Understanding the Client's Business and the Entity’s Internal

Controls

Client: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Financial Year: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Prepared by: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Date: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Reviewed by: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Date: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

1. Identify **external factors** such as industry and general business environment; and

laws and regulations which have a fundamental impact on entity’s operations: -

* Industry factors – general economic and competitive environment, nature of products, technology driving the industry, key industry ratios.
* Applicable laws and regulations and the supervisory framework.
* Accounting policies and industry specific accounting practices.

2. Identify **internal factors** such as ownership and control, and business operations-.

affecting the business: -

* Business objective of the entity, the nature of operations and list of products and services.
* Ownership and Management – Owners/Entity’s credentials, Organisational hierarchy, the relationship between the owner and the entity as may be applicable, list of key personnel.
* Type of Investments made such as subsidiaries, associates, joint ventures, partnership, any special purpose vehicles.
* Mode of funding the entity.
* Inquire about the IT systems being used.
* Selection and application of accounting policies and any change in accounting
* practices.
* Taxation status and litigations faced by the entity and owner, if any.

3. Management’s risk assessment process – the process used to identify, analyse, and

manage the risks faced by the entity.