

EXHIBIT 3
Understanding the Entity's Internal Control Environment

Objective	Guidance
To obtain an understanding of the entity's control environment, the auditor should consider these elements:	• Communication and enforcement of integrity and ethical values • Commitment to competence • Those charged with governance participation • Management's philosophy and operating style • Organizational structure • Assignment of authority and responsibility • Human resource policies and practices
To obtain an understanding of the entity's risk-assessment process, the auditor should consider these circumstances:	• Changes in operating environment • New personnel • New or revamped information systems • Rapid growth • New technology • New business models, products, or activities • Corporate restructurings • Expanded foreign operations • New accounting pronouncements
To obtain an understanding of the entity's information and communication systems relevant to financial reporting, the auditor should consider the methods and records that:	• Identify and record all valid transactions • Describe on a timely basis the transactions in sufficient detail to permit proper classification of transactions for financial reporting • Measure the value of transactions in a manner that permits recording the proper monetary value in the financial statements • Determine the time period in which transactions occurred to permit recording of transactions in the proper accounting period • Properly present the transactions and related disclosures in the financial statements • Provide communication of the understanding of individual roles and responsibilities pertaining to internal control
To obtain an understanding of the entity's control activities relevant to an audit, the auditor should consider the policies and procedures that pertain to:	• Performance reviews • Information processing • Physical controls • Segregation of duties
To obtain an understanding of the entity's monitoring of controls, the auditor should consider:	• Management's review of reconciliations on a timely basis • Internal auditor's evaluations of compliance with the entity's policies • Legal department's oversight of compliance with the entity's ethical or business practice policies • The process for continuously assessing the design and operation of controls on a timely basis and taking necessary corrective actions

Source: SAS 109 (Appendix B)