, verifiable performance (Ouchi, 1980).

Existence and Operation of Clan Controls

There have been relatively few empirical investigations of clan controls in general, and in particular of how they operate in audit firms. Covaleski, Dirsmith, Heian and Samuel (1998) focused on how clan controls operate over audit partners and Dirsmith and Covaleski (1985) investigated the role of communication in socialising audit staff. Pierce and Sweeney (2005) investigated audit partners' views of the operation of clan controls in the Big Four audit firms in Ireland. In that study, the audit partners unanimously agreed that less formal controls are used in addition to formal control procedures to provide an additional layer of comfort on the quality of audit work. These less formal controls were identified as clan controls and were found to be embedded in the procedures and routines through which audit partners gain assurance on audit quality. Pierce and Sweeney (2005) identified four types of clan controls present in audit firms: partner intuition, informal communication, image management, and selection and training procedures.

Partner Intuition

Intuition of audit partners or the notion of a 'sixth sense' was identified as a key form of clan control by Pierce and Sweeney (2005) and all the partners interviewed in that study referred to the importance of their experience and insight

in the control of audit quality. As Power (2003) pointed out, hunch and intuition are still very much part of the audit process despite attempts to increase the degree of structure and control in audit firms. The reliance by audit partners on their instincts arises from the obscurity (even to auditors themselves) as to what constitutes a good audit (Power, 2003). Pierce and Sweeney (2005) contended that while some control procedures may appear to an outsider to be informal, these procedures do not happen by chance, but instead are activated through the instinct and intuition of partners, and this constitutes a major component of the firms' control network.

Informal Communication

The use of an informal communication network in audit firms was found to be a manifestation of clan control, and these networks are used to exchange information between management and staff on a range of performance-related issues (Pierce and Sweeney, 2005). Pierce and Sweeney found that informal communication networks between partners and managers were regularly used to provide information on suitable staffing for audit engagements and also to provide details of staff performance. Further insights into modes of communication in audit firms were provided by Dirsmith and Covaleski (1985), who found contrasting views from staff and management on the role of informal communication, which led to use of the term 'non-formal communication', an additional form of communication used for mentoring and socialisation purposes in audit firms. This type of communication is thought to be separate and distinct from informal communication, which is considered more social in nature and akin to gossip (Dirsmith and Covaleski, 1985).

Image Management

Pierce and Sweeney (2005) found evidence that some audit partners engaged in image management, which is a form of clan control. Audit firms are extremely image conscious (Power, 2003) and they consistently try to ensure that they are promoting a positive image both externally and internally to control perceived audit quality (Pierce and Sweeney, 2005). Presenting and maintaining the correct image is an integral part of becoming an accountant and learning how to do so is part of the socialisation process that trainee accountants undergo (Anderson-Gough, Grey and Robson, 1998). Anderson-Gough et al. (1998) concluded that in addition to performing formal, technical services for clients, the trainee auditor must also incorporate the values and norms of the profession into their identity and behaviour in order to become a successful professional. In a clan system, agreement on appropriate behaviour is a fundamental condition (Macintosh, 1985) and in the audit environment, learning appropriate behaviour and promoting the correct image is a key feature of an accountant's professional persona (Anderson-Gough et al., 1998).

Selection and Training Procedures

Recruiting the right type of person is an important aspect of clan control (Ouchi, 1979) and in the audit environment audit partners are directly involved in the recruitment process (Pierce and Sweeney, 2005). However, in practice, achieving a good job/person fit can be difficult and therefore formal training helps to redress this deficiency in the recruitment process (Ouchi, 1979). In conjunction with formal training methods used by audit firms, considerable importance is also placed on informal communication and 'in the corridor' training by audit partners (Pierce and Sweeney, 2005). In addition, 'on the job' training, 'peer training' and the use of teamwork on audit assignments were highlighted as important forms of clan control over individual behaviour (Pierce and Sweeney, 2005).

Additionally, Dirsmith and Covaleski (1985) found that mentoring is a very important feature of management control in audit firms and identified three functions of mentoring in the audit environment: career development, social support and role modelling. Scandor and Viator (1994) extended this research and found that all three mentoring functions can be separately identified, are not of equal importance, and that role modelling is in fact a unique mentoring function which occurs in accounting firms. They found that the psychosocial function of role modelling in mentoring consists of a passive socialisation process, whereby protégés learn by observing the mentor, as opposed to actively socialising with them (Scandor and Viator, 1994). They concluded that mentoring relationships are best left to occur in a non-formal manner as this is more effective than formalised mentoring systems (Scandor and Viator, 1994). In addition to the mentor–protégé type relationship described above, Kram (1983) concluded that peer mentoring relationships can also provide essential career and psychosocial functions while operating with a greater sense of equality. Consistent with this view, Kaplan, Keinath and Walo (2001) held that in the audit setting, peer mentoring relationships may be easier to form than superior mentoring relationships such as the mentor–protégé relationship as there is greater access to potential peers than potential mentors due to the nature of the pyramid structure in audit firms.

In the only published Irish study on mentoring in audit firms, two-thirds of participants (including all staff levels from junior to partner) reported having experience of a mentoring relationship and agreed that the influence of a mentor was crucial to career progression (Barker, Monks and Buckley, 1999). However, despite the perceived benefits of a mentoring relationship in the audit environment, mentoring was found to occur on an informal basis and consequently all staff did not have the opportunity to access this process (Barker et al., 1999).

RESEARCH METHOD

Research Objective

Previous research focused on clan controls and their importance in the control of audit quality from an audit partner's perspective (Pierce and Sweeney, 2005).

However, as audit partners are not involved in the day-to-day work in the audit field, their view of the operation of clan controls is limited. Obtaining the views of audit seniors who are not members of the clan and who perform the majority of the audit fieldwork enables the development of a more comprehensive picture of how clan controls operate in practice. However, as audit seniors may not be familiar with the term clan controls, their perceptions of these types of controls will be investigated by commencing with a broad discussion of quality controls and then using the term informal controls to illicit perceptions of clan type controls. This is described further in the findings section. Overall, the objective of this research is to examine audit seniors' awareness of the existence and operation of clan type controls and the following research questions are addressed:

Research Question 1: What clan type controls are perceived by audit seniors to be in existence in audit firms to control audit quality?

Research Question 2: How are these clan type controls perceived by audit seniors to operate in practice?

Research Method and Data Collection

The evaluation design of the study must be considered in light of the relative merits of using either qualitative or quantitative research methods (Patton, 1990). Qualitative methods allow the researcher to study the selected issue in an open and comprehensive manner as the researcher is not constrained by predetermined categories (Patton, 1990). As a result, qualitative methods can produce a wealth of information about a small number of people and cases and this can lead to a greater understanding of the cases and situations studied (Patton, 1990). In contrast, quantitative methods require the use of a standardised measure and the responses of the participants must fit into predetermined response categories, essentially removing the individual perspectives and experiences of the interviewees (Patton, 1990). Therefore with regard to this study, the qualitative approach was thought to be most appropriate, as the topic needs to be explored in detail given the dearth of research conducted on this subject to date. Semi-structured interviews were used to collect the data and this enabled the complex issues covered by the study to be explored in depth using probing questions. An interview guide was used to ensure consistency in the order and wording of questions, which helped to eliminate bias and minimise variation in the questions posed to the interviewees (Patton, 1990). The relevant extract from the interview schedule is contained in Appendix 1.

The Big Four audit firms were selected for this study as evidence of clan controls in audit firms in the previous literature was based on these firms and, between them, they are responsible for employing the largest number of audit staff in Ireland (Pierce and Sweeney, 2005). All Big Four firms agreed to participate in the study. Of the 16 audit seniors selected for interview (four from across the functional units of each of the Big Four firms), equal numbers of male and female interviewees were selected. Audit seniors were defined as recently qualified seniors or seniors in their third year of contract who sat their Final Admitting

Examination (FAE) of the Institute of Chartered Accountants in Ireland in 2004 as this group have all had experience of being 'in charge' of audit engagements and as a result would have worked more closely with audit partners.

Face-to-face interviews of approximately 45 minutes were conducted with each of the 16 audit seniors. These interviews were conducted by the first author in October/November 2005 in a location independent of the audit firms. The interviews were recorded with the permission of the interviewees and confidentiality and anonymity were assured to all participants.

Data Organisation and Analysis

Following each interview, the tape recording was transcribed verbatim. After the first two interviews, a contact summary sheet of the answers to key questions was prepared in accordance with recommendations by Miles and Huberman (1994). The researchers considered whether any of the questions needed to be amended where insufficient data were being collected or where questions were being interpreted differently from what was expected. This resulted in minor changes to the interview schedule and the remaining interviews were then conducted.

Following completion of the interviews, the transcripts were read through for accuracy three times and a summary of the key findings from each interview was prepared. The use of an interview guide provided a descriptive analytical framework which facilitated grouping together of answers from different people (Patton, 1990). This enabled a 'thick description' of the main themes to be presented in the findings (Denzin and Lincoln, 1994). Following the first draft of the thick description, each of the transcripts was re-read to ensure that any quotations selected were considered in context and any other necessary amendments were made in the presentation of the findings. In accordance with the guarantee of anonymity, no details were given in the findings that could identify participants. A number was assigned to each audit senior, ranging from 1 to 16 (i.e. S1, S2… S16). Finally, as recommended by Silverman (2000), a comprehensive table (Appendix 2) categorising the interview findings was compiled to assist with the data analysis and to support the major findings of the study.

FINDINGS

One of the difficulties in seeking to elicit audit seniors' awareness of clan controls is their lack of familiarity with the term 'clan control'. Furthermore, the illusive nature of clan control does not lend itself to being easily defined. To address this difficulty audit seniors were first asked to describe in general the main controls over audit quality in existence in the audit environment. The majority of seniors interviewed described controls as 'very formal' (S13) and identified the review process, audit methodology, documentation, planning and sign-off protocols as types of formal controls over quality. Thereafter, interviewees were asked to describe any less formal controls over quality that may exist and the majority of

seniors identified informal communication and the role modelling aspect of mentoring as types of less formal control present in the audit setting. The audit seniors' perceptions of the existence and operation of these less formal controls are discussed in the next sections.

Informal Communication

The majority of audit seniors interviewed (see Appendix 2) identified the existence of an informal communication network in audit firms and they perceived this network to be an extremely important component of quality control. Many seniors highlighted the necessity for the informal communication network, due to the existence of numerous reporting levels in audit firms and they identified the formal line of communication to be 'junior to senior to manager to partner' (S2). The lines of informal communication in contrast were seen as more fluid and less defined. Interviewees described the operation of the informal communication network as being all pervasive within the firm, where 'it feeds up from manager to partner and across from manager to manager and partner to partner; it goes everywhere' (S5). Seniors' perspectives were sought on the operation of informal communication at each of the levels within the firm.

Interviewees had least experience of informal communication between partners and although some seniors had witnessed some informal discussions between partners, others felt they had not experienced sufficient interaction between partners to comment. A number of seniors mentioned that, in their experience, partners often sought advice on technical issues from other partners which was of crucial importance 'because as a partnership … they're all liable for … any mistakes that [audit seniors] might make' (S15).

When interviewees were asked to describe the informal communication which occurs between managers, a number of seniors perceived the discussions to include information on both 'the professional ability and personality of seniors' (S1). Some seniors described the staff discussions between managers as 'very informal' (S8) and 'more like gossip' (S7). Other seniors mentioned that these sorts of discussions were likely to take place 'in the pub on a Friday evening' (S10) or 'over lunch' (S5).

When asked about the level of informal communication between partners and managers, most of the interviewees were of the opinion that these types of discussions did take place and that they consisted of informal performance evaluations, mainly of audit seniors. However, in one firm audit seniors reported that the partners and managers in that firm specifically denied that these types of informal discussions took place during the weekly staffing meeting. Some seniors in this firm were so concerned about informal discussions of their performance during these meetings that they asked for a seniors' representative to attend the meetings on their behalf. One senior stated that:

> It was a recurring thought of certain seniors that 'I haven't been scheduled on a job or a proper job for the last 6 weeks. Is it a case that I'm not trusted? What are they saying on a [SPECIFIC] … morning?' (S15).

Audit seniors reported that the partners and managers assured staff that this was not the case and offered to have the meetings documented instead by a senior representative (although this procedure was never put in place and the reason given to audit seniors was cost constraints). However, the interviewees were still adamant that 'audit seniors' performance had to be discussed on an informal level' (S15) despite the partners' and managers' insistence to the contrary.

Regarding communication between seniors and managers, the majority of seniors stated that informal communication occurred on a regular basis with their own manager (if group specific) or the manager on the particular job. Seniors were of the view that this communication usually involved the manager phoning when they were out at a client site to see if there were any major issues which needed to be addressed and checking, 'has this been done; has that been done; what's your opinion of this; what do you think is risky?' (S4). However, the extent and frequency of this type of communication often depended on the manager's style.

In relation to the level of informal communication and interaction which occurs between partners and seniors, there appeared to be differences in interviewees' views. Some seniors felt that there was an 'open door policy' (S15) in their firm and that if you had an issue they could circumvent the formal lines as 'there is nothing stopping anyone going straight to the partner' (S2). A number of interviewees felt that partners were quite approachable and their experience was such that 'there is an informal system where you can approach them and ask them questions' (S1) and 'some of them are more engaging and personable and you can call them no problem' (S3). On the other hand, some interviewees believed that they were not in a position to approach partners and that the partners wanted to have as little contact with them as possible: 'it depends on your relationship with the partner, some of them try and remove themselves a bit… they don't want to deal directly with the senior' (S16). A number of seniors felt that there was a line of authority which had to be followed and the partners '…want managers that they can buffer… because a lot of the issues [a senior] might have are very day-to-day that the partner doesn't need to know about so that's the function of the manager' (S4).

In addition to the existence of the informal communication network between all levels of management and between seniors and management, interviewees also reported that an informal communication network existed between audit seniors. Some interviewees described the network 'as a two-way thing' (S7), and they referred to the fact that seniors often got together for a 'lunchtime pow-wow' (S2) to share their opinions in relation to managers and partners and also junior staff members. Recognising the inevitability of informal communication, one interviewee thought that it was 'stupid' for seniors 'to be upset that a partner and manager would discuss [their] performance' (S16) because '[seniors] discuss more junior staff with other seniors' (S16) on a regular basis.

Functions of the Informal Communication Network

The majority of audit seniors identified the functions of the informal communication network as assisting in performance evaluation and consequent staffing of

audits. The interviewees were unanimous in stating that the key purpose of the network was informal discussions about the performance of audit staff. The seniors perceived that initially these discussions took place amongst managers but that the outcome of those discussions would eventually be communicated to partners.

Consequently, many seniors were of the view that the informal discussions that occur on staff performance can impact on the formal appraisal meetings and one senior stated that 'the powers that be know already' (S9) how an individual is performing before any formal appraisals are carried out. Another senior agreed with this view and maintained that the partners' perception of seniors 'comes through the manager and director' (S14) and informal performance reports about her had to be relayed by the director because 'the partner wouldn't be able to do a [formal] review with [her] if he didn't [receive that information]' (S14). Audit seniors were able to provide examples of the operation of the informal communication network such as:

> You know what someone's opinion would be of somebody, but that opinion might come back at you through somebody else, you have no contact with that other person whatsoever, so it's reflecting back through other people (S1).

All of the seniors interviewed believed that their reputation in the audit firm could be affected as a direct result of the informal communication network and that 'you can get a good reputation or bad reputation work-wise' (S2). A consequence of this impact on reputation was the staffing of audits as 'the top jobs like the plc's are given to the seniors who are classed as being stronger' (S4) and 'the managers will want certain people to do certain jobs' (S8):

> I know one or two managers fairly well and they would say that [senior] is very good and they would have heard that; there would be talk amongst them. That person would be very much sought when they are looking for staff... there would be discussions about who is good (S10).

One senior felt that 'there's a lot of tale-telling' (S14) in terms of feedback being given about staff performances on jobs. She maintained that it relates to both good and poor performances and hoped 'that it's equally [good and bad reports] and that it's fair' (S14). It was felt by some seniors that in the majority of instances the managers get the correct impression of trainees but occasionally some managers get an unjustified poor impression of someone. In these cases there may be a 'personality clash' (S16) as there appears to be no 'visible reason' (S16) as to why a manager does not seem to like someone. In this sort of instance it was perceived that 'word of mouth is very strong' (S4) and it may result in that senior not getting scheduled on jobs or receiving good quality audit work.

A number of seniors felt that one's reputation could be affected very early in one's career and there have been incidences where 'a one-off bad incidence for someone like a first year can tarnish the rest of their career' (S16) and 'if you got off to a bad start within the firm, people would not want to give you work' (S12). Some

seniors were of the view that the type of manager and senior you have when you start as a junior can impact heavily on your experience and reputation within the firm as 'if you had the wrong senior and the wrong manager and you put them together, you know it is going to be disastrous' (S12). However, interviewees still strongly believed that 'the audit partner would have the final say' (S9) in relation to their choice of senior for a particular audit despite the fact that it is 'well known around the office, who got on with who, and who liked working with who' (S11).

Regarding informal communication between audit seniors, the function of this type of communication was seen to be the exchange of information on audit partners and their 'pet issues' (S9) and on where certain partners will focus their review. One senior gave an example of an incidence where he was auditing a particular client and before the audit partner review, another senior told him to 'make sure you have your investment section watertight for [partner X]' (S15). Another senior expressed the view that these informal chats between seniors in relation to the partner's style was a deficiency in the control system because if the senior knows what sections a partner likes to focus on, the senior can make sure they cover that area thoroughly.

Overall the findings suggest that the informal communication network operates at all levels within the firm and is widely used at partner/manager level for performance evaluation and staffing decisions and at audit senior level to communicate information on audit partners' preferences.

Role Modelling

Staff selection and training processes were identified in a previous study as a form of clan control present in the audit environment (Pierce and Sweeney, 2005). In the current study audit seniors identified the existence of role modelling (see Appendix 2) as a type of informal training which acts as a less formal control over quality. The majority of interviewees identified 'observing attitudes and behaviour of other people in the office' (S10) as one of the main ways they learn their role as audit senior. Most interviewees said they had watched more senior staff since they had joined the firm and they had effectively learned to 'mimic their behaviour' (S11):

> A lot of [learning how to behave] you just take from the people around you, mostly from seniors and managers, although partners ultimately will dictate the tone (S2).

Role modelling was seen to have an important function in controlling both perceived and actual audit quality.

Use in Controlling Perceived Audit Quality

Interviewees identified 'professional behaviour' (S13) and creating the right impression as one of the most important aspects of their role and they believed that they learned this behaviour by observing more senior staff and in particular

audit partners, especially in their dealings with clients. Some interviewees described their experience of working with partners as a way to 'learn what is expected from [audit seniors] in terms of their level of professionalism' (S4). This could range from 'lunch with the client' (S9) where you can see 'how the partner talks to the client and the issues that they talk about' (S9), right through to observing how partners manage difficult client relations at the closing meeting. Other seniors identified the fact that you gain confidence in your ability as you are exposed to partners in their dealings with clients and this allows you to be more confident and professional in your own approach with clients and 'you just pick up bits and pieces as to how [partners] are able to deal with the client and use that when it's your turn' (S16).

Consequently, some interviewees felt that is was extremely important for seniors to attend meetings between the partner and the client because 'you see how the client reacts to the partner and you see their concerns' (S1). Another senior felt that even though the client meetings were sometimes 'over [your] head' (S14), it was a worthwhile experience to be present because 'even if [you] don't understand anything, you're hearing buzzwords, you know the style of management straight away from when you meet them and how they treat the partner' (S14).

Use in Controlling Actual Audit Quality

In addition to opportunities to learn professional behaviour from audit partners, many seniors felt they could develop their auditing skills and improve actual audit quality by observing audit partners. A number of audit seniors believed that simply attending the planning meeting was a good way to observe partners and to learn from them:

> At the audit planning meeting ... the [partner is] going to give you their in-depth knowledge of the industry, so they might give you a different approach or a different angle that you haven't seen before (S15).

This view was supported by another senior who believed that partner experience was crucial at the planning stages of the audit because 'you very seldom have a situation where the partner is completely confident that we shouldn't have a risk in a particular area and then we find out that we have a major risk' (S2). If partners have been involved with a client for a number of years then they have 'complete familiarity' (S3) and 'they seem to be able to identify where there could be pitfalls and where they need to focus their audit on' (S3). Some seniors expressed the view that partners 'come in with an expectancy at a higher level' (S13) and 'they know themselves if there are any additional areas they're looking out for' (S6) due to 'their knowledge of the client and experience of clients in similar sectors' (S6). One senior felt that partners are more aware of 'the commercial side of the client's business' (S13) and they are looking out for certain things because 'they would be monitoring the client through the media' (S13).

In addition to observing the partners during the planning stages of the audit, many seniors believed that by observing partners during the audit file review, they could 'learn from the partner, the ability to step back on the work you have done and where you should focus and what is the risk area' (S14). Many audit seniors were 'amazed' (S10) and 'impressed' (S3) by the audit partners' ability to understand and assess company accounts and significant issues in a short space of time and 'if something didn't look right then they would say it' (S12). Another senior gave this example:

> [The partner] would come in and look at a file that someone was auditing for the last few weeks and peruse the Trial Balance and nothing would look strange about the numbers in terms of no large increases/decrease... and he would say 'that's wrong, can you go and double check?' and there would be some gaping hole (S2).

Some seniors mentioned the impact that the age of the audit partner had on the approach used by them. One senior felt that 'new partners would have a far more hands-on approach ... they would actually get stuck in and start looking at numbers because they wouldn't have the experience' (S8) whereas 'the more experienced ones are able to step back and bring a bit of common sense to it or experience' (S11).

The majority of seniors were of the view that role modelling was a very important form of informal control present in the audit environment; however, a dissenting view was put forward by a minority of seniors who were of the opinion that 'you don't have enough contact with the audit partner to learn anything from them' (S6). These interviewees felt that how to behave is learned through on-the-job training when you are a junior and through working with other seniors.

Interestingly, when interviewees were asked who they look to for guidance and support, the majority of seniors identified their peers as an important source of support: 'you look at other seniors and you see how they deal with their issues' (S2). One interviewee went as far as to say that 'when I have a problem I generally don't go to the manager, I go to the manager only if a friend of mine can't help' (S16). A number of interviewees perceived the learning order at senior level to be 'seniors and then managers and then partners' (S7).

Overall the findings suggest that role modelling is perceived to be an important factor in controlling both actual and perceived audit quality.

DISCUSSION AND ANALYSIS

This study sought to ascertain audit seniors' perceptions of the existence and operation of clan type controls in the audit environment and its findings highlight the obscure nature of certain forms of clan control. Partner intuition and image management were not explicitly identified by audit seniors as controls but audit seniors were aware of their existence in audit firms. Audit seniors did identify two other forms of clan type controls, namely informal communication and the role modelling aspect of mentoring. They also highlighted some limitations of clan

controls which had not previously been identified, such as the accuracy of infor-mation transmitted through informal channels of communication, variability in styles of audit partners and the existence of more than one clan in the audit envi-ronment.

Obscurity of Clan Control

In response to an open question on the types of informal controls present in the audit environment, interviewees identified the informal communication network and the use of mentoring (more specifically role modelling) as explicit examples of informal controls. Audit seniors did not explicitly identify the existence of other types of informal controls found in previous studies, i.e. partner intuition and image management. However, findings on role modelling suggest that the impor-tance of image management and partner intuition in controlling audit quality is communicated to audit seniors through observation of partner behaviour even though audit seniors were not explicitly aware of these controls. This suggests that image management and partner intuition operate at a more implicit level and are so ingrained and embedded in the firm's control system that audit seniors have difficulty in identifying them as separate controls. In contrast, the informal communication network and aspects of mentoring appear to operate in a more explicit way and were identified by seniors as controls that were not formal in nature.

Despite the fact that audit seniors did not recognise image management as an explicit form of clan control, they did acknowledge its importance when they discussed their observations of audit partners. Audit seniors expressed the view that adopting a professional image was an important aspect of their role especially in relation to their dealings with clients and that they learned this type of behaviour through their observations of audit partners. Anderson-Gough et al. (1998) argued that part of being a professional person involved a process of socialisation, whereby in addition to performing formal, technical services for clients, the trainee auditor must also incorporate the values and norms of the profession into their identity and behaviour in order to become a successful professional. This is consistent with Pierce and Sweeney (2005) who found that a positive and carefully managed image is a key element of clan con-trol in audit firms.

Additionally, although audit seniors did not recognise partner intuition as an explicit form of clan control, they did acknowledge its existence when they dis-cussed their observations of audit partners. As part of that discussion, the majority of seniors acknowledged the partners' innate ability to identify and understand the key issues in relation to audit clients, despite the fact that they may not be familiar with the same level of detail as the audit senior. The impor-tance of partner intuition was identified by Pierce and Sweeney (2005), who concluded that audit partners frequently have to rely on their hunch and intuition to compensate for deficiencies in the formal control process.

Perceived Effectiveness of Clan Control

Findings suggest that audit seniors perceived clan type controls, such as informal communication and role modelling, to be important components of the control network. However, findings also indicate that there are certain factors that can reduce the effectiveness of these controls and these limitations are discussed in the following sections.

Informal Communication

Informal communication was regarded by audit seniors as an effective control for performance evaluation and staffing purposes as there are widespread discussions between management on the relative strengths and abilities of audit seniors. This ensures that the seniors who are perceived as being stronger get assigned to the larger, more high profile assignments and consistent with Dirsmith and Covaleski (1985), who referred to this as a 'trickle down' to the 'chosen few' (p. 155), certain seniors are identified as star performers that the firm wishes to retain as potential managers.

However, the effectiveness of the informal communication network as a mechanism for performance evaluation and staffing of jobs was challenged by some audit seniors. Some interviewees were of the opinion that there may be deficiencies in the network because it relies heavily on the informal perceptions of the people involved, which can result in the transmission of inaccurate information. Audit seniors can get an unjustified poor reputation in the firm due to a disagreement with a particular manager or based on one particular audit engagement. In this situation, the perception of their personality or ability which is transmitted via the informal communication network can adversely affect their career opportunities. There is a formal appraisal system in place which would be expected to provide more reliable information. Nevertheless many of the functions of the formal appraisal system are bypassed by the informal system as management often informally communicate judgements on an individual's performance in advance of the formal appraisal. While the informal system produces more timely information, the accuracy of the information produced may be less reliable than in a formal system. Nicoll (1994) concluded that informal communication networks can provide valuable support to formal communication systems but it is imperative that the information being supplied to the formal system is accurate and reliable.

A further weakness of the informal system arose in situations where a senior was favoured by a partner and consequently worked for them on a regular basis. As a result, seniors could become 'over familiar' with the partner's style and could tailor their work accordingly. In addition, audit seniors could pass on their knowledge to other seniors who may not be as au fait with that particular partner's style and provide guidance on what issues would most concern the partner. Consistent with Dirsmith and Covaleski (1985), who concluded that individual auditors

could tailor their work to suit the 'touch points' of particular audit partners, this was perceived by audit seniors as a deficiency in the control system.

Finally, the informal communication that takes place between audit seniors suggests that clans may potentially operate at a number of different levels within the audit firm. Many seniors expressed the view that they frequently seek guidance and advice from their own peer group before going to higher levels such as managers and partners, suggesting that audit seniors have their own clan system with their own values and beliefs. If the ability of the senior clan and their beliefs and values correspond to those of the audit partner clan this would not limit the effectiveness of clan control. However, in the more likely scenario where relatively inexperienced audit seniors with a different set of values and beliefs provide guidance to other seniors, a reduction in audit quality may occur.

Role Modelling

The findings suggest that audit seniors perceive the role modelling provided by audit partners as an extremely important aspect of informal training and their professional socialisation. This is consistent with previous research which found role modelling to be one of the key functions of mentoring in the audit environment (Scandor and Viator, 1994). Audit seniors were of the view that although they did not have a great degree of personal interaction with audit partners they could learn appropriate behaviours by observing audit partners, especially in their dealings with clients. In addition to learning appropriate behaviour, audit seniors also appear to learn the 'craft of auditing' through their observation of audit partners (Dirsmith and Covaleski, 1985). The findings suggest that audit partners have a mentor–protégé relationship with audit seniors where they act as role models for seniors, supporting Dirsmith and Covaleski (1985), who concluded that there were a number of key behaviours that partners cannot articulate or teach directly but instead are made visible to staff through observation of partner interactions.

The role modelling relationship which exists between partners and seniors is consistent with the features of clan control as role modelling is a passive form of mentoring which enables partners to exert control. However, a possible limitation of this form of control is that some partners may be more open to communicating and interacting with audit seniors than others. Therefore the effectiveness of this form of training and control may be limited to the extent that a senior is exposed to interactions with the audit partner and the willingness of the partner to engage in role modelling behaviour. Dirsmith and Covaleski (1985) found that some partners engage in mentoring to a greater extent than others and this factor can have major implications for the long-term effectiveness of mentoring as a control mechanism.

Additionally, in this study, interviewees considered older partners to be more intuitive than younger partners as they are more adept at picking up on key issues without needing to focus on the detail of the audit file. The importance of experience is consistent with the operation of a system of clan control whereby

authority is based on traditions and rituals which are transmitted over a period of time (Ouchi, 1979), and therefore new members cannot function effectively until they have spent years learning the customs and norms of the clan (Moores and Mula, 2000). The perceived variability in the styles of audit partners and their level of comfort in relying on partner intuition may impact on its effectiveness as a form of clan control.

There is also strong evidence of the existence of peer mentoring relationships in operation in the audit firm. Audit seniors were adamant that they relied heavily on the guidance and support provided by their peers and if they had a query they would first go to their peers and they would only go to the manager as a last resort. This finding is consistent with Kram (1983), who held that peer mentoring relationships can be a legitimate alternative to a superior mentoring relationship in the audit environment. Kaplan et al. (2001) concluded that peer mentoring occurs because there are more potential peers than potential mentors in audit firms and in addition there may be perceived barriers to the formation of superior mentoring relationships in this environment. Consequently, there may be a conflict between peer mentoring relationships and superior mentoring relationships in operation in the audit environment and, as proposed earlier, there may be different levels of clans in existence in an audit firm. Audit seniors may in fact form their own clan with their own traditions, rituals and approved behaviours. However, these behaviours may not be consistent with those deemed appropriate by audit partners and therefore a conflict may exist between the behaviour expected by partners and the socialised behaviour of audit seniors.

CONCLUSION

This study examined audit seniors' perceptions of the existence and operation of clan type controls in the audit environment. Overall, clan type controls were perceived by audit seniors to be an important part of the control system that exists in the audit setting and are used by audit partners to exert control over audit quality. The study concluded that some forms of clan control (informal communication and role modelling) appear more explicitly while other forms of clan control previously identified in the literature (partner intuition and image management) appear to operate on a more implicit level and are embedded in the other controls in operation in the firms. Audit seniors described a number of limitations of clan type controls; the implications of these findings for audit firms are discussed at the end of this section.

Strengths and Limitations of the Study

In drawing conclusions from the research findings, it is important to recognise the strengths of the study. Firstly, one of the major strengths of this research was that all the Big Four audit firms in Ireland agreed to participate in the study. Previous

research has found that it is not always possible to gain access to public accounting firms to conduct field research (Gendron, 2000). Secondly, rigorous data collection and analysis techniques were employed, as discussed earlier. Finally, an interview guide was designed which ensured consistent data collection and provided a framework for data analysis.

In addition to acknowledging the strengths of the study, it is also important to discuss the limitations of the study. First, interviewees may have been reluctant to fully express their opinions as the interviews were conducted in a face-to-face manner and their responses were recorded. However, the interviewees were assured that their names and those of their firms would remain anonymous and the interviews were carried out in a location away from the offices of the firms. Secondly, as clan controls are a subtle and intangible form of control, it proved very challenging to devise open questions to elicit audit seniors' awareness of these controls without providing specific examples. In response to this challenge, the interviewer tried to gain an understanding of the audit seniors' awareness of clan type controls by requesting examples of less formal controls from the audit seniors and only providing a general definition of less formal controls when it was requested. Thirdly, as the primary objective of this study was to ascertain audit seniors' perceptions of the existence and operation of clan type controls, other aspects of the clan control system such as audit firm culture or professional social-isation were not examined. In addition, perceptions of the drivers of audit quality and the overall effectiveness of the control system in controlling audit quality were outside the scope of the study. Finally, a limitation arose in relation to the selection of seniors for the study, as two of the firms were only willing to provide a limited list of names of audit seniors, which may have increased the level of bias in the findings and reduced the potential size from which a sample could be cho-sen in those firms. The researcher was still able to independently select a sample from the names provided and no differences in findings were noted between these two firms and the other two firms.

Areas for Future Research

The findings have revealed a number of interesting issues in relation to the exis-tence and operation of clan type controls from the audit senior's perspectives which are relevant for future research. Firstly, a number of factors that could limit the effectiveness of clan controls were identified in the study which warrant further research. For example, the accuracy of information transmitted on per-formance evaluation through informal lines of communication and the usurpation of the formal performance appraisal system by informal communica-tion should prove to be a fruitful area for research. In addition, variations in styles of audit partners in terms of their use of partner intuition and openness to interaction with seniors, and the existence of more than one clan in audit firms need further examination.

Secondly, in an audit setting managers play a pivotal role in the operation of a clan control system as they often act as a buffer between partners and seniors

and many are awaiting admission into the partner clan. The role of managers in the control process has received little attention in research to date and their perception of the existence and operation of clan controls is vital to a more comprehensive understanding of this topic.

Thirdly, this paper examined audit seniors' awareness of clan type controls in the audit environment. However, the relationship between clan controls and the formal control system and the drivers of audit quality were not explored. Further examination of the overall control package used by audit firms and consideration of the relative contribution of both formal and informal controls to the overall control of audit quality should prove fruitful.

Finally, there are a number of pre-conditions, such as commitment to organisational goals and agreement on appropriate behaviour, which must exist in order for a clan control system to operate. If a clan control system is operating successfully, then those pre-conditions should permeate throughout the organisation and should become embedded in all aspects of the firm culture. Previous research has shown that in the audit environment, appropriate behaviours are learned through a process of socialisation (Anderson-Gough et al, 1998). Therefore an examination of issues such as firm culture and socialisation of audit staff may give a deeper understanding of the existence of the conditions necessary for the effective operation of clan controls.

Implications for Audit Firms

There are a number of implications for audit firms arising from this study. Firstly, given the perceived extensive use of informal communication for performance evaluation and staffing purposes and the potential for communication of inaccurate and unreliable information, audit firms need to reflect on the perceived usurpation of the formal performance appraisal system. Improvements in the formal performance appraisal system, such as more timely evaluations, may increase the value of this system without sacrificing the accuracy of information. In addition, audit seniors use informal communication to exchange information with regard to the areas partners and managers focus on when they review audit work. If this communication occurs on a frequent basis then audit staff may not focus on all aspects of the audit engagement and they may style their audit file towards the 'touch points' (Dirsmith and Covaleski, 1985) of the partners and managers. This could have implications for the overall quality of the completed audit file and the predictability of partner/manager behaviour at the audit review stage may need to be considered by the firms.

In addition, there is evidence from this study that audit seniors may engage in peer mentoring relationships and consequently seniors may in fact operate their own clan with its own possibly incongruent norms and behaviours. Kaplan et al. (2001) found that peer mentoring relationships are often formed where there is a lack of opportunity to form superior mentoring relationships and in this study a number of seniors stated that when they are in need of guidance and support their first port of call is their peers.

In conclusion, there is evidence that informal superior mentoring relationships are formed where partners 'role model' appropriate behaviours. However, this form of clan control can be limited if seniors do not have sufficient access to audit partners or if partners are un-willing to engage in role modelling behaviour. Improvements in the operation of superior mentoring relationships by increasing the commitment of all audit partners to this function may reduce the need for reliance on peer mentoring relationships. Superior mentoring relationships may be formal or informal, although previous research suggests that mentoring relationships are more effective when they are allowed to develop in a non-formalised manner (Scandor and Viator, 1994).

APPENDIX 1: INTERVIEW GUIDE – EXTRACT

Existence of less formal controls to control audit quality

1.   What types of controls exist in the audit firm to control audit quality?
     Potential probes
     For each control listed – would you describe this control as formal or less formal?

2.   To what extent are *less formal* controls used to control audit quality?
     (If asked to define less formal controls:
     Examples of formal controls: audit methodology and audit programmes
     Less formal: other less structured procedures which exist to control quality.)
     Potential probes
     Can you describe these controls?
     What makes these controls less formal?

3.   What factors impact on the degree of use of less formal types of control?
     Potential probes
     Could you give me some examples of those factors?
     How widespread is the existence of these controls?
     What triggers the use of these controls?

4.   How important are less formal controls relative to formal controls in controlling quality?
     Potential probes
     How do less formal controls interact with more formal controls?
     To what extent does the operation of less formal controls affect the amount
     of audit work performed?
     To what extent does the operation of less formal controls affect the audit review process?

5.   How consistent is the use of less formal controls by audit partners?
     Potential probes
     What determines how often less formal controls are used by audit partners?

6.   In your experience, are there any other types of less formal controls over audit quality that
     we have not already discussed?
     Potential probes
     How would you describe them?
     How do they operate?
     When are they used?

APPENDIX 2:   PERCEPTIONS OF LESS FORMAL CONTROLS OVER QUALITY

Senior	Informal Communication	Role Modelling
1	Informal review and informal chats with manager	Relationship with manager
2		Watching and learning from others and your overall working environment
3	Informal communication with both manager and partner	
4	Informal communication with manager, informal communication with partner on larger jobs	Watch how others behave and copy, learn professional behaviour from partners
5	Informal conversations with manager and partner	Watch more senior staff as you are progressing, professional behaviour becomes part of your working and learning environment
6		Learn behaviour as you progress, not enough contact with partners to learn from them
7	Informal chats with manager, informal communication with partner on larger jobs	Relationship with manager, observation of others and their behaviour
8	Informal conversations with manager and senior manager, not partner	Learn from partners by observing their interactions with clients
9	Informal conversations with manager	Observe partner in conversations with clients, maintain independence while observing good client relations
10	Informal conversations with both manager and director	Observing people in the office
11	Informal conversations with manager and client	Copying superior behaviour
12	Informal communication with manager only	Partner very formal and distant
13		Informal review of junior's work by senior before manager review, close relationships with managers, observe how partners manage client relations, especially in difficult situations
14	Relationship with manager, informal communications system reporting upwards	Observation of partner and client interactions during planning meetings
15	Informal communication with manager and partner	Informal review, learn through attendance at planning meeting
16		Professional approach learned by observing partners, learn informally through attending planning meetings

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