

AuditOne Advisory - From Bud Genovese, Chairman

Regulators Firming Up Independence of Bank Audit Committees

Because we perform a large number of internal audits that often include close interaction with examiners, one of the benefits we try to provide our clients is sharing our wide view of the regulatory landscape and focusing with clarity on what's coming down the road.

We've recently noticed that some bank examiners are requesting banks to take specific steps that appear to underscore and bolster the independence of their Audit Committees. In particular, banks are being asked to:

- Require all third party audit reports to be presented to the Audit Committee by the auditor rather than by bank management;
- Keep separate minutes of the Audit Committee's executive session (the portion where bank management is out of the room); and
- Ensure audit schedules are directed by and approved by the Audit Committee.

Although not new, these requirements appear to be a new focus of examiners, and experience teaches us that when we begin to see such regulatory guidance in a few cases, it is often a harbinger of a more widespread emphasis. The Boy Scout motto is good advice: Be Prepared.

What can banks do to help ensure compliance with this new regulatory emphasis? Most banks already keep separate minutes of the Audit Committee's executive session, so that is not a huge hurdle to jump. And it is standard practice for Audit Committees to assign and approve delegates as contact persons to coordinate and schedule audits, with final approval of all audit schedules by the Audit Committee.

But the issue of requiring all third party audit reports to be presented by the auditor rather than by bank management or the delegated audit coordinator is a change for many banks. To comply with this mandate, banks should carefully consider the depth and breadth of an audit firm's management.

Is your audit firm staffed with executive level management and senior employees with the proper level of expertise to be able to present audit findings to the Audit Committee and to respond with accuracy to questions, clarifications and comments?

The truth is, many firms are running at bare bones levels, and simply do not have the management personnel capacity or time to meet the requirement of presenting reports at Audit Committee meetings.

AuditOne is the exception. Our management and staff of full time employees is rich with expertise, deep with bench strength, and is ready to fulfill this regulatory requirement whenever you may want or need it. Our team is designed to provide comprehensive independent services. We can scale up or down depending upon your specific needs, and that includes attending Audit Committee meetings in person to present our third party reports.

There is a difference in internal audit providers, and while we're on this important subject of vendor management, AuditOne also has the proper infrastructure in place, including secure (encrypted) field computers, secure email, a secure file transfer facility, liability insurance, a disaster recovery plan, and an Information Security Plan (available for your vendor files), as well as sufficient executive management to handle Audit Committee or Board meetings.

Let me know if you have any questions about this latest regulatory hot topic or if there is any way we can help you devise and implement your internal audit strategy and program.

Thank you. --Bud

AuditOne Staff Profile

As an ongoing feature to these AuditOne Advisories, I'd like to provide details of the expertise of some of our AuditOne management and staff employees. AuditOne's value proposition is to deliver **responsive, exceptional expertise** at a cost-effective price, so let's take a closer look at what we mean by exceptional expertise.

KEVIN WATSON

Chief Executive Officer

25 years of Banking/Finance/Audit Experience

Titles Held

Bank President & CEO

Bank Director

Other bank positions held: Chief Administrative Officer

Chief Lending Officer, Credit Administrator,

Compliance Officer, Internal Auditor, ALCO Committee Chair,

Fortune 200 non bank positions held: Senior Financial Analyst, Cost Accountant, Internal Auditor

Public Accounting positions held: Senior Accountant – Ernst & Whinney

President - Insight Risk Consulting (AuditOne affiliated company)

Certifications / Advanced degree

Pacific Coast Banking School, University of Washington, 1999

Master of Arts in Accounting, University of Iowa, 1985

Bachelor of Arts in Business Education, University of Northern Iowa, 1982

California CPA License (Inactive)

Expertise

Bank enterprise risk assessments

Internal Audit Management / Methodologies

BSA/Anti-Money Laundering

Compliance

Sarbanes Oxley compliance

SAS70 / SSAE 16 reviews – bank service providers

Audit Committee

Internal Audit – quality assurance review
General Bank Operations
Banking Policies and Procedures
Information Technology – General Controls
Business Continuity Planning
Interest Rate Risk
Credit Administration

Bud Genovese is Chairman 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 and credit review services by gathering wide-ranging, extraordinary expertise within one firm. AuditOne now serves over 160 clients throughout the Western United States, and nationally. Contact Bud Genovese at 408-980-8099 or bud.genovese@audit-one.com