

## Bidding on an Audit Engagement Proposal Teaching Notes

### *What Are the Relevant Facts?*

1. George and Sheila are partners who established a new audit firm in the past year.
2. Joyce is a manager for the new audit firm and is anxious to attract new clients so she can make partner.
3. The prospective client is concerned with their present auditors' fees and is also in search of services in the tax and consulting areas.
4. Gary, an In-Charge Accountant, prepares a draft of the budget proposal for the prospective client.
5. Joyce thinks the bid is too high and suggests that they can use lower-paid, inexperienced staff on the audit and can also eat a little time.
6. Gary is concerned with the legal liability aspects of the engagement since this is a first-year audit and the client is in an industry associated with high audit risk.
7. Joyce says she will handle any problems with George, the partner on the engagement, or the client.

### *What Are the Ethical Issues?*

1. Do auditors have the responsibility to provide their client with a quality audit or an audit based on what the client is willing to pay? Are these at odds?
2. Do the client's needs take precedent over the needs of the third-party users of financial statements?
3. Should the interns be asked to take on assignments which may be beyond their competence level?
4. Do George and Sheila have the right to expect their audit employees to provide them with fair and truthful information on the possible costs associated with the audit?
5. Should Gary be expected to eat time and stay within the budget constraints when he has inexperienced staff working for him?

### *Who Are the Primary Stakeholders?*

- Joyce
- Gary
- George and Sheila
- Interns

- Client
- Third Parties
- Users of the client's financial statements
- Audit Profession (Perception of low quality work affects all other auditors)

### *What Are the Possible Alternatives?*

1. Gary can discuss with George his concerns about the audit bid.
2. Gary can ask to be replaced on the audit.
3. Gary can say nothing and go along with Joyce.

### *What Are the Ethics of the Alternatives?*

- Ask questions based on a “utilitarian” perspective (costs and benefits). For example:
  1. Which possible alternative would offer the greatest benefit to the greatest number?
  2. How would costs be measured in this vignette (legal liability, fees, etc.)?
  3. How much value should be placed on providing a quality audit by a client and third-party users of the client's financial statements?
  4. Do the benefits of obtaining a new client outweigh the cost of increasing legal liability and going over budget on the engagement?
- Ask questions based on a “rights” perspective. For example:
  1. What does each stakeholder have the right to expect?
  2. Does the client have the right to expect quality audits and still insist on a low audit fee?
  3. Do the interns have the right to expect to be assigned tasks they are competent to perform?
  4. Which alternatives would you want imposed on you if you were Gary? George and Sheila? Client? Third Party?
- Ask questions based on a “justice” perspective (benefits and burdens). For example:
  1. Which alternative distributes the benefits and burdens most fairly among the stakeholders?

2. Which stakeholders carry the greatest burden if Gary does nothing?
3. Does the benefit of potential income from the prospective client outweigh the considerations of performing an audit that may not be effective due to budget constraints?

*What Are the Practical Constraints?*

1. George may agree with Joyce on the use of inexperienced staff and eating time and be willing to accept the additional risk.
2. In a tight job market, Gary may lose his job if he expresses his concerns and George agrees with Joyce.

3. If George, the partner, agrees with Gary then Joyce may make Gary's life miserable.

*What Actions Should Be Taken?*

1. What actions should Gary take?
2. Which alternatives would you choose if you were in his position?
3. Why would you make that choice?
4. Which ethical theories (utilitarian, rights, justice) make the most sense to you as they relate to this situation