 awp 5.2

**Understanding the Entity and its Environment**

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| Name of the Entity | XYZ |
| Period of audit | 01.01.20XX to 31.12.20XX |

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| Prepared by | | Signature | Reviewed & approved by | Signature |
| Name: |  |  |  |  |
| Designation: |  |  |
| Date: |  |  |

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| **1. Background of the entity** |
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| **2. External environment affecting the entity** |
| **2.1. Parliamentary directive and interest** |
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| **2.2. Relevant laws and regulations affecting the entity** |
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| **2.3 Issues relevant to audit engagement reported in the media** |
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| **2.4 Significant areas/nature of work affecting the lives of citizens** |
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| **3. Internal environment affecting the entity** |
| **3.1 Organizational set-up/structure and source of financing** |
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| **3.2 Objectives and strategies of the entity** |
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| **3.3 Core function or nature of the entity** |
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| **3.4 Existence and Independence of internal audit function** |
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| **4. Selection and application of accounting policies** |
| **4.1. Applicable financial reporting framework followed by the entity and the reporting currency** |
| <link with the information in **AWP 4.1**> |
| **4.2. Accounting policies** |
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| **4.3. Budgeting processes** |
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| **4.4. Budget and accounting systems used (Web-based/Manual/Standalone)** |
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| **4.5. Statutory reporting requirements, structures and deadlines** |
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| **5. Consideration of other factors affecting the business** |
| **5.1. Entity’s key personnel** |
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| **5.2. List of bank accounts including authorized signatory** |
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| **5.3. Measurement of entity’s financial performance**   |  | | --- | |  |   **6. Audit Findings/Observations in prior year that have impact on the current year’s risk assessment**   |  | | --- | |  |   **7. Analytical Procedure**   |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | | **Financial Statement Items**  **(A)** | **Prior Year Balance**  **(B)** | **Current Year Balance**  **(C)** | **Difference** | | **Explanation for material variances** | | **Amount**  **(D) =(C) – (B)** | **%**  **(E) = (D) / (B)** | | **Cash** | **1,000.00** | **1,500.00** | **500.00** | **50%** | **Significant increase in cash is attributable to ….** | | **Receivables** |  |  |  |  |  | | **Inventory** |  |  |  |  |  | | **…** |  |  |  |  |  | | **…** |  |  |  |  |  | |   **8. Summary of risks affecting the entity** |
| (Trace to Risk Register – **AWP 5.4)** |

**Guidance for completing the documentation of understanding of the entity and its environment**

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| Overall objective of completing the template | The overall objective of this audit working paper is to establish and document the understanding of the entity and its environment. ISSAI 2315 requires the auditor to assess the risk of material misstatements through understanding the entity and its environment. |
| Applicable ISSAI | ISSAI 2300, ISSAI 2315, ISSAI 2250 |
| Guidance | In order to assess the risk of material misstatement in the financial statements, the auditor needs to understand the entity and its environment. Based on the list provided in the template (AWP 5. 1), the auditor can gather a general understanding of the entity, taking into account both internal and external factors. It is critical that the auditor understands the core business of the entity. In documenting the understanding of the entity and its environment, the auditor needs to bear in mind the risk related to the entity (business risk or entity risk) that may occur during the course of its operation and that may result in material misstatement in the financial statements. In case there is an existence of internal audit function in relation to Section 3.4, the audit team needs to refer to **Annex A** (AWP 5.1a. understanding internal audit function, including reliance on its work), **Annex B** (AWP 5.1b direct assistance request of Internal Auditor template) and **Annex C** (AWP 5.1c agreement on direct assistance of Internal Auditor template), as applicable. |
| Summary of risks affecting the entity | Risks that may be identified during the understanding stage, if any, will be summarised in this section. These risks will then be carried forward to **AWP 5.4.** |
| Recording the evidence of preparer and reviewer | The Table indicating the names of the person who prepared and documented the understanding and the reviewer needs to be completed at the end. While the team should collectively document the understanding of the entity, the team leader or one of the members who prepared this document could sign as the preparer.  The reviewer, usually the audit engagement supervisor, should sign off this document to ensure that it has been reviewed. |