

Appendix G:

Internal control and financial reporting issues risk ratings

Figure G1 shows the risk ratings we apply to internal control and financial reporting issues. We raise these issues with entities in management letters. The figure also explains what these ratings represent and the timeframe we expect entities to resolve issues within.

Figure G1: Risk definitions we apply to issues we raise in audit management letters

Rating	Definition	Management action required
High	<p>The issue represents:</p> <ul style="list-style-type: none"> a material misstatement in the financial report that has occurred, or an issue that could potentially result in a modified audit opinion if not addressed as a matter of urgency by the entity, or a control weakness that could cause or is causing a major disruption of the process or the entity's ability to achieve process objectives in relation to financial reporting and comply with relevant legislation. 	<p>Requires executive management to correct the misstatement in the financial report, or address the issue, as a matter of urgency to avoid a modified audit opinion.</p> <p>Requires immediate management intervention with a detailed action plan to be implemented within one month.</p>
Moderate	<p>The issue represents:</p> <ul style="list-style-type: none"> a misstatement in the financial report that is not material and has occurred, or that may occur, the impact of which has the possibility to be material, or a control weakness that could have or is having a moderate adverse effect on the ability to achieve process objectives and comply with relevant legislation. 	<p>Requires management intervention with a detailed action plan implemented within 3 to 6 months.</p>
Low	<p>The issue represents:</p> <ul style="list-style-type: none"> a misstatement in the financial report that is likely to occur but is not expected to be material, or a minor control weakness with minimal but reportable impact on the ability to achieve process objectives and comply with relevant legislation, or an opportunity to improve an existing process or internal control. 	<p>Requires management intervention with a detailed action plan implemented within 6 to 12 months.</p>