



AuditOne Advisory

From Bud Genovese, CEO

Introducing Our Refined Enterprise-Wide Risk Assessment

We're dedicated to implementing innovative methods and tools that deliver AuditOne's brand of risk-based, risk-managed internal auditing. We've recently refined our Enterprise-Wide Risk Assessment (ERA), and I'd like to tell you what this means and how it is beneficial to your bank.

Regulators are increasingly looking for the ERA to be the guiding tool banks use to set risk management policy. The ERA may be the bank's only regular, cross-organizational review of its risk profile and how that profile changes from one year to the next.

The AuditOne ERA provides a foundation for the internal audit and credit review planning process. As such, it should be performed at least annually -- preferably late in the preceding year so as to feed into the Audit Committee's deliberations -- with updates throughout the year as changes dictate.

Our recently refined ERA methodology zeroes in on inherent risk, which is a reflection of the bank's business; its scale, variety, complexity, and growth; how its products are delivered; changes in the institution; staffing, systems, and the like.

Inherent risk is a pure measure of the risk of loss or other negative event that includes the likelihood of a loss event together with its potential dollar impact. We also factor in any actual recent losses, plus results of recent audits and exams. Our ERA measures risk before internal controls are taken into account, and it indicates where the bank's audit dollars should be directed. Those audit dollars then go to assessing the design of the bank's controls (for example, do they mitigate the specific inherent risks faced in each area?) and how effectively they're functioning. Control weaknesses result in residual (or post-controls) risk.

The inherent risk rating is translated into a recommended audit frequency, based on a mapping that draws on our understanding of regulatory expectations and our experience working with many different banks. We would also like to point out that our new AuditOne ERA now drills down to the scope item level in assessing inherent risk across the bank. This allows us to make recommendations not just on the areas of the bank that need audit attention but also on the individual scope items that should be included within each area.

Sensitive to opportunities that can save you money, the AuditOne ERA can determine areas where audits can safely be deferred until the following year, or conducted in an abbreviated/streamlined format in the current year, or consolidated with some other, related audit. Bottom line, the refined AuditOne ERA drills down into individual scope item levels to determine inherent risk of the bank's business, highlights where increased attention may be needed, and ensures that internal audit resources are cost-effectively directed where they're most needed.

We're confident you'll find our refined Enterprise-Wide Risk Assessment a sophisticated, risk-based tool that will help you cost-effectively 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