

Section 8200, *Internal Control*



20. Control Activities That Are Always Relevant to the Audit

Inquiry—The auditor is required to obtain an understanding of control activities relevant to the audit, including the process of reconciling detailed records to the general ledger for material account balances.¹ What control activities are always considered to be relevant in every audit?

Reply—As discussed in paragraph .21 of AU-C section 315, *control activities relevant to the audit* are those control activities the auditor judges it necessary to understand in order to make a preliminary assessment of control risk which together with the assessment of inherent risk comprise the risks of material misstatement at the assertion level and design further audit procedures responsive to assessed risks. However, there are situations in which the auditor would be required to consider control activities relevant to the audit and, accordingly, obtain an understanding of those control activities. The following are controls activities that, if present, are always relevant to the audit:

- Control activities that address significant risks²
- Control activities, relevant to fraud risks³
- Control activities that address risks for which substantive procedures alone do not provide sufficient appropriate audit evidence⁴(note that in such circumstance, the operating effectiveness of the control is required to be tested)⁵
- Control activities that address risks for which the auditor intends to rely on the operating effectiveness of controls in determining the nature, timing, and extent of substantive procedures⁶
- Control activities over journal entries, including nonstandard journal entries used to record nonrecurring, unusual transactions, or adjustments⁷

¹ Paragraph .21 of AU-C section 315.

² Paragraph .30 of AU-C section 315.

³ Paragraph .27 of AU-C section 240, *Consideration of Fraud in a Financial Statement Audit* (AICPA, *Professional Standards*).

⁴ Paragraph .31 of AU-C section 315.

⁵ Paragraph .08 of AU-C section 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained* (AICPA, *Professional Standards*).

⁶ Paragraph .A101 of AU-C section 315 and paragraph .08a of AU-C section 330.

⁷ Paragraph .19f of AU-C section 315.

For control activities determined to be relevant to the audit whether required by the standards or based on auditor judgment, the auditor should understand how the entity has responded to risks arising from IT that may impact the design or implementation of the entity's control activities.⁸ In addition, if applicable to the audit, control activities meeting any of the criteria stated above over the entity's use of a service organization are relevant to the audit.⁹

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