



**Maybank**

# **Ratings in Audit Report Lights or Lightning Rods?**

**The Institute of Internal Auditors (IIA)  
18 January 2018**

# What is Your Auditee Focus?



As stakeholder's dashboard for:

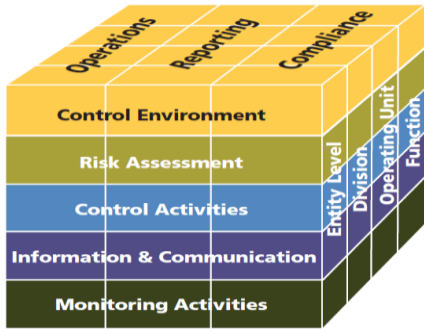
- Prioritizing action plans for critical risks
- Periodic assessment of control effectiveness
- As a consideration to assess quarterly Bank's risk profile

but **NOT** for punishment...

# Audit Rating



# COSO Internal Control Integrated Framework



- Framework and rating scheme are discussed and approved by President Director and Audit Committee, and communicated to Board of Directors and Senior Management
- Key risk & control objective has been communicated with Auditee prior to audit and during exit meeting.

A three-dimensional assessment : 1<sup>st</sup> - By Control Objectives; 2<sup>nd</sup> - By Risk Profiles; 3<sup>rd</sup> - Overall Assessment

### 3 Objectives

Operations	Effectiveness and efficiency of operations to achieve an entity's basic mission
Reporting	Reliability of reporting for use by organisations and stakeholders
Compliance	Conduct of activities in compliance with applicable laws and regulations

### 5 Components

Control Environment	Set of standards, processes, and structures that provide the basis for carrying out internal control across the organisation
Risk Assessment	A dynamic and interactive process for identifying and assessing risks to the achievement of objectives
Control Activities	Policies and procedures that help ensure management directives are carried out
Information & Communication	Supports the organisation's ability to use the right information within the system of internal control and to carry out internal control responsibilities
Monitoring Activities	Assess whether each of the five components of internal control is present and functioning

**1<sup>st</sup> Dimension Assessment**  
Horizontal – By COs

### Individual audit issue rating

- High
- Medium
- Low

### 2<sup>nd</sup> Dimension Assessment

  
Vertical – By Risk Profiles

COSO Component	CONTROL OBJECTIVE	2 <sup>nd</sup> Dimension Assessment				
		Strategic	Regulatory Compliance	Human Resource	Communication	Vendors & Suppliers
CE MA CA IC	Manage Branding and Marketing Strategy	S(P)		S(S)	S(S)	
	Manage Staff Resources, Reporting Structure & Segregation of Duties			S(P)		
	Manage/monitor Compliance with Internal Policies & Guidelines			S(S)	F(P)	S(P)
	Manage/Monitor Budget Allocation	S(P)			S(P)	
RA	Ensure Compliance with Bank & Regulatory Requirements		S(P)			
CA MA MA	Manage Operational Risk	S(S)	S(P)		S(P)	
	Manage and Monitor Media & Creative Agencies				S(S)	F(P)
	Manage Bank's Marketing & Sponsorship activities				F(P)	
MA	Monitor Execution of Brand Effectiveness				S(P)	
CA	Establish and Execute Standard Set of Operating Guideline for Branding and Event Management			S(P)	S(P)	
Adequacy of Design and Operating Effectiveness of Controls		●	●	●	●	●

### 3<sup>rd</sup> Dimension Assessment

  
Composite – Overall Audit Rating

# Three-dimensional Assessment

- A three-dimensional assessment : 1<sup>st</sup> - By Control Objectives; 2<sup>nd</sup> - By Risk Profiles; 3<sup>rd</sup> - Overall Assessment

## 1<sup>st</sup> Dimension Assessment

By Control Objective

## 2<sup>nd</sup> Dimension Assessment






By Risk Profile

(Primary & Secondary Risk)

## 3<sup>rd</sup> Dimension Assessment

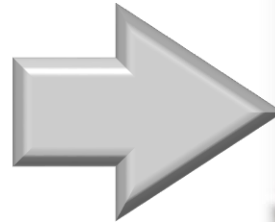
Overall Audit Rating

Four-Tier Assessment Scale  
(S) Satisfactory (Meet Standards)  
(F) Fair (Needs Improvement)  
(U) Unsatisfactory  
(P) Poor

-  Controls are sufficiently designed and operating effectively.
-  Controls are sufficiently designed and operating effectively, with some areas requiring improvement.
-  Controls are not sufficiently designed but compensating controls are present and operating effectively.
-  Controls are sufficiently designed but not operating effectively.
-  Controls are not sufficiently designed and not operating effectively.

## Four-Tier Composite Assessment Rating (with indication of risk direction)

Satisfactory (Meet Standards)  
Fair (Needs Improvement)  
Unsatisfactory  
Poor



## PANEL DISCUSSION



- Communicate objective and indicative audit rating to Auditee during exit meeting.
- Opportunity to discuss and respond validation of audit result 2 days prior to audit report finalization.
- Protocol for Auditee to escalate rating disagreement to the Audit Committee.

# Audit Rating as Lights.....

## Contra

- May foster friction between internal audit and operating management.
- Ratings add to the reporting process time.
- Ratings may diminish the significance of important audit findings.
- Management is less likely to openly share known control weakness with the audit teams.

## Overcome/Mitigation

- Framework and rating scheme are discussed and approved by President Director and Audit Committee, and communicated to Board of Directors and Senior Management
- Key risk & control objective has been communicated with auditee prior to audit and during exit meeting.
- Communicate objective and indicative audit rating to auditee during exit meeting.
- Opportunity to discuss and respond on audit result 2 days prior to audit report finalization
- Protocol for auditee to escalate rating disagreement to the Audit Committee.

