

Section 8200, *Internal Control*



19. Obtaining an Understanding of the Controls Relevant to the Audit

Inquiry—Does an understanding of controls relevant to the audit require the auditor to evaluate the design of controls relevant to the audit and determine whether they have been implemented every year?

Reply—Yes. When obtaining an understanding of controls that are relevant to the audit, AU-C section 315 requires the auditor, when obtaining an understanding of controls that are relevant to the audit, to evaluate the design of those controls and determine whether they have been implemented by performing procedures in addition to inquiry of the entity’s personnel.¹ This understanding applies to each component of internal control. When obtaining an understanding of controls that are relevant to the audit, the auditor is required to perform procedures in addition to inquiry of the entity’s personnel. These additional procedures may consist of one or more of the following: observations, inspections, or tracing transactions through the information system relevant to financial reporting. Determining which of the corroborating procedures (other than inquiry) should be performed to evaluate responses received to inquiries related to relevant controls is a matter for the auditor’s professional judgment.

The auditor’s previous experience with the entity and audit procedures performed in previous audits provide the auditor with an understanding of controls that also may be relevant to the current audit. When the auditor intends to use information obtained from the auditor’s previous experience with the entity and the results from audit procedures performed in previous audits, the auditor should determine whether changes affecting the control environment have occurred since the previous audit that may affect that information’s relevance to the current audit.² The auditor’s previous experience in combination with the procedures performed to determine whether such changes have occurred assist the auditor with the requirement to evaluate the design and determine the implementation of relevant controls in each audit. The auditor’s procedures to update the auditor’s understanding of controls may not need to be as extensive as those the auditor performed to obtain his or her initial understanding of controls. Although an auditor would still be required to perform inquiries combined with other risk assessment procedures, such as observation and inspection, those procedures would be less extensive if the auditor’s procedures are limited to confirming that the processes and controls have not changed as opposed to obtaining the understanding of controls.

¹ Paragraph .14 of AU-C section 315.

² Paragraph .10 of AU-C section 315.

Nevertheless, the procedures need to be sufficient for the auditor to be able to appropriately assess the risks of material misstatement and design further audit procedures responsive to assessed risks.

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