

## INTERNAL AUDIT – GRADING SYSTEMS

### 1. RANKING OF AUDIT FINDINGS

The purpose of ranking audit findings is to provide management with a clearer picture of the significance of control deficiencies as an aid to prioritise corrective actions. The three levels are as follows:

#### **I. High level of risk**

- Misappropriations of \$5,000 and upwards and losses of \$25,000 and upwards resulting from poor controls. Other misappropriations or losses considered significant by the Internal Audit Manager.
- A control weakness that could result in a loss of \$25,000 and upwards or such other amounts considered significant by the Internal Audit Manager but have not yet resulted in a loss and where the weakness is not being addressed or is being slowly addressed by management.
- An unintentional Group material misstatement of financial results. Any intentional misstatement of financial results.
- Findings that could result in an undesirable consequence relative to legal position or publicity.
- Significant Group (or Business Unit) policy violation.
- Group (or Business Unit) policy violation that in isolation would not be significant but which displays a consistent pattern of behaviour that would represent a significant policy violation.
- Any other matter that the Internal Audit Manager believes to be of a significant nature.

*These issues will be reported monthly to the relevant Manager, General Manager of the division audited, the Managing Director and will be reported to the Audit & Technology Committee meetings.*

#### **II. Medium level of risk.**

- Control weaknesses that could lead to significant misappropriation, losses or misstatement of financial results but which are compensated for by informal controls. There is no reliance that the informal control system will continue to operate in a consistent fashion.
- Control weaknesses that have or could result in losses of up to \$25,000.
- Control weaknesses that could result in a loss of \$25,000 and upwards, but have not yet resulted in a loss and which are being properly addressed by management.
- An unintentional Business Unit material misstatement of financial results or a control weakness which could result in an unintentional Business Unit material misstatement of financial results.
- Lack of business unit policy and procedures covering significant transactions/activities. Non compliance with business unit policies and procedures covering significant transactions/activities.
- Misappropriations of less than \$5,000.

*These issues will be reported monthly to the relevant Manager and General Manager of the division audited. Issues that have not been finalised before initial agreed date are reported monthly to the Managing Director and will be reported to the Audit & Technology Committee meetings.*

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### **III. Low level of risk.**

- Control weaknesses are of minor importance and are not likely to significantly impact accuracy of results or effectiveness of operations. These types of control weaknesses are related mainly to strengthening the control environment where some value would result to management.
- Controls which if implemented or enhanced would provide management with worthwhile benefits relative to greater confidence in decision-making. Controls which if eliminated or re-engineered would benefit productivity or effectiveness.

*These issues will be reported monthly to the relevant Manager of the division audited. If follow up audits find that they are not being satisfactorily addressed according to the agreed program, they will be immediately reported to the General Manager of the division audited. Issues that have not been finalised before initial agreed date are reported monthly to the General Manager, the Managing Director and will be reported to the Audit & Technology Committee meetings.*

### 2. GRADING SYSTEM

An Audit Grading System is a useful tool to Management for gauging the performance of individual auditable units or areas against expectations and can compare performance to previous audits.

The Grading System is an Internal Audit opinion of how the relevant section/auditable unit is performing and is based on the number and materiality of the issues raised during the audit process compared to what would normally be expected to be raised.

<b>GRADING</b>	<b>DEFINITION</b>
<b>Good (G)</b>	<ul style="list-style-type: none"><li>• Objectives being achieved.</li><li>• Total compliance with policies and procedures.</li><li>• Adequate segregation of duties.</li><li>• Appropriate authority levels in place.</li><li>• Fundamental controls and reconciliations being performed.</li><li>• Independent supervisory review of reconciliations and fundamental controls.</li><li>• Adequate monitoring of operations and financial performance.</li><li>• No follow up actions.</li></ul>

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GRADING	DEFINITION
<b>Satisfactory (S)</b>	<ul style="list-style-type: none"><li>• Objectives being achieved.</li><li>• Substantial compliance with policies and procedures.</li><li>• Adequate segregation of duties.</li><li>• Appropriate authority levels in place.</li><li>• Fundamental controls and reconciliations being performed.</li><li>• Substantial supervisory review of reconciliations and fundamental controls.</li><li>• Adequate monitoring of operations and financial performance.</li><li>• Some minor follow-up actions, e.g. small procedural errors, insignificant dollar variances.</li></ul>
<b>Less Than Satisfactory (LS)</b>	<ul style="list-style-type: none"><li>• Objectives being achieved.</li><li>• Substantial compliance with policies and procedures.</li><li>• Adequate segregation duties.</li><li>• Most fundamental controls and reconciliations being performed.</li><li>• Some independent supervisory review of reconciliations and fundamental controls.</li><li>• Limited monitoring of operations and financial performance.</li><li>• Follow up actions can be addressed within existing levels of management and authority.</li></ul>
<b>Unsatisfactory (U)</b>	<ul style="list-style-type: none"><li>• Objectives not being achieved.</li><li>• Non compliance with one or more critical policies or procedures.</li><li>• Inadequate segregation of duties.</li><li>• Inappropriate authority levels in place.</li><li>• One or more fundamental controls or reconciliations not being performed, improper accounting practices.</li><li>• Little or no independent supervisory review of reconciliations and basic controls.</li><li>• Poor monitoring of operations and financial performance, wasteful use of assets.</li><li>• Follow-up actions require prompt management attention and/or need to be referred to a higher authority.</li><li>• Risk of substantial loss or material miss-statement of reported financial results.</li></ul>

**NB:** It is important to note that the materiality of the risk is not inherent in the grade.