4. Purchase order data are entered on an online terminal that applies the following application controls:
   - The purchasing manager's password is verified before information is accepted.
   - Vendor numbers are agreed by computer to approved vendor master file list before purchase order is generated.
   - Computer assigns sequential numbers to purchase order.
5. Receiving information is entered on an online terminal that applies the following controls:
   - The receiving clerk's password is verified before information is accepted.
   - Computer assigns sequential numbers to purchase order.
6. Vendors' invoice information is entered on an online terminal that applies the following controls:
   - The accounts payable clerk's password is verified before information is accepted.
   - The computer recomputes the individual items and total amount of the invoice.
7. Computer agrees purchase order, receiving, and invoice data and produces an exception report for any situation in which the documents do not match. Accounts payable clerk follows up on exceptions and describes resolution on report.
8. Computer updates cash disbursements and open payables files.
9. The accounting manager reconciles the cash and open payables accounts to the general ledger on a monthly basis.
10. The accounting manager reconciles the bank account on a monthly basis.
11. Cash disbursements are budgeted and the controller analyzes and explains variances.

Appendix 14A Problems

14A–1. A summary of the controls for the acquisition cycle of Keystone Computers & Networks, Inc., appears on pages 441–452.

Required:

a. For the following three controls over the acquisition cycle indicate one type of error or fraud that the control serves to prevent or detect. Organize your solution as follows:

Control	Error or Fraud Controlled
1. Computer matches information from vendors' invoice with purchase order and receiving data.	
2. The computer assigns numbers to receiving reports.	
3. Checks are mailed by check signer.	

b. For each of the controls described above indicate how the auditors could test the control. Organize your answer as follows:

Control	Tests of Controls
1. Computer matches information from vendors' invoice with purchase order and receiving data.	
2. The computer assigns numbers to receiving reports.	
3. Checks are mailed by check signer.	

14A–2. As indicated on the risk assessment working paper on page 557, the auditors identified two weaknesses in internal control over the acquisition cycle of KCN. Describe the implications of each of the two weaknesses in terms of the type of errors or fraud that could result.

14A–3. The auditors' working paper that relates control strengths and weaknesses to the assertions about purchases and accounts payable is presented on page 557. This working paper also presents the auditors' planned assessed level of control risk for each of the assertions.

Prepare an audit program for tests of the controls over the acquisition cycle. (Note: You may want to use the tests of controls program for the revenue cycle, which is on pages 453–454, as a guide.)