

# Technical Newsletter

GIAS APPLICATION

Issue Q1/2026

30 March 2026



**Pragmatic Application of the Tool**  
**“Determining Results of Internal Audit Services”**  
**in alignment with Global Internal Audit Standards**

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## FOR CHIEF AUDIT EXECUTIVES & INTERNAL AUDITORS IN MALAYSIA

The tool “Determining Results of Internal Audit Services,” issued by the Institute of Internal Auditors (IIA), provides structured guidance to assist internal auditors in assessing the **significance of findings** and formulating **engagement conclusions** in a consistent, transparent, and defensible manner. Although nonmandatory, the tool supports implementation of the IIA Global Internal Audit Standards, particularly those relating to communicating results, evaluation of findings, and engagement conclusions.

Within the Malaysian governance landscape—encompassing public sector entities, Government-Linked Companies (GLCs), financial institutions, and private corporations—the pragmatic application of this tool strengthens governance credibility, enhances clarity in reporting to Audit Committees, and improves alignment with regulatory and corporate governance expectations.

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## 1.DETERMINING THE SIGNIFICANCE OF FINDINGS

The foundation of credible audit reporting lies in the objective determination of finding significance. This requires structured methodology, professional judgement, and alignment with organisational risk tolerance.

### 1.1 Establishing Pre-Agreed Risk Criteria

A disciplined approach begins with defining clear parameters for **Low, Medium, and High risk** prior to engagement commencement. Risk criteria should:

- Align with the organisation's Enterprise Risk Management framework (e.g., COSO Enterprise Risk Management).
- Reflect Board-approved risk appetite and tolerance levels.
- Consider sector-specific regulatory expectations, including:
  - Bursa Malaysia (for listed issuers)
  - Bank Negara Malaysia (for regulated financial institutions)

Obtaining Audit Committee concurrence on the rating methodology enhances transparency and reduces subjectivity. It also safeguards auditor independence when disagreements arise regarding severity assessment.

### 1.2 Evaluating Impact and Likelihood

Significance determination should incorporate both quantitative and qualitative considerations, including:

- Financial materiality and potential loss exposure
- Regulatory non-compliance risk
- Reputational implications
- Operational disruption
- Control breakdown severity
- Fraud susceptibility

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Typical risk categorisation in practice:

- **Low Risk:** Isolated inefficiencies or documentation gaps with minimal exposure.
- **Medium Risk:** Control weaknesses (e.g., segregation of duties gaps) that may enable inappropriate transactions if unaddressed.
- **High Risk:** Significant control failures exposing the organisation to material financial misstatement, regulatory breach, or serious operational breakdown.

This structured evaluation ensures ratings are proportionate, objective, and defensible.

## 1.3 Applying Aggregation Judgement

Auditors must assess findings collectively rather than in isolation. Multiple low-risk deficiencies may cumulatively create medium or high-risk exposure. Engagement conclusions must therefore reflect:

- Overall control environment strength
- Pattern of deficiencies
- Systemic weaknesses versus isolated lapses

This holistic view is essential for balanced and meaningful reporting.

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## 2. ROLE OF THE CHIEF AUDIT EXECUTIVE (CAE)

The CAE plays a governance-critical role in ensuring methodological consistency and rating integrity.

Key responsibilities include:

- Ensuring consistency across audit teams and engagements.
- Conducting periodic calibration exercises.
- Requiring clear documentation of rating rationale.
- Establishing escalation protocols for high-risk findings.
- Validating alignment between ratings and organisational risk tolerance.



In the Malaysian context, where Audit Committees are increasingly vigilant, the CAE must act as the gatekeeper of rating credibility and independence.

## 3. FORMULATING ASSURANCE ENGAGEMENT CONCLUSIONS

An engagement conclusion represents the overall assessment of controls when findings are viewed collectively. The CAE has discretion to adopt a three-tier, four-tier, or five-tier rating scale depending on organisational complexity.

### 3.1 Three-Tier Scale (Commonly Applied)

Suitable for mid-sized entities or straightforward engagements:

- **Satisfactory** – Controls largely effective with minor improvements recommended.
- **Adequate** (Subject to Reservations) – Medium-risk findings present; objectives not critically compromised but improvement required.
- **Inadequate** – High-risk findings requiring urgent corrective action.



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## Advantages

- Simplicity and clarity.
- Easily understood by Boards and Audit Committees.

## Limitation:

- May lack sufficient granularity for complex or high-risk audits.

### 3.2 Four-Tier Scale

Often adopted by PLCs and regulated entities:

- Satisfactory
- Partially Satisfactory
- Needs Improvement
- Unsatisfactory

This scale allows clearer differentiation between moderate and significant deficiencies.

### 3.3 Five-Tier Scale

Used in mature governance environments:

- Well Controlled
- Adequately Controlled
- Some Improvements Required
- Significant Improvements Required
- Inadequately Controlled

This approach supports greater precision, particularly when reporting across multiple engagements or subsidiaries.

The selection of rating scale should balance clarity with sophistication and align with Board expectations.

## 4. APPLICATION ACROSS MULTIPLE ENGAGEMENTS



Beyond individual audits, the CAE may formulate consolidated conclusions, including:

- Quarterly internal control health assessments.
- Thematic reviews (e.g., procurement or IT governance across subsidiaries).
- Annual overall governance adequacy opinions.

This practice is particularly relevant for:

- GLC holding companies overseeing multiple subsidiaries.
- Financial institutions subject to regulatory reporting.
- Public sector entities reporting to central oversight bodies.

Consolidated reporting enhances strategic risk visibility and supports Board-level oversight.

## 5. ADAPTATION FOR ADVISORY ENGAGEMENTS



Although formal ratings are generally reserved for assurance engagements, advisory engagements may include:

- Narrative assessments.
- Risk observations without graded conclusions.
- Recommendations without overall ratings.

To preserve independence and clarity, advisory outcomes should be clearly differentiated from assurance conclusions unless otherwise requested by the Audit Committee.

## 6. GOVERNANCE AND REGULATORY ALIGNMENT IN MALAYSIA



Pragmatic application of this tool enhances alignment with:

- IIA Global Internal Audit Standards (particularly Standards relating to communicating results and evaluating findings).
- Audit Committee expectations under the Malaysian Code on Corporate Governance.
- Sector-specific regulatory requirements.

It also strengthens defensibility during:

- External Quality Assessments (QAR).
- Regulatory inspections.
- Board and Audit Committee scrutiny.

Clear documentation of methodology and rationale is critical to withstand such reviews.

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## 7. COMMON CHALLENGES AND MITIGATION STRATEGIES

Challenge	Impact	Mitigation
Subjectivity in rating	Disputes with management	Pre-agreed criteria and documented methodology
Management pressure	Compromised independence	CAE escalation to Audit Committee
Inconsistent ratings	Reduced credibility	Calibration workshops
Overuse of “Medium Risk”	Diluted urgency	Clear impact thresholds
Rating culture bias	Governance distortion	Periodic methodology review
Auditor competency gaps	Weak judgement	Annual Ethics & Professionalism training and signed acknowledgement

Annual Ethics and Professionalism training conducted by qualified providers, together with formal acknowledgement by auditors, reinforces integrity, professional scepticism, and consistency in judgement.

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## 8. STRATEGIC BENEFITS

### For the CAE

- Enhances credibility with the Board and Audit Committee.
- Strengthens defensibility during External Quality Assessment Review (EQAR) and regulatory reviews.
- Supports enterprise-level risk reporting.



### For Internal Auditors

- Provides structured methodology.
- Reduces ambiguity in communicating findings.
- Encourages disciplined professional judgement.



### For the Organisation

- Promotes transparency and accountability.
- Aligns risk reporting with governance maturity.
- Drives timely and prioritised corrective actions.



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## Key Takeaways



1. Consistency in methodology strengthens credibility.
2. Pre-agreed criteria reduce subjectivity and conflict.
3. Engagement conclusions must reflect cumulative risk exposure.
4. The CAE plays a critical governance oversight role.
5. Rating scales should match organisational complexity.
6. High-risk findings require immediate escalation.
7. Advisory engagements should avoid unnecessary grading.
8. Documentation of rationale is essential for defensibility.
9. Calibration exercises enhance rating consistency.
10. Ongoing Ethics and Professionalism training reinforces integrity in judgement.

## Summary

The practical application of the Institute of Internal Auditors (IIA) tool “Determining Results of Internal Audit Services” enables Malaysian Chief Audit Executives and internal auditors to apply structured and consistent professional judgement in assessing findings and forming engagement conclusions. When aligned with the organisation’s risk appetite, supported by clear and consistent methodology, and reinforced by strong ethical standards, the tool enhances governance transparency, accountability, and overall internal audit effectiveness across Malaysian organisations.

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## REFERENCES

<sup>1</sup> <https://www.theiia.org/en/standards/2024-standards/standards-knowledge-center/tools--resources/determining-results-of-internal-audit-services/>

<sup>2</sup> Global Practice Guides “Communicating Final Engagement Results” and “Communicating Results of Internal Audit Services.”