

Booking the Budget Teaching Notes

What Are the Relevant Facts?

1. Second-year auditor Dave Leppla is in charge of the audit of a not-for-profit speech and hearing clinic. If all goes well, he will be a strong candidate for promotion later this year.
2. It is now clear that the audit will take several days longer than budgeted.
3. Bob Wilson, the engagement manager on the project, sees Dave working on a weekend on the audit and asks Bob if it will be completed within budget.

What Are the Ethical Issues?

1. Should Dave assume full responsibility for the problems in meeting budget on the audit, or should he act to prevent or mitigate any possible career damage that might be caused by the overrun?
2. To what extent should Dave try to insulate himself from criticism by blaming his staff person's poor performance?

Who Are the Primary Stakeholders?

- Dave
- Bob
- Engagement partner
- CPA firm, including current and future “in-charges”
- Client firm

What Are the Possible Alternatives?

1. Prematurely sign off on the audit program.
 2. “Eat” the extra time necessary to complete the audit, keeping silent about his colleague’s performance.
 3. “Eat” the extra time necessary to complete the audit while placing blame on his staff.
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4. Report the actual hours, keeping silent about his colleague’s performance.

5. Report the actual hours while blaming his staff.

6. What Are the Ethics of the Alternatives?

7. What would be the benefits and costs of each alternative course to each stakeholder? Which alternative would provide the greatest good to the greatest number?
8. Which alternative would the CPA firm prefer? The client firm? Are these preferences different than that you would recommend for Dave? Why?
9. What right does the CPA firm have to compliance with its policies? What right does Dave have to protect his own career by working on his own time to complete the audit?
10. What burdens and what benefits would each stakeholder derive from each alternative? Is it fair that the stakeholders end up with these burdens and benefits? Why?
11. Which of the ethical perspectives seems to be most helpful in this case? Why?

What Are the Practical Constraints?

1. Number of hours budgeted for the audit
2. Norms within the CPA firm for acceptable performance by an “in-charge” on an audit
3. Norms within the CPA firm for acceptance of overruns by inexperienced auditors

What Actions Should Be Taken?

1. What should Dave do?
2. Is your choice for Dave different from the choice that you would make for yourself if you found yourself in similar circumstances? If so, why?