

## Bidding on an Audit Engagement Proposal

*Topic:* Client/Engagement Acceptance

*Characters:* Joyce, Manager at a new audit firm  
Gary, In-Charge Accountant  
George and Sheila, Partners

Due to the economic downturn, George and Sheila were laid off by a larger audit firm. They established a new audit firm and were able to attract a few clients in the first year. They also hired Joyce and Gary, who had been laid off by the same firm. Joyce had been a manager for the past three years. She has been told that she can make partner if she can quickly attract new clients. Gary was a staff accountant for three years and was promoted to In-Charge Accountant this past year.

A prospective client in the construction industry contacted Joyce to bid on the company's audit work. The client was upset over the audit fees charged by its present auditors. They were unhappy with the present auditors' tax work and their delay in delivering a proposal on a new computerized accounting system. Joyce sees this situation as a perfect chance not only to secure a new audit client for the firm, but also to receive credit for bringing in more tax and consulting revenue.

Joyce asks Gary to prepare a draft of the bid which will be submitted to the prospective client. Gary develops the bid based on a similar client in the same industry and his assessment of the risk associated with a new client. Joyce is concerned that the bid is too high. Joyce suggests that they may be able to hire interns from a local college accounting program to use on the audit. Gary is concerned about using inexperienced staff on the audit of a new client. He also read in a recent Audit Risk Alert published in the *AICPA's CPA Letter* that auditors should be alert to cash flow problems for clients in the construction industry. Gary argues that the risk of loss could be higher than normal if they do not perform a quality audit.

Joyce tells Gary not to worry or say anything to George about his concerns with the bid. She will handle any problems that come along, either with George or the client. Joyce argues that George will not complain about the lower audit fee because of the potential for the new tax and consulting work. By using lower-paid staff members and eating a little time, they could even come in at budget. Joyce also points out to Gary that once she makes partner, there will be a position open for him at the manager level. Joyce tells Gary to finish up the proposal based on her suggestions, since she needs to work on a bid for another prospective client.

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