

Appendix H:

Internal control and financial reporting issues risk ratings

Figure H1 defines the risk ratings that we apply to internal control and financial reporting issues. It also details what the ratings represent and the expected timelines for the issue to be resolved.

Figure H1: Risk rating definitions

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 <p>or</p> <ul style="list-style-type: none"> a control weakness that is or could majorly disrupt a process or an entity's ability to achieve a process's objectives in relation to financial reporting and comply with relevant legislation. 	<p>High-risk issues require an entity's executive management to correct the misstatement in its financial report or address the issue as a matter of urgency to avoid a modified audit opinion.</p> <p>High-risk issues require management to immediately intervene with a detailed action plan and implement it within one month.</p>
Medium	<p>The issue represents:</p> <ul style="list-style-type: none"> a misstatement in a financial report that has occurred, or may occur, and has the possibility to become material <p>or</p> <ul style="list-style-type: none"> a control weakness that could have or is having a moderate adverse effect on an entity's ability to achieve process objectives and comply with relevant legislation. 	<p>Medium-risk issues require management to intervene with a detailed action plan and implement it within 3 to 6 months.</p>
Low	<p>The issue represents:</p> <ul style="list-style-type: none"> a misstatement in a financial report that is likely to occur but is not expected to be material <p>or</p> <ul style="list-style-type: none"> a minor control weakness with minimal but reportable impact on an entity's ability to achieve process objectives and comply with relevant legislation <p>or</p> <ul style="list-style-type: none"> an opportunity to improve an existing process or internal control. 	<p>Low-risk issues require management to intervene with a detailed action plan and implement it within 6 to 12 months.</p>

Source: VAGO.