


# To rate or not to rate

How IA can most effectively communicate the results of its work

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. Above the 'Y' is a yellow chevron shape pointing to the right. The logo is positioned in the bottom right corner of the page, set against a background of silhouetted people sitting at desks in a classroom or meeting room, with light streaming through window blinds.

Building a better  
working world




**Haley, the chief audit executive (CAE) of a large multinational organization, sighs as she leaves the touch point with her audit manager, Joseph.**

They have just wrapped up one of their most challenging internal audits of the year, and Joseph has been briefing her on the closing meeting. The audit was related to an implementation project that veered off course and identified major weaknesses regarding governance, project management and stakeholder communications. By performing extensive fieldwork and receiving support from subject-matter resources, the internal audit team developed insightful recommendations, though some will take time and effort to implement. Haley had hoped to hear of constructive dialogue around major changes to overhaul the implementation project. Instead, she learns the closing meeting quickly got derailed by concerns over the potential rating on the report. Joseph explains that before they even got into the first observation, he was fielding questions about the rating. While he tried to guide the conversation back on course, the stakeholders were distracted, and the discussion became contentious.

When Haley gets back to her desk, she has a voicemail from the chief information officer (CIO) expressing his own concerns. He has debriefed with his team and is troubled by the potential rating of the audit. He begins to argue his case.

As Haley worries that the audit's ability to drive much-needed change is in jeopardy, her mind races through questions: Is there a better way to approach ratings? Are ratings even necessary? If we do not use ratings, how will we communicate internal audit results to the audit committee and other stakeholders?

# Perspectives on internal audit ratings



## Most internal audit departments are communicating audit results to a wide array of stakeholders, including:

1. Audit committee
2. Executive management
3. Line management

Internal audit (IA) has a unique and important position within companies, entrusted as the eyes and ears of the audit committee, to highlight concerns and report on the operations of the organization. In addition, IA is increasingly seen as a resource to share industry insights and market trends. With this mandate in mind, IA needs to communicate results clearly and precisely to its stakeholders.

In this age of information overload, IA must be able to steer its message through the constant barrage of “high importance” emails and “mission critical” meetings to focus the attention of the audit committee and executive management on high-risk findings and areas of concern – both immediate threats and future threats. What can be especially challenging is how to most effectively translate the conclusions of IA’s work in a way that accomplishes this goal. Many companies have attempted to drive clarity in communication by assigning ratings to audit reports. However, there are several questions to consider:

- ▶ What is the purpose of IA ratings?
- ▶ What is the definition of a “red” or “unsatisfactory” report, and do all stakeholders interpret a rating the same way?
- ▶ Do ratings provide a clear directive to guide priorities, or do they oversimplify a complex environment?
- ▶ How do ratings impact the perception of the IA function?
- ▶ What are the implications of the rating for the business and management?

In the digital age, where stakeholders expect messages to be enabled by technology, provide timely and actionable results and be easy to digest, it is more important than ever for IA functions to fully understand the options for rating – or not rating – internal audit results and use that understanding to develop a system that works best for their organizations.

The Institute of Internal Auditors (IIA) does not offer prescriptive guidance on ratings. Rather, the IIA International Standards for the Professional Practice of Internal Auditing (Standards) requires the communication of specific elements (e.g., objective, scope and results) and emphasizes the importance of communicating results in a manner that is objective, constructive and timely.<sup>1</sup> Organizations should also follow the strategy set forth in their own IA mandate and policies.

When it comes to reporting audit results, one size does not fit all. The sector, structure, maturity, culture and stakeholder expectations will influence the delivery of IA results. While there are a lot of similarities when it comes to communicating IA results, one thing is certain – no two companies approach it the same way.

---

<sup>1</sup> Institute of Internal Auditors, International Standards for the Professional Practice of Internal Auditing (Standards) Section 2410 – [Criteria for Communicating](#)

**88%**

of companies rate at the **issue** level

**53%**

of companies rate at the **report** level

IA departments are more likely to rate reports that are focused on assurance, as opposed to those that they consider to be more advisory in nature.

**74%**

of respondents rate assurance reports

**32%**

rate advisory reports

Is the use of ratings universal? In a recent EY survey, many respondents indicated that they use some kind of ratings methodology in their audit reports. However, there is wide variety in the application of a rating methodology, including variation in the types of reports rated and in the level at which ratings are used. Stakeholders of the internal audit reports can also differ by organization, including the audit committee, executive management and line management. Variation can also exist in the rating structure, which may include using a numeric or word-based scale to describe the severity of an observation. In addition, the definitions of what each rating means to involved stakeholders can affect the timeliness of remediation, establish the oversight required or identify the risk to the enterprise.

Companies cite a number of reasons for rating audit reports, the most common of which include clearly communicating the following, regardless of whether the ratings occur at the report level or issue level:

- Severity of the findings
- Priority for corrective action
- Impact of issues
- Reliability of the system of internal control
- What the audit committee should view as most important

Most IA functions feel they need ratings to adequately communicate audit results and that rating audit reports is seen as valuable by audit committees. However, it is less clear as to whether management, who bears the operational burden of going through the audit, gains value or has a good understanding of the rationale for specifying a rating level. Some of the common arguments for not rating include that ratings lead to conflict between the auditee and internal audit and take time away from focusing on the forward-looking and beneficial recommendations and/or remediation plans.

## View on ratings in organizations

**83%**

of respondents said that ratings add value from IA and audit committee perspective

**30%**

of respondents said that they are unsure if ratings add value from management's perspective



## Chief audit executive point/counterpoint

	Pro	Con
Rating	<ul style="list-style-type: none"> <li>▶ Clear and defined communication to audit committee</li> <li>▶ Management can easily identify which findings are most critical</li> </ul>	<ul style="list-style-type: none"> <li>▶ Potential for friction with stakeholders</li> <li>▶ Does not provide adequate attention to parts of the business with positive audit ratings</li> <li>▶ May reduce comparability</li> <li>▶ May not provide insight into the importance of the business activity within the organization or levels of risk it may pose</li> </ul>
Not rating	<ul style="list-style-type: none"> <li>▶ Potential for collaboration and forward-focus with auditee</li> <li>▶ Focus on areas of emerging risk and trends that may not rise to a significant risk at the individual audit level</li> </ul>	<ul style="list-style-type: none"> <li>▶ Difficulty in quantifying results of the audit and comparing results between audits</li> <li>▶ Lack of a simple and agreed-upon communication plan to audit committee and senior leadership</li> </ul>

Audit reporting is one of the most crucial elements of IA and, as such, elicits strong opinions. Many CAEs have unwavering commitments to their decisions to rate or not rate audit reports based on their overall experience and what has driven successful communications in their organizations. Some CAEs surveyed felt that the burden of rating outweighs the benefits, while the majority expressed that ratings are expected by stakeholders and give power to IA's results. When asked why her organization rates audit reports, the CAE of a large multinational company explained, "The audit committee wants to move the organization in the right direction, and as the CAE, I am responsible for putting internal audit reports into context to help direct their attention to topics that require attention, resources and funding support to help our organization achieve its goals." She continued, "While I understand that rating reports might create difficult conversations with the auditee, the job of the CAE is to deliver an independent perspective, which sometimes includes delivering hard messages."

However, the CAE of a large utility has a differing view and does not rate reports. When asked how she communicates audit findings to the audit committee without using ratings, she explained, "By not using ratings, I can better shape the message to the audit committee to focus on emerging themes, resourcing concerns or other notable activity I am seeing across the organization. These items may not have independently risen to the level of being considered high risk as a single finding or report would." Additionally, she commented, "Not rating audit reports creates a collaborative relationship focused on continuous improvement instead of spending a significant amount of time debating a rating. And at the end of the day, the conclusion of the audit and the decision on how it is presented to the audit committee is the independent decision of the IA organization."

## Most companies are using many methods of communication to share audit results, including:

1. Detailed written audit reports
2. Memos to management
3. Oral communication
4. Dashboards

## Do you feel you could adequately communicate the results of your audit work without a rating?

Ratings give power to results, and are expected.

**10%**

view ratings are more trouble and effort than they are worth, and cause friction between IA and management

**43%**

said the results would not be as powerful without a rating

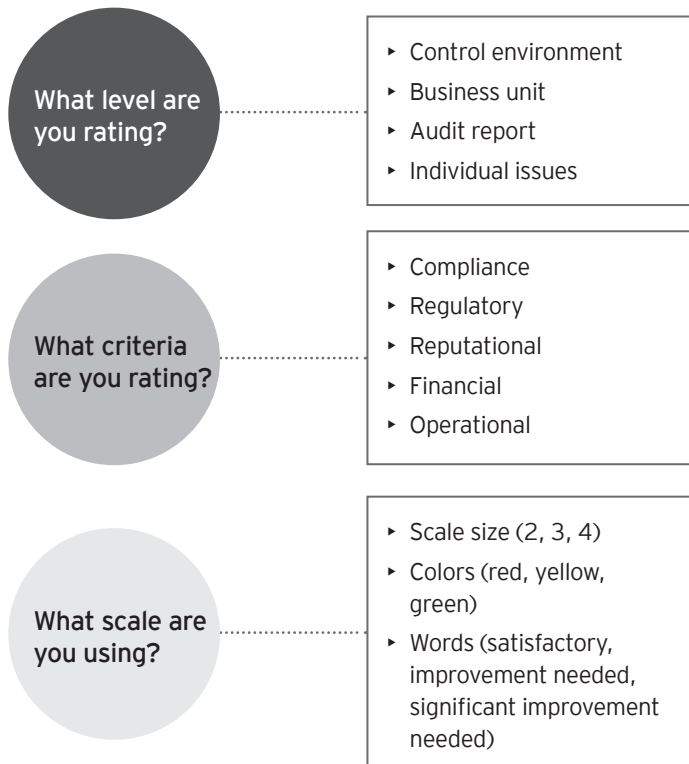
## Examples of rating schemes

Even among organizations that rate reports, there are countless ways to structure and interpret ratings. We collected examples of the variables that feed into a ratings system and recommend that organizations review each section to develop an approach that best fits their industry, culture and management requirements.

Of the survey respondents who rate audit reports,

**65%**

use a scheme with three or four levels




## Innovation

Digitization is pushing the horizons of what IA is and can be, including how IA is absorbing, analyzing, reacting to and communicating results. However, 96% of IA functions are still using detailed written audit reports. As the digital age continues to transform the way we do business, IA must not get left behind by using outdated communication channels.

Some functions have started to experiment with other methods of communication, such as memos and dashboards, a trend that is expected to increase. IA must evolve to continue supporting the mandate established with its stakeholders while delivering results faster and in more digitally compatible methods.

When actively engaged with its stakeholders and using its own communication style, IA is poised to deliver high-value communications to assist with the strategic, operational, compliance and financial ambitions of the organization.



Back at her desk, Haley listens one more time to the voicemail from her CIO with his concerns about the audit report and its potential rating. In this case, she knows the audit committee is expecting a rating on this latest report. Delivering a “red” report would be the quickest way for her to enact change within her organization, including identifying resources to assist with remediation and gaining executive attention. However, there are several new board members, and this could be an opportunity to better understand their expectations and brainstorm if they have a different vision for internal audit reporting. No matter how Haley chooses to adjust her reporting approach, she’ll need to align with the company’s objectives and strategic vision to elevate IA’s position as a trusted business advisor in a rapidly evolving world.

To find out more about how our Risk Advisory services could help your organization, speak to your local EY professional or a member of our global organization, or go to [ey.com/advisory](https://ey.com/advisory).

**Amy Brachio**

EY Global and EY Americas Advisory Risk Leader  
+1 612 371 8537  
[amy.brachio@ey.com](mailto:amy.brachio@ey.com)

**Esi Akinosho**

EY Global Advisory IA Leader  
+1 713 750 8670  
[esi.akinosho@ey.com](mailto:esi.akinosho@ey.com)

**Lisa Hartkopf**

EY Americas Advisory IA Leader  
+1 312 879 2226  
[lisa.hartkopf@ey.com](mailto:lisa.hartkopf@ey.com)

**Kevin Janes**

Central  
+1 312 879 5400  
[kevin.janes@ey.com](mailto:kevin.janes@ey.com)

**Lynne Coviello**

Northeast  
+1 617 375 1321  
[lynne.coviello@ey.com](mailto:lynne.coviello@ey.com)

**Keith Young**

Southeast  
+1 404 817 5781  
[keith.young@ey.com](mailto:keith.young@ey.com)

**Geoff Beatty**

Southwest  
+1 713 750 1467  
[geoffrey.beatty@ey.com](mailto:geoffrey.beatty@ey.com)

**Scott Coolidge**

West  
+1 213 977 4206  
[scott.coolidge@ey.com](mailto:scott.coolidge@ey.com)

**EY** | Assurance | Tax | Transactions | Advisory

**About EY**

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit [ey.com](https://ey.com).

© 2019 EYGM Limited.  
All Rights Reserved.

EYG no. 012476-18Gbl  
1804-2671688  
ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax or other professional advice. Please refer to your advisors for specific advice.

**[ey.com](https://ey.com)**