



# Auditing The ALLL

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# Agenda

- The ALLL
- Regulators
- Auditing the ALLL
- Common Findings
- Questions

# The ALLL

- Allowance for Loan & Lease Losses
- The Reserve
- Contra Asset
- Accounting

# The ALLL

- The ALLL Is:
  - A Valuation Reserve
  - For Charges Against Income
  - An Estimate of Uncollectible Amounts

# Polling Question #1

The ALLL is

- A. Asset Liability Management
- B. An Estimate of Expected Losses
- C. A Contra-Asset
- D. Both B&C

# Regulators

- Regular Part of Exams
- Methodology & Proper Valuation
- Proper Loan Grades
- Review of IA Work Papers
- 2021 NCUA Supervisory Priorities

# Regulators

- 2021 NCUA Supervisory Priority
  - CECL Assessment Delayed
  - CU's Must Maintain ALLL in Accordance With:
    - ASC 450-20
    - ASC 310-10

# Regulators

- 2021 NCUA Supervisory Priority
  - Examiners Will Review:
    - ALLL P&Ps
    - ALLL Reserving Methodology Documentation
    - Adherence to GAAP
    - IA/SC Independent ALLL Review



# Auditing the ALLL

- Policies & Procedures
  - ALLL Methodology
  - Include Problem Loans/Collections, etc.
  - Business Loan Review, too
  - NCUA Looking, too.

# Auditing the ALLL

- Problem Loans
  - Proper Identification
  - System & BOD Reports
  - Classification of Business Loans

# Auditing the ALLL

- Charge-offs & Recoveries
  - Policy in Accordance w/ GAAP?
  - Collection Efforts
  - Policy & GAAP Being Followed?
  - Proper BOD Reporting

# Auditing the ALLL

- Loan Review Process
  - Independence
  - Risk Rating System
  - Watch List

# Auditing the ALLL

- Non-accrual Loans
  - GAAP & RAP
  - Verify Loans Put in NA When Required

# Polling Question #2

Review ALLL P&Ps For:

- A. ALLL Methodology
- B. Interest Rate Risk
- C. Adherence to GAP & RAP
- D. Both A&C

# Auditing the ALLL

- ALLL Analysis
  - Obtain Most Recent Valuation
  - Ensure Policy Adherence
  - Validate Figures to Source Material
  - Recalculate/Verify Cell Formulas

# Auditing the ALLL

- ALLL Analysis
  - Historical Losses
  - Homogenous Loans
  - ASC 450-20 (F/K/A FAS 5)
  - Ensure Loss History Is Appropriate



# Auditing the ALLL

- ALLL Analysis
  - Individually Assessed Loans
  - ASC 310-10 (F/K/A FAS 114)
  - 3 Methods:
    - Fair Market Value of Collateral (Most Used)
    - Present Value of Future Cash Flows
    - Loan Pricing (Rarely Used)

# Auditing the ALLL

- Qualitative Factors
  - Changes in Lending P&Ps
  - Changes in Local/National Economic Conditions
  - Changes in Loan Portfolio
  - Changes in Lending/Credit Personnel

# Auditing the ALLL

- Qualitative Factors
  - Changes in Problem Loans
  - Changes in Loan Review System
  - Changes in Collateral Value
  - Changes in Concentrations of Credit
  - Other Factors

# Auditing the ALLL

- Qualitative Factors
  - COVID-19

# Auditing the ALLL

- Qualitative Factors
  - COVID-19

# Auditing the ALLL

- ALLL Narrative Review
- Overall ALLL Reasonableness
- BOD Review
- CECL Readiness
- Surplus/Deficit

# Common Findings

- Non-adherence to Policy
- Homogeneous Loan Categories
- Miscalculations
- Cell Formulas
- Non-support of Qualitative Factors
- Double Dipping of ASC 310-10 Valuations

# Polling Question #3

Audits of the ALLL include:

- A. Methodology
- B. Qualitative Factors
- C. ASC 310-10 & 450-20
- D. All of the above



# Questions





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# Thank You!

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