3.60 **Client Selection**. You are a CPA in a regional public accounting firm that has 10 offices in three states. Mr. Shine has approached you with a request for an audit. He is president of Hitech Software and Games, Inc., a five-year-old company that has recently grown to $500 million in sales and $200 million in total assets. Shine is thinking about going public with a $25 million issue of common stock, of which $10 million would be a secondary issue of shares he holds. You are very happy about this opportunity because you know Shine is the new president of the Symphony Society board and has made quite a civic impression since he came to your medium-size city seven years ago. Hitech is one of the growing employers in the city.

**Required**:

1. Discuss the sources of information and the types of inquiries that you and the firm's partners may make in connection with accepting Hitech as a new client.
2. Do professional audit standards require any investigation of prospective clients?
3. Suppose Shine also told you that 10 years ago his closely held hamburger franchise business went bankrupt, and on investigation, you learn from its former auditors (your own firm in another city) that Shine played fast and loose with franchise-fee income recognition rules and presented such difficulties that your firm resigned from the audit (before the bankruptcy). Do you think the partner in charge of the audit practice should accept Hitech as a new client?