

Apollo revenue cycle



Similar to what you did with the Revenue Cycle, I want you to prepare a bridge working paper for the audit of Apollo Shoes as of December 31, 2007, listing the major errors that could occur in the purchasing system and to describe the test of controls procedures for auditing related purchasing controls to determine whether reliable control exists. I don't think that Apollo has enough purchase transactions that we need to rely on the controls (in other words, we'll look at them all), but we need to document our finding for our 404 work:

1. In the first column, use an index number (S-# or W-#) to indicate potential strength or weakness. If you have time, you may want to prepare a purchasing cycle flowchart. Not required, but could be helpful.
2. In the second column, describe the control activity (or lack thereof) that may serve to prevent, detect, or correct errors or frauds. Understand that Apollo may or may not have the control activity in place. If they do, we may test the control if that is cost-effective. If they don't, we can propose the control as a management letter comment.
3. In the third column, describe the audit implications of the strengths/weaknesses related to the control activities with respect to transactions or accounts reported in the financial statements (e. g., the presence of a properly completed purchase order check ensures that purchases are authorized).
4. In the fourth column, describe how specifically how (recalculation, reperformance, inquiry and observation, etc.) you would test the control.

5. Finally, add a fifth column for compensating audit procedures. If the control activity is not in place, or the control activity is in place but not effective, we need to determine what audit procedure (i. e., a compensating test) we could use to catch them. (For example, we can use customer confirmations to test the validity of the transactions if we can't rely on the client's controls.)