

## Section 8200, *Internal Control*



### 18. Obtaining an Understanding of Internal Control Relevant to the Audit

*Inquiry*—AU-C section 315 states that the auditor should obtain an understanding of internal control relevant to the audit.<sup>1</sup> Does this understanding of internal control relevant to the audit encompass more than control activities?

*Reply*—Yes. In obtaining an understanding of the entity and its environment, including its internal control in accordance with the requirements of AU-C section 315, the auditor is required to obtain an understanding of each component of internal control. Each component of internal control is therefore relevant to all audits and is required to be understood. These components include all of the following:

- a. Control environment
- b. The entity's risk assessment process
- c. The information system, including the related business processes relevant to financial reporting and communication
- d. Control activities relevant to the audit
- e. Monitoring of controls

The auditor is required to document, among other things, his or her understanding of each of the components of internal control on every audit engagement. The auditor's responsibilities related to understanding control activities relevant to the audit are also discussed in AU-C section 315.<sup>2</sup>

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<sup>1</sup> Paragraph .13 of AU-C section 315.

<sup>2</sup> See paragraphs .21–.22 of AU-C section 315.

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