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DELOITTE, HASKINS + SELLS (A)

In early 1982, Giles Meikle, Senior Partner-elect of Deloitte, Haskins + Sells, Canada (DHS), was becoming increasingly concerned about developments in and around the firm. A 1980 merger that had vaulted DHS into the ranks of Canada's top five accounting firms had yet to gel. The consequent management disruptions and continuing transitional costs were being compounded by the deepest economic recession in decades, which was prompting many clients to treat audit services as a commodity and to press for fee reductions. DHS was caught in the squeeze and performance, at least relative to partner expectations, was faltering. While Meikle was not to take office formally for seven more months, he doubted that he should wait that long before initiating corrective action.

THE INTERNATIONAL PUBLIC ACCOUNTING INDUSTRY

Public accounting was big business. Virtually all western countries had legislation that required public corporations to have their books audited by independent third parties, and this formed the basis of the accounting industry. Throughout the world there were literally thousands of partnerships and sole proprietorships that provided audit, tax, consulting and other complimentary services to individuals, private businesses, and even governments. Dominating this scene were the Big Nine—the huge multinational organizations of Arthur Andersen, Arthur Young, Coopers & Lybrand, Deloitte Haskins + Sells, Ernst and Whinney, Klynveld Main Goerdeler, Peat Marwick Mitchell, Price Waterhouse, and Touche Ross. Together, these large firms in 1981 had revenues of over $10 billion and employed 150 000 people in 2500 offices in over 100 countries.

The growth of public accounting firms had paralleled that of their client organizations, and of the western economies generally. Growth had occurred in three areas—range of services offered, geographic scope and overall size.

The expansion in services offered by public accountants had been motivated by the demand for the ancillary services surrounding the primary audit function. Audit services required knowledge in such specialized areas as taxation, insolvency and information systems. As demand for these complementary services grew, accounting firms began to offer them as separate specialties. By the late 1970s it was estimated that the typical large accounting firm derived 70% of its revenues from audit and accounting fees, 18% from tax-related services, and 12% from consulting. The typical small firm, by contrast, derived 29% of its business from auditing, 31% from bookkeeping and the preparation of unaudited financial statements, 35% from tax services and 5% from consulting.

Public accounting firms had followed the geographic expansion of their clients. It was cumbersome for business to deal with different audit firms in different regions using dissimilar audit procedures. Recognizing this, some firms had formed relatively loose networks of affiliates. Others, such as the Big Nine, had entered into more structured arrangements, whose methods of handling referrals, revenue splits, ownership, management and practice standards varied from firm to firm.

Over time, it had become apparent that scale would be a critical success factor in the industry. To serve ever growing clients appropriately (and credibly) and to provide highly specialized expertise on an economic basis, a large resource pool was necessary. Mergers had followed, giving the aggressive firms the chance to grow rapidly in scale, service and geographic coverage, and creating a two-tiered industry structure of a few very large and many very small firms.

Whatever their scale, public accounting firms were operated under government legislation as professional partnerships, according to standards set by self-regulation. There were national and regional associations around the world that developed the accounting "body of knowledge" and promulgated standards governing education, licensing and admission into the profession, as well as setting rules of ethics and professional conduct. Ethical standards barred anything that would compromise the perception of the independence of auditors. Professional standards disallowed many forms of solicitation and advertising. Competence, integrity and professional pride were the traditional hallmarks of the profession.

Some aspects of the management of public accounting firms were unique. The firms were partnerships; and each partner was entitled to a share of the earnings, and was personally liable for the debts of the business. Accordingly, by right and tradition, partners in most firms expected to be involved in, or at least have their say about, the management and direction of the business. Managers and advisory boards were elected for fixed terms from among the ranks of the partners and, if they did not perform adequately, could be deposed. The "politics" of the partnership were an ever-present reality for the elected manager.

THE CANADIAN PUBLIC ACCOUNTING INDUSTRY

A ranking of Canadian accounting firms by professional strength showed Big-Nine affiliates occupying the top seven spots. The two remaining firms were also in the top 20 (Exhibit 1). In 1981, these firms employed 12 500 of the 24 500 chartered accountants who work in public practice in Canada, and audited 95% of the *Financial Post*'s list of Top-400 industrials. Their combined revenues were estimated to be over $600 million. Thorne Riddell's estimated $120 million in revenues would have earned it a rank of 329 among Canadian industrials.

While the Canadian Top 20 were all firms of chartered accountants (CAs), there were other groups that practiced public accounting in the country. The largest of these were the certified general accountants (CGAs) and the registered industrial accountants (RIAs). CAs were allowed to do any form of public accounting work, anywhere in Canada, but many provinces had restrictions that prevented other public accountants from performing some or all types of audit.

Industry Developments and Trends

After nearly a decade of rapid internal and merger-based growth, Canadian accounting firms in the early 1980s were being forced to pause and regroup. The economy was in recession and the westward business boom was in decline. There were few eligible medium-sized firms left as merger candidates. New competitive forces were emerging. It was a period of consolidation, a time for the merged firms to assimilate each other and size up developments in the industry.

First, the growth of the market for audits had greatly diminished. Several years earlier, there had been a steady supply of new business as the Canadian economy grew and new, larger, client firms emerged. By 1982, however, recession was plaguing the economy and the supply of new audits was drying up.

Second, audit engagements were increasingly becoming price competitive. Existing clients were pressuring their auditors to reduce fees. Many were shopping around, soliciting proposals from other potential auditors. A good reputation, broad geographic coverage and a wide range of services were no longer sufficient reasons for retaining an auditor. Price had become a factor.

But there was little room for differentiation. While audit procedures differed somewhat from one firm to another, they were essentially alike. They involved similar technology, tests and judgements based on the common standards of the industry. They resulted in an "opinion" regarding the fairness, etc., of the financial statements, which was disclosed in the organization's annual report. Opinions were standardized and did not differentiate one auditor from another.

Third, the competition for audits was broadening. Canada's CGAs were waging a major political and media battle to gain more access to audit practice, and appeared to be succeeding. The largest CGA firm, Adams Mann Hinchey & Co., was not far from breaking into the Top 20 list.

The early responses of the large auditors to these developments had varied. Touche Ross was apparently attempting to segment the market, and was focussing on the cooperative, agribusiness, financial and health-care sectors. Thorne Riddell was beginning to use advertising (the rules of which were being relaxed to varying degrees by the provincial public accounting institutes) to capitalize on its position as the largest accounting firm in the country. Arthur Andersen had for some time been emphasizing consulting, which, along with taxation, was where auditors agreed the potential for future growth lay.

The profession watched anxiously. Public accountants grappled with the issue of how the ideal of professional conduct could be maintained under the developing competitive circumstances. They wondered about the appropriateness of further expansion into non-audit work, and its impact on the perception of auditor independence. Many of them simply did not like what was going on. They were used to performing relatively clear-cut professional tasks and being rewarded for diligence and effectiveness in this respect. If there were disagreements with clients, they were usually over technical matters and interpretations. Now they faced the prospect of overtly asking, even bargaining, for business and they found this distasteful. Many considered the need for a marketing and sales orientation, and all that this implied for their professional roles, to be outright anathema.

DELOITTE HASKINS + SELLS CANADA

DHS Canada was the fourth largest accounting firm in the country, with revenues of $86 million in 1981. It had over 250 partners and employed some 1400 other professionals in 36 offices across 8 provinces. The firm was a member of DHS International, enabling it to tap resources, exchange technology and information, and service international accounts with affiliated firms in over 400 offices in 65 countries. Financial statements for the period 1978–1982 are presented in Exhibits 2 and 3.

DHS had grown by merger. The most recent deal had been signed in 1980 with Winspear Stevenson & Higgins (WSH). That merger had almost doubled the number of professional staff in the firm and strengthened its position in smaller cities, mainly in the west. But the merger had not produced the expected results in partner utilization, company revenues and partner income, and had left a legacy of issues that needed to be resolved.

Services and Market Coverage

DHS offered three groups of services: audit and accounting, taxation, and management consulting/receivership (Exhibit 4). The firm's 1981 revenues came approximately 70% from audit and accounting work, 20% from tax services and 10% from consulting. Margins contributed by each of the services were about equal. Tax and consulting engagements generated higher fees on a per-hour basis than auditing, but also required relatively more time on the part of senior personnel.

DHS' client roster contained 12 000 organizations. Three-quarters of its revenues came from small- to medium-scale businesses, while 10% came from international referrals. Seven large cities—Vancouver, Calgary, Edmonton, Saskatoon, Winnipeg, Toronto and Montreal—contributed 60% of revenues.

The firm's stated targets were the real-estate, financial, not-for-profit, and energy sectors. The firm did not maintain precise records on how much each of the targeted sectors contributed to revenues but it was known that the encouragement to go after these sectors produced little impact on revenues.

DHS audits were conducted according to a well-established methodology in which partners and staff were extensively trained. The audit proceeded through three phases. The first phase consisted of determining the "auditability" and scope of an engagement. The actual audit was conducted during the second phase, when tests of observation and of compliance to generally accepted accounting principles were applied to a sample of client-firm transactions. The final phase involved an evaluation of findings, the revision of financial statements if needed, and the issuance of DHS' opinion.

DHS was reputed for the thoroughness and technical sophistication of its audits. The firm adhered strictly to the guidelines established by the profession and spared little in applying the most advanced sampling and mathematical procedures to engagements. The firm's partners were pleased with their reputation. Said one,

> We recognize that our insistence on thoroughness sometimes prevents us from obtaining the more price-sensitive accounts, but that's what it takes to do a proper job. It's probably the major reason why we have not been dragged into a legal battle over the accuracy of our audits. We carry insurance like the other auditors, but if suits are for amounts exceeding our coverage, then individual partners become liable, and the firm's reputation suffers. It's a risk we would rather not take. Besides, our audits do not really cost much more than those of most other firms.

Organization

Exhibit 5 shows DHS' organization structure in early 1982. Some aspects of the firm's organization are discussed in the following sections.

Management Structure

The firm's management group consisted of the senior partner, the policy board, managing partners and national directors for various services.

The senior partner was "first among equals," with primary responsibility for formulating and directing the firm's strategy. He reported to the policy board, a nine-member group consisting of the senior partner and eight others, elected from among the partners to serve staggered terms. The policy board dealt with firm-wide policy matters, helped direct the firm's strategy, and administered the firm's income allocation processes.

Managing partners were appointed by the policy board to run the practice offices. They were responsible for co-ordinating the office's plans, the development of partners, service to clients, the expansion of practices, the preparation of practice-office budgets and operating statements, and representation of the firm within the business community.

National directors were partners who ran departments of two kinds—those which specialized in the services which the firm offered, such as tax and consulting/receivership; and support services, such as personnel and administration. They were responsible for planning, research, and providing technical support in their area of responsibility. They served the senior and managing partners in an advisory capacity, and co-ordinated with the partners in the practice offices who were assigned to their activity. The number of staff in each department at head office varied from one (secretary) in the case of consulting/receivership, to five for audit and accounting, and about 35 in the case of administration.

All of the management posts were filled by partners. It was generally thought undesirable to hire professional managers to fill administrative posts. There was a feeling that the partners were in the best position to manage the firm and that salaries for outside managers would drain the partnership's earnings unnecessarily. Administrative posts were earned through a proven track record of technical expertise and revenue generation. Administrators other than the senior partner and the national directors were expected to carry on with their client practices, and were compensated for their additional responsibilities through the firm's income allocation processes. Administrative assignments were rotated periodically.

The filling of administrative posts by partners was common in the industry. It was the source of some controversy inside firms and among those who knew the industry. "How do they expect to change," one observer questioned, "with part-time managers in some of the critical jobs?"

Staffing

There were five levels of professional staff at DHS—junior accountants, staff accountants, senior accountants, managers and partners.

Training and recruiting at DHS were typical of the large auditors. The firm actively recruited from the better universities across the country. Any given year attracted some 700 résumés for review. Of this number, about 250 were interviewed on campus. Two hundred were re-interviewed in various office locations and 180 were made offers. Of this number, only 60 would join the firm, too many of whom would not be among the top 60 on the list. "DHS has not always been the number one choice among the better candidates," commented a partner. "They simply seem to be better exposed to some of the other firms."

Aspiring CAs got their first taste of work as junior accountants. Once they were CAs, their designation changed to "staff accountant." Junior and staff accountants were at the bottom of the pecking order, did 90% of the detail work in an audit assignment, and as a group accounted for the highest turnover of staff.

Three to five years of junior and staff-accountant work entitled one to become a senior accountant. "Seniors" supervised the work of junior and staff accountants, participated in the planning of engagements, and earned substantially more than their junior colleagues.

After five to seven years with the firm, qualified seniors might become managers. Managers earned as much as $60 000 per year and looked after day-to-day engagements. Those considered for partnership were nominated from the manager ranks.

One of the problems faced by DHS and the industry as a whole was the loss of personnel on the journey from junior accountant to partner. "Five to ten people in 100 may eventually become partners," noted a partner. "Part of the loss is unavoidable, such as the case of individuals who do not pass their CA qualifying exams. But the larger part reflects the fact that many people train with firms in order to qualify as CAs only to leave, largely for careers in client companies." There was, of course, a cost factor in this loss, but perhaps the greatest impact was in the reduction and loss of diversity in the talent pool for promotion to partners.

The Partners

The partners were the linchpin of the DHS organization. They carried the responsibility for building the firm's image, maintaining contact with existing and potential clients, securing engagements, approving the scope of work involved in each engagement, providing direction for as many as a dozen engagements simultaneously (out of a total client load of over 100 for some partners), meeting with client management, signing the auditor's opinion, billing and administrative assignments.

Becoming a partner required the votes of a significant majority of existing partners. Candidates were screened carefully; partnership entitled one to a share in the firm's income, and meant a reasonable assurance of lifetime employment. It was extremely rare for a partner to be fired, as to do so required the consensus decision of the firm's policy board.

Partners were known for their independence. "We pretty much call our own shots," commented a partner. "There are no bosses, no one to tell you what to do, only suggestions. 'Don't tell me how to do my job' is the general attitude. Of course, we're all tied together by the profession, and our high stakes in the firm ensure our best individual efforts."

There was a strong sense of collegiality among the partners. "We're an exclusive club," said a partner. "We all know how difficult it is to make it into the club, and so there is mutual respect among the members. Besides, we depend on one another to make things work."

The balanced emphasis maintained between the independence of partners and the needs of the group reflected an accounting firm's unique culture. At DHS the group tended to prevail. Income differences among the partners were kept small relative to some other large accounting firms. An "open exhibit" entitled all partners to any financial information, including other partners' earnings.

Maintaining the group norm had become an issue surrounding the WSH merger. At WSH, income allocation had been locally based. This meant that in general, the partners in practice offices which earned the most had the most income. Senior partners earned considerably more than junior partners, but the latter were not given information on the extent of the difference. Noted a partner, "At the formal level, the DHS systems are prevailing. But informally, heated discussions still take place about which culture produces the better results."

Income Allocation

The partners at DHS were compensated through the firm's income allocation processes. The policy board, subject to a vote by the partners, assigned units or shares to individual partners, which then became the basis for income allocation. Unit assignments were based mainly on the individual's performance over a number of years, seniority and administrative responsibilities, and took into account the performance of the practice office to which the partner was assigned. Input to the board on partner performance was provided annually by the managing partners. Criteria for evaluation included technical expertise, client maintenance and expansion, staff development, and account management.

A part of partner income was distributed in fixed "advance draws." The balance was distributed quarterly following the year-end, subject to meeting certain economic performance targets. The average partner income in calendar 1981 was about $67 000, up slightly from a pre-merger 1979 sum of $65 000.[1] Partner incomes ranged from about two-thirds of the average for new partners to over two and a half times the average for the senior partner.

The average 1981 income level was well below the estimated $90 000 earned by partners in some other large accounting firms. It was also below the expectations that partners had for the merger. As it was, the earnings of some junior partners had fallen below the salaries of the higher-paid managers. The outlook for 1982 was even more bleak; there were informed estimates of an up to 15% drop in partners' incomes.

Planning, Information and Control Systems

Systems at DHS were probably best characterized as "loose." Revenue and expense forecasts were prepared annually by the practice offices and the national administrative department under the supervision of the senior partner. During the budg-

1 Income figures for 1980 were not available. Also note that average partner income was not simply the ratio of firm income to the number of active partners during a given year. An amount less than the firm's income was actually distributed to active partners. Adjustments were made for retired partners' incomes, as well as for the funds the policy board set aside to support positions in recently opened practice locations.

eting process office personnel were consulted, but adherence to the targets that ultimately became the basis of financial projections was neither monitored nor enforced. Information systems were inadequate and outdated. Cost control was left largely to individual partners. The partners could, and sometimes did, commit the firm to capital expenditures before informing senior management. One partner recalled:

> The system really broke down after the merger with WSH. To begin with, it was not a simple case of combining two operations. Larger joint premises had to be leased. Rental costs rose sharply, because new premises were invariably located in more expensive localities, and new leases had to be negotiated. But still, we spent more than we should have. More space than necessary was rented in anticipation of future expansion. Board and small meeting rooms were added and new furniture was acquired. Elaborate construction was initiated at several places. The partners spent left and right, though not irresponsibly. Many felt that the merger provided a good opportunity to upgrade facilities. The problem was that no one seemed to be monitoring or co-ordinating the expenses. We became aware of our financial situation only after the fact.

The economic recession had struck in August 1981. Partner utilization for the year fell 30% short of expectations and revenues followed. Salaries, property and capital commitments had to be maintained. Cash flows became erratic as clients responded to the economic downturn by delaying payments on billings. The firm, already suffering from increased interest rates on its outstanding loans, borrowed some more. By late 1981, short-term bank debt alone stood at $20 million, or 40% of total (mostly unsecured) assets.

SUCCESSION

Giles Meikle's was the first orderly progression to senior partner in the history of DHS. A heart attack, an explosion aboard a commercial jet and cancer had claimed the lives of former senior partners.

Ed Wilburn, the incumbent senior partner, had pursued a growth strategy. He was a "top line" person who took advantage of every opportunity for expansion. He engineered the WSH merger. The desirability of being among the top five accounting firms had become clear to the partners, and the merger had been seen as a good move.

In mid-1981, the partners elected an 18-person committee to select Wilburn's successor. The committee was to project the organization's needs over the next five years, screen nominations for the senior post, hear the individual platforms of those considered, and submit one name for ratification by the partners at large.

Five persons were considered for the post. Within two weeks, two had voluntarily dropped out of the running. The first balloting eliminated one more, leaving Ray Harris and Meikle in contention.

Ray Harris was chairman of the policy board in late 1981. A year earlier, he had been president of the Canadian Institute of Chartered Accountants. He had served on various national task forces assembled by the Institute and was a member of several professional organizations. He had considerable administrative experience, including that of executive partner of WSH.

Giles Meikle was a 29-year veteran at DHS. He had become national administrative partner at the age of 31, after which he was assigned practice and managing partner positions throughout the country. He was called to Toronto on a number of occasions, mostly to direct large-scale projects in such areas as quality control and merger investigations. He had a proven record, having turned around the Calgary office's operations from being the least profitable office for 20 years, to being one of the most profitable.

The two candidates enjoyed nearly equal support from the partners. While some support was based on the organizational affiliation of the candidates before the merger, what seemed to really matter was the management style that each candidate had come to represent.

Meikle was a market-oriented, corporate-type manager who had a reputation for toughness and a willingness to deal with those whose contributions did not meet expectations. His supporters felt these attributes were necessary to correct the firm's financial position and to bring about the changes which current industry trends required.

Harris upheld the collegial tradition which many in the firm valued. Managerially, he tended to operate in a decentralized fashion. His supporters felt that Meikle's management philosophy was bound to cost the partners their independence. They reasoned that it was precisely because they did not want to be subjected to corporate-style management that they had chosen their profession. They feared that Meikle's market-driven style would take DHS in strategic directions that would be inconsistent with what they felt to be professionally appropriate.

It was to be a close contest. The committee deliberated for six weeks before concluding that it could not come up with the single name required of it. It submitted both names to the partners at large for resolution. Secret balloting conducted by a legal firm saw Meikle emerge on top. On December 23, 1981, he was declared senior partner elect, to take office in September 1982 at the end of Wilburn's term.

Current Issues

Giles Meikle had used some of the time since his election in putting together a picture of where DHS stood. He was concerned about the financial performance and prospects of the firm and the lack of control and direction in its operation. He believed that major changes were required. For this he knew that he depended on the partners.

Overall, DHS would need to be more market driven than in the past. But how far would the partners go? Many in the firm were already uneasy about the commercialization taking place within their profession. The partners relied on their personal associations to secure clients, but most would cringe at the thought that theirs was a marketing and sales job. Many partners continued to believe that presence, competence and a reputation worthy of trust were enough to bring the clients in.

He would need their full support, and how to obtain and maintain their commitment to the changes required was a major issue. The intensity of the selection period still lingered, and sentiments were still divided among some partners. Meikle did not care to start his term that way. Perhaps things would settle down by September, when he was scheduled to take office at the annual meeting of all of the firm's partners.

But he did not think he should wait that long.

EXHIBIT 1

The 20 Largest Canadian Public Accountants, Year-End 1980–1981

1981 Rank (by number of professional staff)	1980 Rank	Firm	Number of Professional Staff (1)	Number of Active Partners	Number of Offices/ Provinces Represented	Gross Fee Revenue ($000's)	Number of *The Post's* Top 400 Industrials Audited (2) (1980)	Sales of Top 400 Audited, (1980) ($000 000's)	Number of *The Post's* Top 100 Financial and Real Estate Firms Audited (2) (1980)
1	1	Thorne Ridell (3)	2 393	323	48/9	120 000(6)	34.5	22 056	8.5
2	2	Clarkson Gordon (4)	(5)	(5)	21/9	n/a	66	51 838	15.5
3	6	Coopers & Lybrand	1 720	206	20/9	94 930	50	24 435	13
4	3	Deloitte Haskins + Sells	1 669	253	36/8	85 950(7)	36	25 089	11
5	4	Price Waterhouse	1 606	159	21/7	86 000	76.5	73 622	13.5
6	5	Touche Ross	1 502	207	29/9	85 000	32	22 405	11
7	7	Peat Marwick Mitchell & Co.	(5)	(5)	23/9	n/a	33.5	21 089	12.5
8	8	Ward Mallette Maheu	1 037	174	67/9	46 600	2	1 597	1
9	9	Collins Barrow Maheu Noiseux	950	158	29/7	41 500	2.5	658	1
10	10	Doane Raymond	895	159	39/8	47 700(7)	3	1 057	2.5
11	11	Samson Belair	605	101	19/4	n/a	4	3 568	2
12	14	Ernst & Whinney	473	67	16/6	n/a	11	2 004	1
13	16	Arthur Andersen & Co.	415	36	7/5	22 500	26.5	10 910	1
14	12	Dunwoody & Co.	413	103	24/5	24 400	1	472	0
15	13	Campbell Sharp	395	79	18/6	n/a	1	123	2
16	15	MacGilivray & Co.	370	90	15/5	n/a	0	0	0
17	17	Laventhol & Horwath	248	40	5/5	15 000	1	631	0
18	18	Richter Usher & Vineberg	203	25	2/3	9 750	0	0	0
19	—	Zitter, Siblin, Stein, Levine	170	23	2/2	n/a	0	0	0
20	18	Wm. Eisenberg & Co.	165	36	1/1	n/a	4	2 396	0

Notes: (1) Includes partners; (2) Joint auditors are each assigned half; (3) Affiliated with Kleinveld Main Goerdeler; (4) Affiliated with Arthur Young; (5) These firms did not separate public accounting and management consulting personnel. This does not affect the ranking of Peat Marwick. The ranking of Clarkson Gordon is an estimate; (6) Financial Post estimate; (7) Combined public accounting and management consulting revenues; n/a stands for "not available."

Sources: *The Financial Post 500* June 1982; DHS

EXHIBIT 2 DELOITTE HASKINS + SELLS (A)

Statement of Income, 1978–1982 ($000's)

	Year Ended Jan. 9, 1982	Year Ended Jan. 10, 1981	32 Weeks Ended Jan. 12, 1980	Year Ended June 2, 1979	Year Ended June 3, 1978
Gross earnings	85 948	68 883	18 440	30 949	26 550
Less: Commissions to associated firms	864	598	138	385	315
	85 084	68 285	18 302	30 563	26 235
Expenses					
Professional salaries[1]	31 475	24 972	7 543	11 695	10 586
Other staff salaries	6 481	5 073	1 738	2 350	2 059
Other staff costs	4 680	3 374	1 301	1 572	1 408
Occupancy costs	7 894	5 213	1 489	2 408	2 177
Practice costs	9 436	8 441	2 214	3 318	3 008
General & administrative expenses[2]	5 740	2 205	722	809	583
	65 706	49 278	15 007	22 153	19 823
NET INCOME	19 378	19 007	3 295	8 410	6 412
Applied					
Partners' fixed distribution guarantees and other allocated funds	12 329	10 259	3 090	4 548	3 891
Distributable to capital unit holders	7 049	8 748	205	3 862	2 521
	19 378	19 007	3 295	8 410	6 412

1 The $6.5 million increase in professional salaries from 1981 to 1982 is due to a 15% salary increase and the addition of personnel.

2 General and administrative expenses include interest and bank charges. These amounted to $5.13 and $1.79 million in 1982 and 1981 respectively.

Source: Company documents.

EXHIBIT 3

DELOITTE HASKINS + SELLS (A)

DHS Balance Sheet 1978–1982 ($000's)

	Jan. 9 1982	Jan. 10 1981	Jan. 12 1980	June 2 1979	June 3 1978
ASSETS					
Current Assets					
A/R less doubtful accounts	$13 326	17 518	7 604	5 277	4 710
Unfinished engagements[1]	17 444	9 718	3 386	5 516	5 098
Prepaid expenses and other assets	828	722	489	164	98
Furniture equipment and improvements	11 621	9 660	2 259	2 190	2 322
Investments, mortgages, notes, debentures and other assets	3 592	3 399	1 218	610	513
Goodwill	3 150	3 131	2 207	2 214	2 223
	49 961	44 148	17 164	15 970	14 964
LIABILITIES & PARTNERS' CAPITAL					
Current Liabilities					
Bank debt	20 042	15 280	2 694	3 788	4 376
Accounts payable	4 193	5 437	2 149	1 916	1 535
Current portion of L/T debt	33	—	557	430	511
Currently maturing unrealized gains	31	31	—	—	—
	24 299	20 748	5 400	6 134	6 422
Long-Term Debt	8 767	5 706	1 238	1 420	1 283
Unrealized Gains and Deferred Credits	103	119	—	—	—
Partners' Capital	16 792	17 575	10 526	8 416	7 259
	49 961	44 148	17 164	15 970	14 964

1 Unfinished engagements are unbilled receivables. They are estimated at net realizable value and recognized as revenues for the current year.

Source: Company documents.

DELOITTE HASKINS + SELLS (A)

EXHIBIT 4
The Professional Services of DHS, 1982

SERVICES

1. *Audit and Accounting*
2. *Taxation*—income, sales, and commodity.
3. *Computer Services*—accounting systems, forecasting systems, management reporting systems and audit software.
4. *Services for Small and Growing Businesses*—specialized accounting programs, auditing services, financial forecasting and counsel and tax planning.
5. *Financial Services*—capital management, business evaluations, mergers and acquisitions, security-offering assistance, relations with regulatory agencies in Canada and in all major countries throughout the world.
6. *Management Consulting*—organizational planning and development, information systems and procedures, administrative systems, computer applications, EDP management and feasibility studies, personnel planning and development, executive search and placement, economic planning and forecasting, agri-business development, agronomy and land appraisals.
7. *Receivership*—trustees in bankruptcy, business investigations.

INNOVATIONS IN AUDITING

1. *STAR*—Statistical Technique for Analytical Review of financial data, using regression analysis by computer.
2. *Statistical Sampling Plan*—for determining and evaluating audit tests.
3. *DHS Auditape*—for accessing and manipulating computerized records. Originally developed by DHS for its own use, the Auditape program was widely used by other organizations including, under licence, other public accounting firms.
4. *DHS Control SET*—a system for the study and evaluation, in an organized and disciplined manner, of the adequacy of a client's internal control system, and the design of appropriate audit tests.

Source: DHS.

EXHIBIT 5

DELOITTE HASKINS + SELLS (A)

DHS Organization Structure, 1982

Partners

Policy Board

Senior Partner

National Directors	Practice Office Managing Partners[1]
Auditing/Accounting	Calgary
Tax	Edmonton
Consulting/Receivership	Halifax
Computer Services	Hamilton
Human Resources	Kitchener
Administration	Melfort
	Moncton
	Montreal
	Oshawa
	Ottawa
	Prince Albert
	Prince George
	Regina
	Sarnia
	Saskatoon
	Toronto
	Vancouver
	Victoria
	Windsor
	Winnipeg

1 Some practice locations contained several practice offices. In these cases, practice office managing partners reported to the designated regional managing partners.

Source: DHS