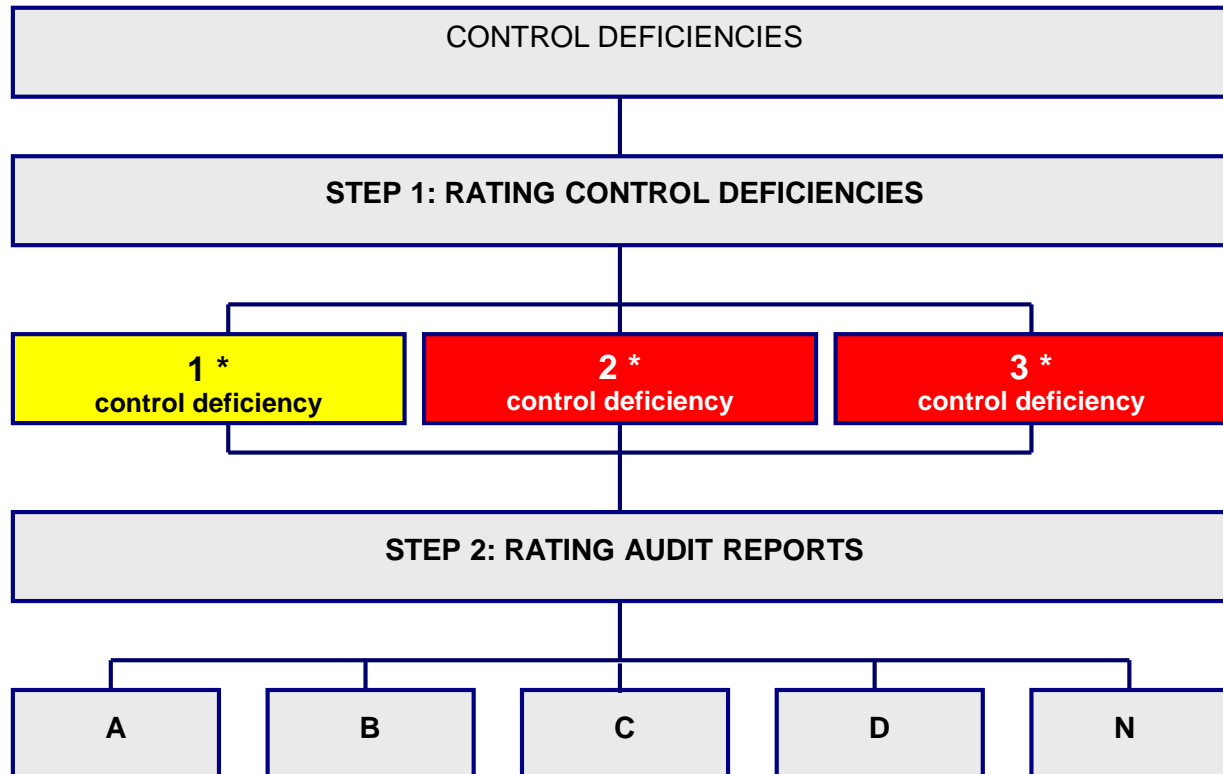


Rating of reports - a two-step approach

Step 1: Rating of control deficiencies

Step 2: Overall evaluation of control deficiencies identified



Step 1: Criteria for rating control deficiencies

Three levels of control deficiencies are distinguished, based upon its (potential) impact on reaching business objectives.

<i>Rating</i>	<i>Criteria</i>
3*	A critical control is not in place or not functioning effectively. It will likely undermine the desired effectiveness of the business processes under review, the integrity of the financial reporting and/or compliance with regulations. Indicates a major control deficiency, which requires immediate action.
2*	A critical control is partially in place or the operating effectiveness of the control is limited. If not improved, it will undermine the desired outcome of the business processes under review, the integrity of the financial reporting and/or compliance with regulations. Indicates an important control improvement area.
1*	A (critical) control is in place, but its effectiveness could be further improved.

Step 2: Overall evaluation control deficiencies

Five point scale for linking the rating of control deficiencies to the rating of an audit report

<i>Rating</i>	<i>Criteria</i>
A	A strong and pro-active control environment is in place.
B	Overall, the control environment is fit for purpose.
C	Overall, the control environment is not sufficiently effective in order to provide reasonable assurance that the objectives will be met. Immediate action by unit and higher management level is required.
D	Follow-up of major control deficiencies previously reported is insufficient to reach a satisfactory level of business controls at the time of the re-audit.
N	No rating is given for a (n): <ul style="list-style-type: none">-audit at special request of management.-first-time audit (in a newly acquired organization)-risk workshop-fraud investigation-unit level audit for Export Controls, IT licenses-management remuneration audit

Step 2: Overall evaluation control deficiencies (cont'd)

Translating * rated deficiencies into a report rating

<i>Rating</i>	<i>Criteria</i>
A	No control deficiencies or only 1 * control deficiencies have been identified
B	If all other report ratings do not apply
C	One or more than one 3 * control deficiencies have been reported OR the total impact of the 2 * control deficiencies (when aggregated at process level) equals the significance of one 3 * control deficiency <i>Note: A re-audit will be performed in the next year.</i>
D	Insufficient follow-up of the control deficiencies which previously resulted in a C rated report

Guidance - Quantifiable control deficiencies

If the (P&L/Balance sheet) impact of control deficiencies can be quantified, the following thresholds apply for all audit types:

- Control deficiency exceeding \$XX : 3*
- Control deficiency between \$XX : 2*
- Control deficiency below \$XX: 1*

For performance reviews executed in non-significant units lower (relative) thresholds apply:

- Control deficiency exceeding 0.5 % sales / supplies and \$XX : 3*
- Control deficiency between 0.25 % and 0.5 % sales / supplies and above \$XX : 2*
- Control deficiency below 0.25 % sales / supplies : 1*

If the parameters “sales” and “supplies” serve no useful purpose, other parameters will be defined (e.g., based on cost of organization or total assets)

Guidance - Non-Quantifiable control deficiencies

If it is not feasible to quantify the impact of control deficiencies a qualitative assessment of the likelihood of occurrence and the potential impact is made:

- **3*** control deficiency implies that a key risk is not effectively controlled, which has a significant adverse impact on the realisation of business objectives, including compliance with rules and regulations
- **2*** control deficiency implies that a key risk partially controlled, which, if not improved, could potentially have a significant impact on the realisation of business objectives, including compliance with rules and regulations
- **1*** control deficiency implies that a (key) risk is effectively controlled. However, the controls could be further strengthened, either in its effectiveness or efficiency

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