



AuditOne Advisory

From Bud Genovese, CEO

Introducing Our Enhanced Risk-Based Report Format

AuditOne's approach to internal auditing has always been and continues to be based on risk analysis and risk management...and we work hard to keep improving the quality of our innovative services and work tools. In the current banking environment, regulators and bankers alike are calling out for more clarity, more granularity, more risk-based analysis, and more focused risk analyses in audit reports.

In response, we're pleased to announce three significant enhancements to our audit approach and report formats. For each scope area and for each audit overall, we now are assigning an **Inherent Risk Rating**, more granular **Audit Ratings** (scores), and the addition of a **Priority Rating**.

The Inherent Risk Rating is intended to capture the underlying risk profile of what the institution does and how it does it. This information, drilled down to the scope item level, allows for a more efficient allocation of risk management and audit resources. While determining inherent risk is a subjective exercise, considerations may include: business volumes and trends, changes in the economy, organizational changes, applicable regulatory changes, loss experience, and previous regulatory or audit criticism. AuditOne's enhanced report format will now use a 3-point scale for the Inherent Risk Rating: High, Moderate or Low.

Audit Ratings reflect residual risk - i.e., the risk to the institution in each audit area after taking account of the adequacy and effectiveness of the controls that the institution has put into place to address and mitigate the inherent risks posed. AuditOne's enhanced report format uses a 4-point Audit Ratings score: 1 = Strong, 2 = Satisfactory, 3 = Needs Improvement, and 4 = Unsatisfactory. This more granular evaluation allows bank management and the Board to more effectively pinpoint what needs improvement and who deserves a pat on the back.

The Priority Rating is intended to assess the importance of each audit finding, so as to assist the bank in determining the urgency and priority of remedial action. The Priority Rating is a tool for bank management and the Board to evaluate a range of findings across different scope areas and audits. AuditOne's enhanced report format uses a 3-point Priority Rating of High, Moderate or Low.

Our report format zooms in on inherent risks, provides a more objective and quantitative audit analysis, and delivers greater understanding of audited areas and the effective remediation of any deficiencies encountered. We're proud of the refinements we've developed in our new report format, and believe we're offering the most useful, analytic, risk-based internal audit report tool in the industry.

I welcome you to take a look at our innovative report format, see its enhanced detail first hand, and get a clear idea of how it provides more risk-based information to aid you in the internal audit decision-making process. Simply reply to this email or phone me at 408-691-6844 and I'll send you a working copy of our AuditOne report format. And we welcome your feedback, comments and questions, so please let me know what you think.

We're confident you'll find our audit report format a more strategic, detailed, readable, informational risk-based tool to use as you develop and implement your risk-managed internal audit and credit review **strategy**.

Bud Genovese is founder and CEO of AuditOne LLC, a California-based internal audit firm that focuses only on banks and their service providers. Mr. Genovese pioneered the concept of providing comprehensive, affordable, independent internal audit services by gathering wide-ranging, extraordinary expertise within one firm. AuditOne now serves over 140 clients throughout the Western United States, and nationally. Contact Bud Genovese at 408-980-8099 or bud.genovese@audit-one.com