

EXHIBIT 3

Understanding the Entity and Its Environment, Including Its Internal Controls

Required Understanding of Five Aspects	Audit Risk Assessment Procedures Performed to Obtain an Understanding of the Entity and Its Internal Controls
<p><i>Industry, regulatory, and other external factors:</i></p> <ul style="list-style-type: none"> ■ Industry conditions—market and competition, supplier and customer conditions, and technology issues relating to entity products ■ Regulatory environment—legal, regulatory, political, environmental requirements, and accounting principles and industry practices ■ General economic conditions—business cycle conditions, monetary policy, and fiscal policy 	<p><i>Understanding of the five aspects is obtained through:</i></p> <ul style="list-style-type: none"> ■ Inquiries of management, those charged with governance, internal audit, other client personnel, and external counsel, as well as reviewing external reports ■ Analytical procedures, considered along with other information gathered in identifying risks of misstatement ■ Observation; document inspection; reading management, internal audit, and governance reports; tracing transactions through the system; visits to premises and plant facilities
<p><i>Nature of the entity:</i></p> <ul style="list-style-type: none"> ■ Operations, revenue sources, markets ■ Investments and ownership ■ Financing, debt, leasing, and related parties ■ Financial reporting considerations 	
<p><i>Objectives, strategies, and related business risks that may result in material misstatements at:</i></p> <ul style="list-style-type: none"> ■ Financial statement level, or ■ Individual assertion level 	
<p><i>Measurement and review of financial performance:</i></p> <ul style="list-style-type: none"> ■ Performance benchmarks that management and others consider important (e.g., key ratios and performance measures) ■ Performance measures that may create incentives for management to misstate the financial statements (e.g., bonuses, options) 	
<p><i>COSO internal control components:</i></p> <ul style="list-style-type: none"> ■ Control environment ■ Entity’s risk assessment process ■ Information system, including business processes relevant to financial reporting and communication ■ Control activities ■ Monitoring of controls 	