Draft of Procedures

Name

Instructor

Course

Date

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**How the Audit Process is Conducted**

There are various processes involved in conducting an audit. They include initial audit planning, seeking external expertise, identifying and testing control activities, reviewing and communication of results, and preparing the audit report. The first process in conducting the audit process is the initial audit planning. It involves preliminary planning and gathering of information. The auditor determines the audit objectives and the scope of the audit. The auditor reviews the results of the last audit and the area in which the past audit was conducted. Before conducting the audit, the auditor should determine whether the audit is approved as part of the internal audit plan (Xiao, Geng, & Yuan, 2020). The auditor should also consider how the audit plan supports the organization’s goals and objectives. In case of Amazon, the company has an objective of being the everything store (McGurl, 2016). Therefore, the audit process should identify weaknesses and vulnerabilities in the organization’s internal systems and controls. The auditor should also determine the enterprise risks addressed by the audit plan. Lastly, the auditor should review the results of previous audits and determine whether there have been significant changes in the auditing process.

The second process when conducting audit reviews is seeking external expertise. It is necessary to seek external expertise due to constant changes in the business landscape. According to Xiao, Geng, and Yuan (2020), auditors should consult subject matter experts to evaluate the design of the auditing process. Subject matter experts can be sourced from other auditing firms or they can be independent consultants. The auditor may also undertake research by examining recent journals published by auditing periodicals. The auditor meets with the organization’s management to establish the scope of the audit and the timing of the whole process. Once the internal and external resources have been leveraged, the auditor builds an audit plan based on industry best practices.

The next step involves identifying and testing control activities. The auditor gathers pertinent information and performs the audit tests to gain understanding into the internal controls implemented by the organization. The auditor collects information involving policies and procedure documents, key applications used in the auditing process, and master data for the processes being audited. The auditor examines documents and other records of evidence to establish whether effective internal controls are in place. Auditors also perform the testing of the transactions to determine compliance with the company’s internal policies and relevant external regulations. Thereafter, auditors review the controls implemented to ensure that the system complies with data integrity and completeness (Xiao, Geng, & Yuan, 2020). The auditor may also request for additional information if needed. When conducting auditing work, various risks are classified as low, moderate, or high. The risk assessment is necessary to determine whether the controls are effective, and if corrective actions are needed to mitigate the risks.

After the testing of the control activities has been performed, the next phase involves the review and communication of the results. Areas of concern identified during the auditing process are communicated to the management. The auditor presents information concerning violations in policy or procedure and/or control weaknesses. The auditor discusses the observation with the management to ensure the management fully understands the issues identified during the auditing process. the auditor may provide recommendations on how the management may rectify the identified issues or risks. Recommendations are discussed and agreed upon by the auditor and the management to ensure that they are relevant and reasonable (Xiao, Geng, & Yuan, 2020). Once the results of the audit are confirmed, they are communicated to in the audit report.

The final phase in the auditing process is the preparation of the audit report. The management reviews the audit issues and recommendations and prepares an audit plan based on the results of the audit. The audit report should include process risks, process objectives, controls mitigating the process risks, and testing procedures. For procedures that have not been audited before, they should be subjected to multiple levels of review before being finalized (Xiao, Geng, & Yuan, 2020). The audit report should be conveyed in form of written documents and charts to enhance understanding.

**Procedures needed to Review High-Risk Business Transactions for Cash and Revenue**

Revenue is a significant account exposed to numerous risks. Therefore, the auditor needs to have adequate understanding of the organization’s processes, gather appropriate evidence, test controls over revenue, and evaluate potential misstatements. The auditor must gather information on the types of revenue earned by the organization and determine whether the organization has applied appropriate accounting principles for revenue recognition (Cody, 2017). At Amazon, the revenue-related activity that is high-risk is a large number of homogenous products sold to different customers, which increases the likelihood of fraud and uncertainty. Internal auditors also need to review the organization’s cashflow information. Requirements needed to perform high-risk business transactions include previous financial information, current financial information, receipts of all cash transactions, and receipts of all revenue. The auditor makes comparisons between actual receipts and the amount recorded in the financial statements (Louwers et al., 2018). The auditor should place more focus on reviewing cash and revenue amounts contrary to the management’s projections. Cash and revenue transactions are evaluated to ensure that they are fairly stated.

**Test to Assess appropriate assertions for High-risk Business Transactions**

A test of controls would be appropriate to determine whether the organization has put appropriate measures in place to assess whether high-risk financial transactions information is reliable. The test of controls includes an assessment of Amazon’s high-risk transactions. The auditor would collect information pertaining to Amazon’s cash and revenue transactions for the current financial year. According to Ulrich and Blouch (2018), the test of controls includes a 5-step process. The first step involves observation, where auditors would observe the cash and revenue transactions to make sure that the transactions exist, and that the right procedures and policies were applied. Thereafter, the auditors would perform inspection, which includes a review of documents and financial information and making comparisons to the revenue and cash transactions included in the financial statements. The third step is reperformance, where auditors reperform the controls performed by customers. Auditors then recalculate the financial transactions and do a confirmation test where they test whether the cash or revenue accounts exist.

References

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