

## Section 8200, *Internal Control*



### 21. Control Activities That May Be Relevant to the Audit

*Inquiry*— What are the control activities that may vary from audit engagement to audit engagement and may be relevant to the audit (based on the auditor’s judgment)?

*Reply*— In addition to the controls activities that are always relevant to the audit, other control activities may exist that might be considered relevant to the audit by the auditor based on his or her professional judgment.<sup>1</sup> An audit does not require an understanding of all control activities related to each significant class of transactions, account, balance, and disclosure in the financial statements, or to every assertion relevant to them.<sup>2</sup> The control activities relevant to the audit will vary according to the nature, size, and complexity of the entity and its operations and the circumstances of the engagement. For example, the concepts underlying control activities in smaller entities are likely to be similar to those in larger entities, but the formality with which they operate may vary. The following factors may assist the auditor in identifying whether other control activities are relevant to the audit:

- Materiality and inherent risk (for example, the auditor’s emphasis may be on identifying and obtaining an understanding of control activities that address the areas in which the auditor considers that risks of material misstatement are likely to be higher<sup>3</sup>)
- The understanding of other internal control components (for example, the presence or absence of control activities obtained from the understanding of other components of internal control assists the auditor in determining whether it is necessary to devote additional attention to obtaining an understanding of control activities<sup>4</sup>)
- The implementation of any new systems and the effectiveness of general IT controls (for example, deficiencies in general IT controls may have an effect on the effective design and operation of application controls<sup>5</sup>)

<sup>1</sup> Paragraph .A100 of AU-C section 315.

<sup>2</sup> See footnote 7.

<sup>3</sup> Paragraphs .A101–.A102 of AU-C section 315.

<sup>4</sup> Paragraph .A103 of AU-C section 315.

<sup>5</sup> Paragraph .A108 of AU-C section 315.

- Lack of segregation of duties (for example, in a smaller entity, fewer employees may limit the extent to which segregation of duties is possible; relevant control activities may be more limited to, for example, understanding controls performed by management)
- Legal and regulatory requirements (for example, governmental entities often have additional responsibilities with respect to internal control<sup>6</sup>)

The following are controls activities that may be considered relevant to the audit (based on the factors listed previously):

- Control activities over the completeness and accuracy of information produced by the entity if the auditor intends to make use of the information in designing and performing further audit procedures<sup>7</sup>
- Control activities relating to operations or compliance objectives if such controls relate to data the auditor evaluates or uses in applying audit procedures<sup>8</sup>
- Control activities over safeguarding of assets to the extent such controls are relevant to the reliability of financial reporting<sup>9</sup>
- Control activities that are dependent on other controls (that is, indirect controls)<sup>10</sup>

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<sup>6</sup> Paragraph .A74 of AU-C section 315.

<sup>7</sup> Paragraph .A70 of AU-C section 315.

<sup>8</sup> Paragraph .A71 of AU-C section 315.

<sup>9</sup> Paragraph .A72 of AU-C section 315.

<sup>10</sup> Paragraph .10b of AU-C section 330.