EXHIBIT 2
Understanding the Entity and Its Environment

Objective	Guidance
To obtain an understanding of the entity's industry conditions, regulatory environment, and other external factors, the auditor may consider these factors:	• Level of competition in the industry • Supplier and customer relationships • Technological developments • Regulatory environment • Legal and political environment • Environmental requirements affecting the industry and the entity • Other factors such as general economic conditions
To obtain an understanding of the nature of the entity, the auditor may consider these factors:	• Operations • Ownership • Governance • Types of investments • Capital structure
To obtain an understanding of the entity's objectives and strategies, and the related business risks that may result in material misstatements, the auditor may consider these factors:	• General level of economic activity (e.g., recession or growth) • Interest rates and availability of financing • Inflation and currency revaluation
To obtain an understanding of the entity's measurement and review of its financial performance, the auditor may consider these factors:	• Key ratios and operating statistics • Key performance indicators • Employee performance measures and compensation incentive policies • Trends • Use of forecasts, budgets, and variance analysis • Analyst reports and credit rating reports • Competitor analysis • Period-on-period financial performance

Source: *SAS 109 (Appendix A)*