**Chapter 6: Professional Simulation – You will find this assignment at the end of Chapter 6**

Assume that you have just been promoted to the position of in-charge accountant on the audit of Lancer Corporation, which manufactures and wholesalers consumer products. Lancer’s customer base is represented by about 10% of the customers that represent 65% of sales and a very large number of smaller retailers that make up the other 35% of the company’s sales. Last year Baker and Co. (Lancer’s auditors) send positive confirmations to a sample of Lancer’s customers. All of Lancer’s larger customers responded to the positive confirmations, but many of the smaller customers did not.

As in-charge on the Lancer audit, you have discussed the low response rate from the smaller customers with the audit manager, Dustin Barker. You have suggested sending negative confirmations to the smaller customers. Dustin wants you to research the guidance provided by the U.S. Auditing Standards about using negative confirmation. Specifically, cut and paste the standard section that explains the significance of the evidence provided by unreturned negative confirmations.

Dustin would also like you to research the U.S. auditing standards about the factors that influence the reliability of confirmation. **Draft a memo** (no title page) that summarizes the factors that influence the reliability of confirmations as evidence about the existence and occurrence of receivables and sales.

To: Dustin Barker, Manager

Re: Factors that influence the reliability of confirmations

From: CPA Candidate

**Chapter 7: Professional Simulation - You will find this assignment at the end of Chapter 7**

Early in 20x4 Hawkins & Co., CPAs was approached about bidding on the audit of Big Dog Construction (BDC). BDC is a construction company that lays sewer and waste treatment pipe, and builds pipelines to transport oil and natural gas. BDC’s major clients are cities, counties, and energy companies. BDC is privately owned. “Big Dog” Herman, and his three brothers own 100 percent of the company, which has grown to the size where sales hit $95 million dollars in the fiscal year 20x3.

The senior partner of Hawkins & Co., is preparing a bid for the 20x4 audit of BDC. He has asked you to assist him in the process. He is aware of the professional standards require communication with the predecessor auditor, and he wants you to research the relevant professional standards. Identify the auditing standards that explain the what should be discussed in the inquiry of the predecessor auditor. Do this by indicating in the space below the appropriate AU section paragraphs that identify what should be included in an inquiry of the predecessor auditor.

1. AU Section Paragraphs \_\_\_\_\_\_

Identify the issues that should be discussed as part of the communication between the predecessor and successor auditors.

Included in Discussion with Predecessor Auditor

1. Information that might bear on the integrity of management.
2. Disagreements with management about accounting principles.
3. The predecessor’s understanding of the reasons for the change in auditors.
4. The extent of procedures performed in the prior year.
5. Communication with the audit committee about fraud or illegal acts.
6. Disagreements with management about auditing matters.
7. The predecessor’s evaluation of internal control.
8. Communication with the audit committee about auditor independence.

During inquiry of the predecessor auditor and other professionals the senior partner learns that BDC has just been engaged to construct an oil pipeline across environmentally sensitive land. The client is a major oil company, and all required permits have apparently been obtained. The partner wants to ensure that the audit complies with all professional standards on understanding the industry, regulatory, and other external factors. **Draft a memo** (no title page) to Mr. Hawkins explaining what should be included in the auditor’s understanding of industry, regulatory, and other external factors. For each key item, explain why the understanding is relevant to the audit.

To: Robert Hawkins, Senior Partner

Re: Factors that influence the reliability of confirmations