PEER REQUEST

Experience with Overall Audit Ratings
Should internal audit provide ratings or opinions as part of communicating audit results? This peer request explores the wide variety of opinions that CAEs have on this perennial topic. Opinions range from considering audit ratings a critical element of transparency in communicating audit results to considering them an unnecessary source of friction with management. Because audit ratings incorporate assessments of inherent and residual risks, this poll also asked respondents about communicating these assessments. In addition, the interaction of internal audit’s ratings and the organization’s ERM assessment of risk was explored.

The key findings are:

- The majority (72 percent) of respondents provide some type of overall rating on audits (question 1).
- Among respondents who provide ratings, most do not issue numerical, quantitative ratings. Instead, they provide descriptive or qualitative ratings (72 percent, question 2).
- Of those who provide ratings, about 3 in 10 also provide some additional evaluation of residual risk (question 4).
- In coordinating with ERM, nearly 70% of respondents reported they work closely with ERM to agree on assessments of risk when possible. Other responses indicate communication with ERM, but few have joint processes for determining inherent or residual risk (question 5).
- Responses from financial services organizations (i.e., banks, insurance companies) represented just over one-third of total responses. Their responses were similar to other industries, although they were slightly more likely to provide ratings, and in a quantitative format.
- Nearly sixty respondents provided additional details and comments about their ratings processes, which are provided in their entirety in this report, sorted by industry.
1. Do you normally provide an overall rating for completed audits when communicating your audit results? That is, do you generally provide some type of overall score, measure, or label to audits which represent your overall assessments from that audit in audit reports? (Select one.)

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<tr>
<th>Response</th>
<th>20%</th>
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<tr>
<td>Yes.</td>
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<td>72.2%</td>
<td>184</td>
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<tr>
<td>No.</td>
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<td>27.8%</td>
<td>71</td>
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<td>Total Responses</td>
<td>255</td>
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2. What type of rating do you use? (Select all that apply.)

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<tr>
<th>Description or qualitative comment that does not use predefined “scores.”</th>
<th>20%</th>
<th>40%</th>
<th>60%</th>
<th>80%</th>
<th>100%</th>
<th>Frequency</th>
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<td></td>
<td></td>
<td>72.3%</td>
<td>133</td>
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<table>
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<tr>
<th>Numerical, quantitative, or other type of limited option “scores.”</th>
<th>26.1%</th>
<th>48</th>
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<tbody>
<tr>
<td>Other responses (see below)</td>
<td>4.9%</td>
<td>9</td>
</tr>
</tbody>
</table>

Total Responses 184

Comments from Those Who Selected “Other” for Question 2

1. A report rating is given on the final report when sent to line management and also as part of papers for the board/audit committee meeting. The rating is arrived at by numbers based on qualitative and quantitative assessments.

2. We rate our reports using our organization’s ERM scoring methodology. The purpose is to communicate the risk exposure to our organization until the action plans are completed.

3. Our ratings scale is **satisfactory** (green), **cautionary** (yellow), and **unsatisfactory** (red).

4. Our rating is a blend of the qualitative and quantitative ratings.

5. We use a residual risk rating of **high**, **medium**, and **low** represented by symbols.

6. The descriptions we use are **well controlled**, **satisfactory**, **needs improvement**, and **unsatisfactory**, which align with predefined risk assessment ranges.

7. We use a heat map with rated control environment and impact (green to yellow to red).

8. We use a heat-map type of rectangle that has a continuum from green to yellow to orange to red, with a bar showing the rating for the particular audit.

9. The overall rating is either **effective** or **ineffective**. Individual maturity assessments given to each of the five internal control framework components (i.e. control environment, risk assessment, information and communication, etc.).
3. Approximately what percentage of the time have you used the lowest rating in the past 12 months? (Select one.)

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<tr>
<th>Response</th>
<th>20%</th>
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<tr>
<td>Less than 1 percent.</td>
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<td>37.5%</td>
<td>69</td>
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<tr>
<td>More than 1 percent, but less than 5 percent.</td>
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<td>22.3%</td>
<td>41</td>
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<tr>
<td>More than 5 percent, but less than 10 percent.</td>
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<td></td>
<td>20.1%</td>
<td>37</td>
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<tr>
<td>More than 10 percent, but less than 15 percent.</td>
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<td></td>
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<td></td>
<td>6.0%</td>
<td>11</td>
</tr>
<tr>
<td>More than 15 percent, but less than 25 percent.</td>
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<td></td>
<td></td>
<td></td>
<td>4.9%</td>
<td>9</td>
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<tr>
<td>More than 25 percent.</td>
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<td></td>
<td></td>
<td></td>
<td>9.2%</td>
<td>17</td>
</tr>
</tbody>
</table>

Total Responses 184
4. Do you normally determine and report an assessment of the inherent or residual risk for audits (for example, High/Medium/Low), either in addition to, or instead of, a rating of the audit? (Select one.)

<table>
<thead>
<tr>
<th>Response</th>
<th>20%</th>
<th>40%</th>
<th>60%</th>
<th>80%</th>
<th>100%</th>
<th>Frequency</th>
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<tbody>
<tr>
<td>No.</td>
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<td></td>
<td></td>
<td>52.2%</td>
<td>96</td>
</tr>
<tr>
<td>Yes, residual risk assessment in addition to a rating.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>20.1%</td>
<td>37</td>
</tr>
<tr>
<td>Yes, both inherent and residual risk assessment in addition to a rating.</td>
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<td></td>
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<td></td>
<td>11.4%</td>
<td>21</td>
</tr>
<tr>
<td>Yes, inherent risk assessment in addition to a rating.</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>9.8%</td>
<td>18</td>
</tr>
<tr>
<td>Other responses (see below)</td>
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<td></td>
<td></td>
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<td></td>
<td>6.0%</td>
<td>11</td>
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<tr>
<td>Yes, inherent and/or residual risk assessment instead of a rating.</td>
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<td></td>
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<td></td>
<td>0.5%</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total Responses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>184</td>
<td></td>
</tr>
</tbody>
</table>

**Comments from Those Who Selected “Other” for Question 4**

1. In addition to rating the effectiveness of controls used to mitigate risk, we provide our assessment of the maturity of implementation of the three lines of defense to manage risks pertinent to the area audited.

2. We determine an inherent and residual risk for the audit but do not report it as part of the audit report. Instead, we use it for audit planning purposes for the development of the audit plan.

3. Within the report we rate individual findings as high, moderate or low risk, based upon evaluation of risk/rate of reoccurrence; financial exposure; operational exposure (risk of business disruption); or business/reputational exposure.

4. We give an overall qualitative opinion (effective, ineffective, somewhat ineffective, or priority) for the overall report, and we rate individual observations on a 1 to 6 scale which is based on the residual risk (impact and likelihood).

5. We do not rate the risk for the results of the overall audit. We risk-rate each individual observation within the report. The risk rating is based on the severity of the observation itself.

6. We use residual risk rating.

7. At beginning of report, we provide a risk rating of the audit for annual planning purposes — very high (one-year), high (two-year), medium (three-year), and moderate (analytic monitoring).

8. Issues are rated H, M, and L.

9. Regardless of audit opinion, we assign ratings to issues from different organizational perspectives.

10. The overall rating provided is the assessed residual risk by internal audit following the review. We provide a description of the inherent risk in the engagement letter in order to clarify what exactly is at stake.
5. How does your assessment of inherent and/or residual risk align with your organization’s ERM process and assessments? (Select one.)

<table>
<thead>
<tr>
<th>Response</th>
<th>20%</th>
<th>40%</th>
<th>60%</th>
<th>80%</th>
<th>100%</th>
<th>Frequency</th>
<th>Count</th>
</tr>
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<tbody>
<tr>
<td>Internal audit works closely with my organization’s ERM activities to collaboratively agree on risk assessments, wherever possible.</td>
<td></td>
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<td></td>
<td>53.4%</td>
<td>47</td>
</tr>
<tr>
<td>Internal audit’s assessments are provided as input for my organization’s ERM activities.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>27.3%</td>
<td>24</td>
</tr>
<tr>
<td>Other responses (see below)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>14.8%</td>
<td>13</td>
</tr>
<tr>
<td>Internal audit’s assessments drive the assessments of risk used by my organization’s ERM activities.</td>
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<td></td>
<td></td>
<td></td>
<td>2.3%</td>
<td>2</td>
</tr>
<tr>
<td>Internal audit accepts the risk assessments made by my organization’s ERM activities.</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td>2.3%</td>
<td>2</td>
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**Total Responses** 88

**Comments from Those Who Selected “Other” for Question 5**

1. Internal audit independently assesses the risk of each business process in our audit universe. We leverage ERM entity-level risk assessments as input.

2. While our reviews are linked to ERM, the actual testing is more detailed in nature so I am not sure there is a direct correlation to ERM itself.

3. We are working toward a consistent manner for describing risk. We are all aware of each other’s practices — don’t believe that they conflict — but we want to streamline the process to some extent.

4. Internal audit’s assessments are independent of the second line’s assessment. Our ERM reporting includes the opinions from each line of defense with an explanation of the variance. I participate in the discussions and share my perspective.

5. Assessment of risk for any given audit is independent of the ERM activities.

6. We don’t have ERM activities. We use our professional judgement as well as our understanding of existing controls to determine inherent and residual risk.

7. Our assessment of a completed audit is independent of ERM, but the selection of the topic to audit usually stems from an alignment of internal audit enterprise risk assessment with management’s ERM top risks.
8. I would say there is correlation but it is hard for me to draw a definitive link because the programs operate at different levels and have differing degrees of definition and specificity around rating criteria.

9. My organization does not have an ERM process.

10. No formal ERM process exists.

11. The ratings are not aligned at this time.

12. They are not really in alignment.

13. We have not implemented ERM.
This section provides additional comments provided by survey respondents related to overall audit ratings. The comments are sorted by industry type and number of respondents in the following order:

- Finance and Insurance
- Manufacturing
- Healthcare and social assistance
- Educational Services
- Public Administration
- Utilities
- Retail Trade
- Transportation and Warehousing
- Real Estate and Rental and Leasing
- Arts, Entertainment, and Recreation
- Professional, Scientific, and Technical Services
- Wholesale Trade
- Mining, Quarrying, and Oil and Gas Extraction
- Construction
- Information
- Administrative and Support and Waste Management and Remediation Services

### Finance and Insurance

1. For our compliance audits, our ratings are generally acceptable, needs improvement, or unacceptable. For our risk-based, operational audits, we provide a rating of the risk control environment as it relates to each of the specific audit objectives and rate it as strong, generally acceptable, needs improvement, or weak. This rating reflects how well the entity is controlling those residual risks related to each objective. We provide our overall rating of the audit with descriptive comments in the conclusion section of our report.

2. In addition to the overall audit rating, I'm considering including a control maturity rating. Our audit ratings are red, yellow, and green. I think a control maturity rating would help readers better understand green-rated audits in particular. For example, green generally indicates no significant issues, but the risk management/control environment of that area may be immature, which could give rise to problems in the future. Or, said differently, the risk of future issues for a green-rated area with a low maturity score is greater than a green-rated area with a higher maturity score. The reader will understand that all greens are not the same.

3. Rating each issue/finding is more important than providing an overall rating. Rating each individual issue/finding ensures that the focus of management’s response is on the specific areas/items that need to be addressed within the area being audited. My 26 years of experience has taught me many things, but one of the most important is that there is no value in having a debate with an auditee
about an overall audit being strong, adequate, or poor. Management and the audit committee need their attention focused on the specific areas within the overall audit that need attention.

4. We assess the risk level of each finding on a four-point scale (high, significant, moderate, or low). The ratings for the findings then influence the overall report rating, also on a four-point scale (not adequate, qualified, adequate, or good). Generally, one significant finding drives a rating of qualified. The technical definition of qualified is “adequate were it not for . . .” [However, a qualified rating] is often perceived as much worse [than its definition]. We also issue:

- Limited assurance reports with ratings of satisfactory or not satisfactory.
- Agreed upon procedures with no opinions.
- Memos, in some cases.

5. When we provided an overall rating in the past, we found that management focused too much on the overall rating and would try to negotiate it. After discussions with senior management and the audit committee, we have decided it is best to assign individual issue ratings and to provide some general discussion around the control environment. For example, in my discussions with senior management and the audit committee, I may state that the internal controls environment is poor and needs management attention without assigning a needs improvement rating.

6. We just use the risk assessment in the planning process. The risk assessment determines the timing, frequency, and depth (i.e., sample sizes). We give an overall rating (satisfactory, needs improvement, or unsatisfactory). Each finding is assigned a rating (high, moderate, or low).

7. We have a rating scheme that goes from more to less — satisfactory, acceptable, regular, or deficient. The results are obtained based on the evaluation of the effectiveness of the evaluated controls.

8. At my former company we did [audit ratings], but when I became CAE at my current company, I found they had never done [audit ratings]. I decided to live with that for a while (although we do risk-rank our issues). I found that having no overall report rating takes away a lot of back and forth with the auditees. I prefer it this way.

9. Overall report ratings are adequate, needs improvement, or inadequate. We use a general framework/definition for each rating to help inform our decision process on the final rating. It is more judgmental vs. formulaic.

10. We have tried [audit ratings], and the overall experience was not appreciated by management. As a compromise, there is a rating at the observation level. One important aspect is for the client to really understand and accept the rating system

11. We weren’t providing a rating until we started using the audit report our audit management software auto-generates. It requires a rating, so we simply went with adequate/inadequate.

12. We determine inherent risk for auditable units, which feeds into our risk assessment. However, when we report, the ranking is based on residual risk, after taking into account mitigation.

13. Individual findings within audits have a high, medium, or low risk. In addition, we provide an overall rating for the audit — unsatisfactory, needs improvement, satisfactory.

14. We determine an assessment of the inherent and residual risk for audit projects (internal audit risk assessment).
15. We provide an opinion in each audit report.

16. We are working on the risk assessment part of it.

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<th>Manufacturing</th>
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1. We use a system of red, yellow, or green overall audit ratings. The rating is determined by me (vice president of internal audit) along with input from my team. Our decision is based on risk associated with each audit observation. The controller's group targets a numerical goal of 90% for compliance with the U.S. Sarbanes-Oxley Act of 2002; however, it is possible for a site to have a 90% effectiveness rate and still have an adverse audit opinion if there is a high level of risk for any finding. The most important measure is the red, yellow, or green overall risk opinion.

2. We rate findings in this way, but the report ratings are more qualitative — satisfactory, needs improvement, unsatisfactory.

3. Report grades include:
   - **Satisfactory** — Our procedures identified no findings related to the design or operating effectiveness of internal controls.
   - **Improvement Required** — Our procedures identified a few findings related to the design and/or operating effectiveness of internal controls. None of these findings, either individually or in the aggregate, indicate significant weakness in internal controls. Management should address these findings to further strengthen the system of internal controls.
   - **Significant Improvement Required** — Our procedures identified more than a few findings related to the design and/or operating effectiveness of internal controls. Although control weaknesses were noted in a number of areas, compensating controls exist where weaknesses were noted. Management should address these findings to further strengthen the system of internal controls.
   - **Unsatisfactory** — Based on our procedures, the internal control design does not appropriately mitigate specific identified risks, or numerous exceptions were noted in our testing indicating that controls were not functioning as designed. These findings represent the potential to create a significant weakness in internal controls. Management should take immediate action to address these findings by instituting new control procedures or modifying existing procedures.

4. We find that providing a rating creates a process in which management then debates the severity of the rating. Our reports are geared toward identifying internal control, compliance, and operational weaknesses that we believe warrant management's attention and an action plan to mitigate the risk. Here is the language we provide in advance of the reported matters:

   "The results of our work did not identify any material internal control or operating weaknesses. Internal audit performed procedures on certain areas and noted that management is doing a proficient job in executing the internal controls and operating processes in place. We did, however, identify items for which management should develop corrective action to ensure the overall internal control and operating environments continue to operate as intended. These matters are noted below."

5. We use red/orange/yellow/green ratings for the overall rating, and red/yellow/green for each objective/risk area.
6. Providing an overall rating has had an adverse impact on business relationships.

7. While we do not score overall, we show clearly the number of audit comments, split into major and minor. From this, management can effectively deduce the levels of control.

8. We assess via sub-process. We have found that there is less emotion with this methodology, and it provides the audit customer more actionable information: They know exactly which areas are working well and which ones need attention.

**Health Care and Social Assistance**

1. When issuing the audit report, I do not include an assessment of *high/medium/low risk*, but I do assign these rankings to all open audit deficiencies as well as a measure of how much effort it will take to remediate the issue (*low, medium, high*). This allows me to report open items on a grid that places them in these four quadrants:
   - High risk, high level of effort to remediate.
   - High risk, low level of effort to remediate.
   - Low risk, high level of effort to remediate.
   - Low risk, low level of effort to remediate.

The expectation is that the *high risk/low level of effort* items will be worked first, and if items remain on the list for a long time it is because the level of effort to resolve is high. No one gets excited if *low risk, high level of effort* items remain on the list. Conversely, there is a call to action regarding *high risk* items that could be easily taken care of.

2. Audit rating was the practice before I took over CAE position. Feedback from both management and audit staff was that there was too much time and energy spent on determining the score.

3. We rate at observation level, process level, and overall audit level. Observation-level ratings are qualitative i.e. a scale indicating *critical, significant, moderate, or minor* control weakness (and process improvement). We have substantial descriptors to guide ratings, for example, *critical* is described as follows:

   Very serious control failure or weakness, or substantial noncompliance. An issue or condition that could have critical impact on financial, operational, or strategic performance; critical breach in laws and regulations that could result in material fines or consequences; critical impact on the organizational reputation or brand (which could threaten its future viability).

   Process-level ratings are also qualitative i.e. a scale of *unsatisfactory, partially unsatisfactory, generally satisfactory, satisfactory, and disclaimer*. Descriptors are also provided, for example, *unsatisfactory* is described as follows:

   Practically none of the expected controls are in place or operating effectively. Weaknesses rated as *critical or significant risk* have been identified that, in aggregate, are pervasive to the system of internal control.

   Overall opinion is rated simply as unsatisfactory, partially satisfactory, and satisfactory.
The audit committee and senior management want an overall rating, but there was too much fighting with the audit client about the rating we used previously (a one- to five-star calculation). So we switched to qualitative with definitions, for example, satisfactory is described as follows:

- Design — Design of controls is largely adequate and effective in addressing the key risks.
- Documentation and communication — Controls/policies/procedures have been formally documented and are up-to-date and generally communicated to relevant stakeholders.
- Operation/implementation — Controls are largely operating in a satisfactory manner and are providing some level of assurance.
- Compliance — No known breaches of legal requirements and/or key departmental policies and guidelines have occurred.
- Risk management — Risks are largely being effectively managed.
- Findings/deficiencies — No critical or significant-rated findings identified, and minimal moderate-rated findings.

This has reduced the level of argument about the overall opinion, and it has clarified the basis of the opinion and the ownership of the controls and risk management.

4. We do this in our opinion paragraph. Currently we see no benefit to our non-profit healthcare organization to issue “grades,” but rather our opinions are narrative and usually describe what can be strengthened. For example, controls for inventory management can be strengthened by.....

5. We rate observations with high significance or moderate significance. Any low significance observations are “verbals” and require no action plans. We do not rate reports.

Educational Services

1. When I worked in banking, I provided overall audit ratings routinely and it worked well. However, in my role with a nonprofit, I am not providing an overall rating. I am rating the individual audit findings as high, medium, or low. I do not want management focusing on whether they agree with an overall audit rating as I have seen in the past that this becomes a distraction. I want management focused on implementing corrective actions. It is much easier to gain agreement on an individual audit finding and its rating. We have established guidance on defining high, medium, and low risk findings, including examples. High and medium risk rated findings are followed up on, including status reporting to the audit committee. This has now almost eliminated the backlog of past due audit observations.

2. We'd rather stay focused on audit issues and not argue about ratings, which are a matter of opinion anyway.

3. We previously provided a risk ranking for observations — high (red), medium (yellow), and low (green). However, the audit clients became consumed with the risk level and the board’s potential perception of their area based on the risk ranking. About a year ago, we eliminated the risk ranking in the audit reports. As a result, our discussions with audit clients have been more focused on the audit observations rather than the risk ranking. Several of the board members appreciated the risk ranking to assist with their review of the audit reports; however, the relationship costs with the audit clients trumped the convenience of the risk ranking in the reports. I meet with our audit committee chair
before each meeting and am able to provide commentary on observations that may present a higher risk to our organization.

4. My predecessor tried [audit ratings] with poor results. The auditee spent too much time focused on the overall rating rather than addressing the recommendations put forward in the report. What I have found to be more valuable is to rate the findings and recommendations from a risk perspective (high, medium, low). This helps management prioritize limited resources and budgets into a realistic action plan that will address the high risk items first.

Public Administration

1. We used to rate green, yellow, orange, or red, but find that the continuum communicates better.

2. We provide a risk rating for each observation made during an engagement, but we don’t provide an overall rating of completed engagements.

3. Depending on the nature of the audit, we may provide an overall assessment but it’s in more narrative form, for example: "Overall, we found purchases were allowable, properly supported, and for business purposes. We noted some exceptions regarding authorization, which we have relayed to management." The one exception is in reporting the results of relevance and reliability audits of performance measures and data. For those we do use a visual scale (green, yellow, red) for reliability.

4. Auditing ratings were causing too much debate, and we concluded they were subjective. We now state that we completed an audit of [insert name of process] and identified [insert number] of audit findings.

Utilities

1. We rate each finding/exception, but do not rate the audit.

2. We rate the findings/recommendations (H, M, L, or PI), not the overall audit. Comments are made in the conclusion normally to the state of the design and effectiveness of the internal controls.

3. We have a three-point scale, and moderate dominates. Things have to be really good for a satisfactory rating and pretty bad to get significant. I have tried to add a descriptor in internal close meetings and with the audit committee in terms of whether a moderate was closer to satisfactory or closer to significant.

Retail Trade

1. Historically, the team had given overall scores, but this dragged out the reporting process with management fighting back on reports. The overall scores also caused too much confusion with executive management and the board. For example, there were debates on the score being based on the traditional Sarbanes-Oxley criteria escalating to significant deficiency and material weakness, but then ratings became too easy on smaller markets that were out of Sarbanes-Oxley scope that could have very bad performance but still show on the Sarbanes-Oxley scale as not being a big problem. Vice versa, if a smaller market were given a very bad score, then questions would continuously arise if these should be significant deficiencies and material weaknesses or should we allocate more resources to solve this problem, which then skewed the perception of where resources should be added. Therefore, we went away from the overall score.
2. We have found that providing overall scores in an audit report just leaves auditees focused on their score rather than the actual issues. Therefore, we do not provide an overall score on the audit report. In our reports, we make a recommendation on whether we think a follow-up audit is necessary or not. If a follow-up audit is necessary, we state that a follow-up audit will be performed because of the unsatisfactory level/nature of findings. Otherwise, we state a follow-up audit is not necessary. These are the only statements of measurement we may provide in the report.

3. A rating of high/medium/low (red/yellow/green) is given to each completed audit. This is a residual risk rating to the company (not to the business unit/process being audited).

### Transportation and Warehousing

1. I don’t know how you can do this or justify ratings between locations. The number of issues noted in itself tells a story, and allows our CFO to make additional geographic recommendations for follow-up.

2. We have just ceased the overall rating. Auditees were getting too preoccupied with it, and it was becoming hard to finalize reports.

3. Each audit finding has a residual risk rating of H, M, or L, and the audit will have an overall audit rating.

### Real Estate and Rental and Leasing

1. Management prefers a rating system on audit reports so they can quickly identify where to focus their attention.

2. No rating is assigned to the overall audit engagement nor to any of the individual findings. I present facts to the leadership team and audit committee, and they know what is significant without me having to rate them. Also, ratings consume a lot of effort if ratings are not favorable. (Management spends time arguing about the rating rather than fixing the issues at hand.)

### Arts, Entertainment, and Recreation

1. We provide a risk assessment score for each finding. The score components are impact and vulnerability, with escalating criteria established with each component and included as an appendix to the report for readers’ reference.

2. We score each finding individually — high, medium, or low risk.

3. In my current role, we do not provide audit ratings or issue ratings as part of the audit final report. However, I have had clients in the past where we did.

4. There is no need to do this as we generally review all entities together, not as separate reviews with separate feedback to each entity.

### Professional, Scientific, and Technical Services

We have taken the view that if we put it in the report, it is important and should be addressed. The incremental process and effort required to assign a rating among the things that are important creates a
benefit that is worth less than the cost. From time to time, however, I will flag a particular report that in my judgement should be prioritized for reading by the board members and members of senior leadership.

### Wholesale Trade

I haven't added low-risk findings to audit reports lately. I don't feel that they necessitate the attention of the audit committee. Instead I include them in any verbal (stuff we saw that doesn't even rise to the level of an audit finding) findings in a document to the management over the area we've audited. For findings, I use *high, medium, and low* ratings as follows:

- **High** — should be addressed immediately.
- **Medium** — should be addressed within six months or so (depends on the complexity of the resolution and the speed of decision-making at the company).
- **Low** (if included) — should be addressed in the normal course of business.

I like the concept of discussing the *inherent* and *residual risk* of the topic audited (based on our audit work).

### Mining, Quarrying, and Oil and Gas Extraction

We providing ratings at the audit recommendation level rather than an overall rating.

### Construction

We provide a qualitative assessment of risks and related controls for what we call “risk-rated audits.” We do not provide such a rating for advisory audits performed at management or counsel's request.

### Information

I have found that unless you have a very sophisticated audience, trying to describe the difference between *inherent* and *residual risk* is a bad idea.

### Administrative and Support and Waste Management and Remediation Services

We just started scoring audit projects in 2017. The plan is to incorporate the scoring for all audit projects. We started with operational reviews first.
What is the size of your internal audit function? (Select one.)

<table>
<thead>
<tr>
<th>Response</th>
<th>20%</th>
<th>40%</th>
<th>60%</th>
<th>80%</th>
<th>100%</th>
<th>Frequency</th>
<th>Count</th>
</tr>
</thead>
<tbody>
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<tr>
<td>2–5</td>
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<td></td>
<td>22.7%</td>
<td>58</td>
</tr>
<tr>
<td>6–10</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>26.7%</strong></td>
<td><strong>68</strong></td>
</tr>
<tr>
<td>11–15</td>
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<td></td>
<td></td>
<td></td>
<td>15.3%</td>
<td>39</td>
</tr>
<tr>
<td>16–25</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td>16.1%</td>
<td>41</td>
</tr>
<tr>
<td>26–50</td>
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<td></td>
<td></td>
<td></td>
<td>9.8%</td>
<td>25</td>
</tr>
<tr>
<td>51–100</td>
<td></td>
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<td>3.9%</td>
<td>10</td>
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<tr>
<td>More than 100</td>
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<td>3.9%</td>
<td>10</td>
</tr>
<tr>
<td><strong>Total Responses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>255</strong></td>
</tr>
</tbody>
</table>
What is the primary industry classification of the organization for which you work (or your primary client if you are a service provider)?

<table>
<thead>
<tr>
<th>Response</th>
<th>20%</th>
<th>40%</th>
<th>60%</th>
<th>80%</th>
<th>100%</th>
<th>Frequency</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance and Insurance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>36.1%</td>
<td>92</td>
</tr>
<tr>
<td>Manufacturing</td>
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<tr>
<td>Educational Services</td>
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<tr>
<td>Health Care and Social Assistance</td>
<td>6.7%</td>
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<tr>
<td>Public Administration</td>
<td>5.1%</td>
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<td>Utilities</td>
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<td>Retail Trade</td>
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<td></td>
<td></td>
<td></td>
<td>9</td>
</tr>
<tr>
<td>Transportation and Warehousing</td>
<td>3.5%</td>
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<td>9</td>
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<tr>
<td>Mining, Quarrying, and Oil and Gas Extraction</td>
<td>3.1%</td>
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<td></td>
<td>8</td>
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<tr>
<td>Other Services (except Public Administration)</td>
<td>3.1%</td>
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<td></td>
<td>8</td>
</tr>
<tr>
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<td>6</td>
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<tr>
<td>Professional, Scientific, and Technical Services</td>
<td>2.4%</td>
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<td></td>
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<td></td>
<td>6</td>
</tr>
<tr>
<td>Arts, Entertainment, and Recreation</td>
<td>2.4%</td>
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<td></td>
<td>6</td>
</tr>
<tr>
<td>Construction</td>
<td>2.0%</td>
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<tr>
<td>Information</td>
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<td></td>
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<tr>
<td>Management of Companies and Enterprises</td>
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<td></td>
<td></td>
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<td>2</td>
</tr>
<tr>
<td>Administrative and Support and Waste Management and Remediation Services</td>
<td>0.8%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>Agriculture, Forestry, Fishing and Hunting</td>
<td>0.4%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>0.4%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1</td>
</tr>
</tbody>
</table>

Total Responses: 255
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