

## Module 03: Maecenas in dui et purus blandit mollis.

**Module Time: 55 Minutes**

### Instructor Notes

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**Module Objectives**

At the end of this module, participants should be able to:

- 1 Donec porttitor vulputate consequat.
  - 2 Sed vitae diam faucibus quam finibus blandit sed non nisi.
  - 3 Pellentesque interdum leo finibus, varius sapien sit amet, bibendum ligula. Suspendisse potenti.
  - 4 Maecenas gravida scelerisque odio, eu rhoncus tortor sagittis quis..
  - 5 Aliquam facilisis, tortor at congue rutrum, justo justo suscipit dolor, vitae maximus tellus est non felis.
  - 6 Aliquam placerat justo sed magna dignissim, vitae porta velit tincidunt.
  - 7 Fusce vehicula tortor iaculis ante accumsan, sit amet ullamcorper est pellentesque.
  - 8 Donec congue, nibh eget laoreet rhoncus, arcu sapien facilisis lacus, in scelerisque lacus tellus eget ante.
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## Module Outline

Sect.	Topic	Summary	LO	Time	Format	Materials
A	Overview	Modules objectives and agenda		5 min.		
B	General Considerations	<ul style="list-style-type: none"> <li>– Identify key ACRO controls</li> <li>– Assess precision of management review controls</li> <li>– Inadvertent reliance</li> </ul>	LO #1	15 min.	Facilitated discussion	PowerPoint slides
C	Curabitur vitae sem urna					
C	Class patent		LO #2	XX min.		
D	Vestibulum in ligula tincidunt, interdum nibh sit amet		LO #3	XX min.		
E	Pellentesque in facilisis nisi, eget pulvinar quam)		LO #4	XX min.		
F	Suspendisse a egestas massa,		LO #5	XX min.		
G	Mauris pharetra lorem a turpis volutpat		LO #6	XX min.		
H	Vestibulum in ligula tincidunt	-	LO #7	XX min.		



<b>I</b>	Fusce rutrum mollis risus		LO #8	XX min.		
	Sed nulla urna			60 min.		
<b>J</b>	Wrap-up	Q & A Recap module learning objectives		10 min.		
	<b>Total time</b>			<b>XX min.</b>		

The TBREWING Group

## Instructor Notes and Preparation

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**Instructor  
Preparation/  
Materials**

1. ACRO Subtopic 000-01 (ACRO 5)
2. ACRO Subtopic 000-02 (ACRO 114)
3. ACRO 2020-00 “Fusce rutrum mollis risus at egestas. Suspendisse a egestas massa, id bibendum orci.”
4. ACRO 01-234 “Orci varius natoque penatibus et magnis dis parturient montes, nascetur ridiculus mus. Suspendisse dignissim velit massa, quis aliquet lectus viverra ornare.”
5. Curabitur vel nisi molestie neque dictum congue
6. Suspendisse finibus, risus convallis rutrum bibendum, orci purus eleifend nisi, lobortis hendrerit est velit malesuada turpis
7. Pellentesque in facilisis nisi, eget pulvinar quam. Aliquam pellentesque egestas nisi, vel pharetra odio sagittis eget.
8. Orci varius natoque penatibus et magnis dis parturient montes, nascetur ridiculus mus

*The expectation is that the instructor will have read or reviewed these preparation materials prior to the class.*

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## Section D: ACRO Determined Under ACRO Subtopic 000-01 (SACRO 5)

**Section Time: 20 minutes**

### Section Goal

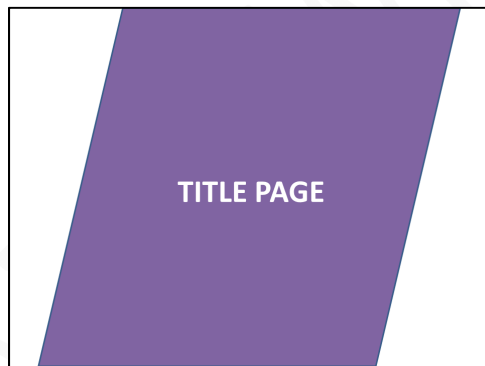
At the end of this section participants should be able to assess the risk of material misstatement (RoMM) at the assertion level for estimates involving Allowance for Loan Losses: Assessing reasonableness of the ACRO under SACRO 5 (ACRO Subtopic 000-01).

Each table of participants will list the key takeaways/relevant issues from the discussion of ACRO SUBtopic 000-01 ACRO reserves. For each takeaway/relevant issue identified, the participants will identify the how it impacts our procedures related to the ACRO.

The instructor will then debrief the session by asking for each table to provide a key takeaway/relevant issue identified and how it impacts our audit procedures.

### ACRO 5 Reserves Intro

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## ACRO 000-01 Reserves (ACRO 5) (20 minutes)

### ACRO 5 Overview and Agenda

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- Maecenas commodo nulla enim, mollis sagittis neque ornare vel.
- Aliquam placerat justo sed magna dignissim, vitae porta velit tincidunt.
- Mauris sed imperdiet lectus, id pellentesque ex.
  - Proin urna mi, rhoncus eu iaculis nec, dignissim sed sem.
  - Aliquam vitae nisi ex.

**Explain** to participants that in this module we will discuss the approach for auditing ACRO-000-01 ACRO reserves.

### ACRO 5 Risk Assessment

#### Show Slide

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- Maecenas commodo nulla enim, mollis sagittis neque ornare vel.
- Aliquam placerat justo sed magna dignissim, vitae porta velit tincidunt.
- Mauris sed imperdiet lectus, id pellentesque ex.
  - Proin urna mi, rhoncus eu iaculis nec, dignissim sed sem.
  - Aliquam vitae nisi ex.

**Explain** to participants that analytical procedures based on credit concentrations and economic and environmental conditions can be used when auditing the ACRO model to assess trends in increasing or decreasing credit risks in loan portfolios. (i.e. large concentrations in construction loans or increasing unemployment rates). Understanding risks at the loan portfolio level can assist the engagement team in developing appropriate audit procedures.

We can also review trends in the reserve compared to credit quality indicators such as delinquency and charge-offs to determine if management's process appears to be identifying changes in credit risk.

Engagement teams can perform a review of the Company's reserve levels and credit quality indicators (i.e. delinquency, charge-offs, nonperforming loans, etc) to available third party peer and industry data and investigate any unusual trends.

As part of risk assessment we can review the historical accuracy of management estimates by comparing prior period estimates to actual losses. Significant variations between the

estimates and actual results should be investigated to assess for indications of management bias.

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- Maecenas commodo nulla enim, mollis sagittis neque ornare vel.
- Aliquam placerat justo sed magna dignissim, vitae porta velit tincidunt.
- Mauris sed imperdiet lectus, id pellentesque ex.
  - Proin urna mi, rhoncus eu iaculis nec, dignissim sed sem.
  - Aliquam vitae nisi ex.

**Emphasize** that participants should identify the extent of management bias; assess the impact of regulatory exams; assess internal or third party loan review results; assess external expectations such as those from analysts; stakeholders etc.; assess changes in the application of reserve modeling (such as approach to “input” gathering and IT environment); and changes in control environment / personnel, that can impact our risk assessment.

Clear “linkage” between significant risks identified and planned procedures should be evident in the workpapers.

Remind participants that planning is a continual process and is not static.

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- Maecenas commodo nulla enim, mollis sagittis neque ornare vel.
- Aliquam placerat justo sed magna dignissim, vitae porta velit tincidunt.
- Mauris sed imperdiet lectus, id pellentesque ex.
  - Proin urna mi, rhoncus eu iaculis nec, dignissim sed sem.
  - Aliquam vitae nisi ex.

**Emphasize** that “planning” is a continual process.

ACRO 100 reviews should be leveraged to reflect “audit evidence” obtained during interim periods, and should enhance risk assessments.

**Etiam eget  
iaculis dolor**

**Show slide**

Aliquam sit amet rhoncus risus

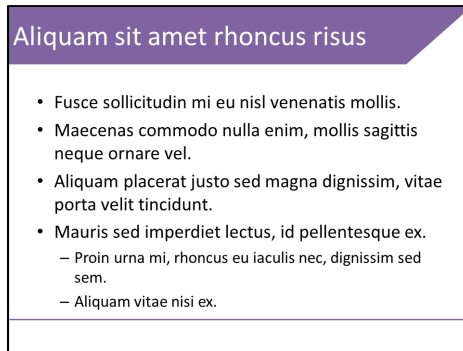
- Fusce sollicitudin mi eu nisl venenatis mollis.
- Maecenas commodo nulla enim, mollis sagittis neque ornare vel.
- Aliquam placerat justo sed magna dignissim, vitae porta velit tincidunt.
- Mauris sed imperdiet lectus, id pellentesque ex.
  - Proin urna mi, rhoncus eu iaculis nec, dignissim sed sem.
  - Aliquam vitae nisi ex.

**Explain** to participants that the engagement team should obtain the Company's model for estimating ACRO 5 reserves and review and document significant assumptions and inputs.

**Tell** participants to review any changes in significant assumptions and inputs between periods and assess whether the changes are appropriate.

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commodo****Show Slide**

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- Maecenas commodo nulla enim, mollis sagittis neque ornare vel.
- Aliquam placerat justo sed magna dignissim, vitae porta velit tincidunt.
- Mauris sed imperdiet lectus, id pellentesque ex.
  - Proin urna mi, rhoncus eu iaculis nec, dignissim sed sem.
  - Aliquam vitae nisi ex.

**Tell** participants that most ACRO 5 reserve models will be based upon historical loss factors.

**Describe** to participants that when auditing the Company's historical loss factors we should consider the level of loan portfolio disaggregation to evaluate if historical losses are consistently being applied at the portfolio level (i.e. historical charge-offs are being applied to outstanding loan portfolios with similar characteristics).

**Explain** to participants that the engagement team should also consider the look back period being applied to historical factors to determine if the look back period and consider if the look back period is consistent with current trends.

**Explain** that participants should also evaluate the client's process for refreshing loss factors to determine if the loss factors are including and/or considering current trends. (i.e. is current year charge-off data considered in the calculation).

**Emphasize** that participants need to test the completeness and accuracy of data used in testing historical loss factors.

**Show Slide**

**Describe** to participants that qualitative factors are often applied to historical loss calculations when inherent loss rates are expected to differ from historical losses.

**Explain** to participants to that the audit team should assess the reasonableness of loss factors compared to trends in credit quality statistics, available third party industry and peer data, and internal factors such as changes in underwriting standards of the experience levels of client personnel.

**Use of Specialist****Show Slide**

Aliquam sit amet rhoncus risus

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- Maecenas commodo nulla enim, mollis sagittis neque ornare vel.
- Aliquam placerat justo sed magna dignissim, vitae porta velit tincidunt.
- Mauris sed imperdiet lectus, id pellentesque ex.
  - Proin urna mi, rhoncus eu iaculis nec, dignissim sed sem.
  - Aliquam vitae nisi ex.

**Describe** to participants that ABC can assist the engagement team in assessing whether the client’s methodology is compliant with ACRO and regulatory guidance. ABC can also review the reasonableness of loss factors and loan portfolio characteristics to industry data.

**Remind** participants that ABC can also be engaged to assist in the review of loan grades/ratings.

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**Questions****Show slide**

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**QUESTIONS**

**Ask** the participants if they have any questions.

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