

[PN 16]

Bank reports for audit purposes

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Bank reports for audit purposes

Introduction

SAS 400 'Audit evidence' requires auditors to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base their audit opinion. This Practice Note provides guidance to auditors seeking evidence from an entity's bankers about balances, transactions or arrangements. **1**

A commonly adopted procedure in the audit of an entity's financial statements is for the auditors to obtain direct confirmation from the entity's banker(s) of balances and other amounts which appear in the balance sheet and other information which may be disclosed in the notes to the financial statements, for example off-balance sheet items such as guarantees and foreign exchange transactions. Bank confirmations are a valuable source of audit evidence because they provide independent evidence regarding the reliability of an entity's records. **2**

The auditors consider the inherent and control risks in relation to relevant financial statement assertions when deciding whether to obtain a bank confirmation. Ordinarily auditors will wish to obtain confirmation of balances, facilities and security arrangements. **3**

When an entity has a complex relationship with its bank, including using the bank as a custodian of its assets, to provide trade finance or undertake derivative or commodity transactions, the auditors will often decide to obtain supplementary information. Auditors will base their decision on the need to obtain supplementary information from the bank on their knowledge of the entity's business and on discussions with directors and management and will request information when they know, or suspect, that there are banking relationships relevant to the audit. **4**

The Auditing Practices Board (the APB) has agreed with the British Bankers Association (BBA) a revised process for obtaining bank confirmations. The revised process is designed to help auditors obtain comprehensive information when their clients have complex business operations with banks while minimising the banks' costs in relation to responding to auditors' requests regarding clients that have less complex relationships. The new arrangements are also designed to facilitate timely and accurate responses by banks. Key features of the revised process are as follows: **5**

- The bank confirmation request letter has been simplified and will no longer include a detailed listing of information required. The BBA has circulated the detailed listing of information required to member banks;
- The detailed listing of information required has been restructured into two sections:
 - (a) information applicable when a client's banking relationship is 'simple' (Appendix 1); and
 - (b) that supplementary information which may be applicable when the banking relationship is more complex (Appendix 2).

The auditors' request will therefore specify whether the auditor is requesting the 'standard information' (for clients with simple banking relationships) or the nature of the supplementary information required (for clients with

more complex banking relationships). If the auditor requires information that has not been predefined as 'standard' or 'supplementary' this is required to be clearly specified in an attachment to the bank confirmation request letter under the heading 'additional information';

- Auditors need to be aware that, where supplementary and/or additional information is requested, banks may charge their customers an additional fee for providing the information and responses to auditors are likely to take longer to process.
- 6 Where a bank is not a member of the BBA the auditor will specify the detailed information required within the request letter. (Appendix 5 sets out BBA members at 30 June 1998)
 - 7 The new process for obtaining bank confirmations will be effective in relation to auditors' requests submitted on or after 1 December 1998. An illustrative auditors' request for a bank confirmation that reflects the new arrangements is included as Appendix 3. Old style confirmation request letters received after 1 December 1998 may be rejected by members of the BBA.

Authority to disclose

- 8 Banks require the explicit written authority of their customers to disclose the information requested. The BBA has requested that, where possible, this takes the form of an ongoing standing authority rather than as a separate authority each time information is requested. A single authority can cover several entities provided that each entity is specified and the authorisation signatures are appropriate. An illustrative letter providing authority to a bank to disclose information to the entity's auditor is included as Appendix 4.

Disclaimers

- 9 The bank confirmation request letter indicates that neither the request from the auditors, nor the banks response, will create any contractual or other duty between the bank and the auditors. In addition, the banks may add a disclaimer at the end of their reply to the effect that their response is given solely for the purposes of the audit without creating any responsibility to the auditor on the part of the bank, its employees or agents and that it does not relieve the auditors from other enquiries or from performance of any other duty.
- 10 The APB is of the view that the inclusion of the introductory statement and of a disclaimer of the nature described above does not significantly impair the value of the information given as audit evidence. The information given by a bank ought not to be regarded as inaccurate or likely to be inaccurate simply because the giving of it is not actionable. Accordingly, the auditors can reasonably rely upon information given by a banker, provided it is not clearly wrong, suspicious or inconsistent in itself, ambiguous or in conflict with other evidence gathered in the course of the audit.

Bank confirmation process

- 11 The key steps to be taken by the auditors in initiating the process agreed with the BBA are as follows:

- (a) A request for a bank confirmation is to be issued on the auditors' own note paper and sent to the bank branch with which the client has the prime business arrangement. The branch will normally respond on behalf of the bank. On occasions a branch may be unable to provide a comprehensive response and will advise the auditor of the names of other branches, divisions or subsidiaries that it is aware have a relationship with the customer;
- (b) The bank confirmation request is to specify:
- (i) the names of all entities covered by the request;
 - (ii) whether the auditors are requesting 'standard information' and, where appropriate, the nature of supplementary information required;
 - (iii) details of 'additional information' if so required;
 - (iv) the date for which the auditors are requesting confirmation (the audit confirmation date);
 - (v) a statement that the bank's response will not create a contractual relationship between the bank and the auditors;
 - (vi) a statement requesting the bank to advise the auditors if the Authority is insufficient to allow the bank to provide full disclosure of the information requested; and
 - (vii) a contact name and telephone number.
- (c) The bank confirmation request should reach the branch at least two weeks in advance of the audit confirmation date. Where such notice cannot be provided special arrangements may need to be made with the bank.

Appendix 1 – Standard request for information

The following is an extract from the BBA instruction to banks regarding receipt of a standard request for information for audit purposes.

The following information must always be disclosed upon receipt of a request for information for audit purposes. Responses must be given in the order as below and if no information is available then this must be stated as 'None' in the response.

1	<p>Account and Balance Details</p> <ul style="list-style-type: none"> ● Give full titles of all Bank accounts including loans, (whether in sterling or another currency) together with their account numbers and balances. For accounts closed during the 12 months up to the audit confirmation date give the account details and date of closure. <p><i>Note. Also give details where your Customer's name is joined with that of other parties and where the account is in a trade name.</i></p> <ul style="list-style-type: none"> ● State if any account or balances are subject to any restriction(s) whatsoever. Indicate the nature and extent of the restriction e.g. garnishee order
2	<p>Facilities</p> <p>Give the following details of all loans, overdrafts, and associated guarantees and indemnities:</p> <ul style="list-style-type: none"> ● term

	<ul style="list-style-type: none"> ● repayment frequency and/or review date ● details of period of availability of agreed finance i.e. finance remaining undrawn ● detail the facility limit.
3	<p>Securities</p> <p>With reference to the facilities detailed in (2) above give the following details:</p> <ul style="list-style-type: none"> ● Any security formally charged (date, ownership and type of charge). State whether the security supports facilities granted by the Bank to the customer or to another party. <p><i>Note. Give details if a security is limited in amount or to a specific borrowing or if to your knowledge there is a prior, equal or subordinate charge.</i></p> <ul style="list-style-type: none"> ● Where there are any arrangements for set-off of balances or compensating balances e.g. back to back loans, give particulars (i.e. date, type of document and accounts covered) of any acknowledgement of set-off, whether given by specific letter of set-off or incorporated in some other document.
4	<p>Additional Banking Relationships</p> <p>State if you are aware of the customer(s) having any additional relationships with branches or subsidiaries of the Bank not covered by the response. Supply a list of branches etc.</p>

Appendix 2 – Request for supplementary information

The following is an extract from the BBA instruction to banks regarding receipt of a supplementary request for information for audit purposes.

Request for Trade Finance information

On occasion Auditors may request Trade Finance information. Responses must be given in the order as below and if no information is available then this must be stated as ‘None’ in the response.

1	<p>Trade Finance</p> <p>Give the currencies and amounts of the following:</p> <ol style="list-style-type: none"> Letters of Credit Acceptances Bills discounted with recourse to the customer or any subsidiary or related party of the customer. Bonds, Guarantees, Indemnities or other undertakings given to the Bank by the customer in favour of third parties (including separately
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any such items in favour of any subsidiary or related party of the customer). Give details of the parties in favour of whom guarantees or undertakings have been given, whether such guarantees or undertakings are written or oral and their nature.

- e) Bonds, Guarantees, Indemnities or other undertakings given by you, on your customer's behalf, stating whether there is recourse to your customer and/or to its parent or any other company within the group.
- f) Other contingent liabilities not already detailed.

Note. For each item state the nature and extent of any facility limits and details of period of availability of agreed facility.

2 Securities

With reference to the facilities detailed in the above section give the following:

- Details of any security formally charged (date, ownership and type of charge). State whether the security supports facilities granted by the Bank to the customer or to another party.

Note. Give details if a security is limited in amount or to a specific borrowing or if to your knowledge there is prior, equal or subordinate charge.

- Where there are any arrangements for set-off of balances or compensating balances e.g. back to back loans, give particulars (i.e. date, type of document and accounts covered) of any acknowledgement of set-off, whether given by specific letter of set-off or incorporated in some other document.

Request for Derivatives and Commodity Trading information

On occasion Auditors may request Derivatives and Commodity Trading information. Responses must be given in the order as below and if no information is available then this must be stated as 'None' in the response:

1 Derivatives and Commodity Trading

Give the currencies, amounts and maturity dates on a contract by contract basis of all outstanding derivative contracts including the following:

- a) foreign exchange contracts
- b) forward rate agreements
- c) financial futures
- d) interest rate swaps
- e) option contracts
- f) bullion contracts
- g) commodity contracts
- h) swap arrangements (near and far dates)

	<p>i) others (indicate their nature).</p> <p><i>Note. Indicate the nature and extent of any facility limits, detail period of availability of agreed facilities.</i></p>
2	<p>Securities</p> <p>With reference to facilities detailed in the above section give the following:</p> <ul style="list-style-type: none"> • Details of any security formally charged (date, ownership and type of charge). State whether the security supports facilities granted by the Bank to the customer or to another party. <p><i>Note. Give details if a security is limited in amount or to a specific borrowing or if to your knowledge there is prior, equal or subordinate charge.</i></p> <ul style="list-style-type: none"> • Where there are any arrangements for set-off balances of compensating balances e.g. back to back loans, give particulars (i.e. date, type of document and accounts covered) of any acknowledgement of set-off, whether given by specific letter of set-off or incorporated in some other document.

Request for Custodian Arrangements information

On occasion Auditors may request Custodian Arrangements information. Responses must be given in the order as below and if no information is available then this must be stated as 'None' in the response:

1	<p>Custodian Arrangements</p> <p>Give details of the nature and quantity of any assets held but not charged.</p>
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Appendix 3 – Bank confirmation request letter – illustration

[xxxx Bank PLC
25 xxx Street
Warrington
Cheshire
WAI 1XQ]

Dear Sirs

In accordance with the agreed practice for provision of information to auditors, please forward information on our mutual client(s) as detailed below on behalf of the bank, its branches and subsidiaries. This request and your response will not create any contractual or other duty with us.

COMPANIES OR OTHER BUSINESS ENTITIES

(attach a separate listing if necessary)

[Parent Company Ltd

Subsidiary 1 Ltd

Subsidiary 2 Ltd]

AUDIT CONFIRMATION DATE [30 APRIL 1998]

Information Required	Tick
Standard	
Trade finance	
Derivative and commodity trading	
Custodian arrangements	
Other information (see attached)	

The Authority to Disclose Information signed by your customer is attached / already held by you (delete as appropriate). Please advise us if this Authority is insufficient for you to provide full disclosure of the information requested.

The contact name is [John Caller]

Telephone [01 234 5678]

Yours faithfully

[XXX Accountants]

Appendix 4 – Authority to disclose information – illustration

[xxxx Bank PLC

25 xxx Street

Warrington

Cheshire

WAI 1XQ]

[Parent Company Ltd,

Subsidiary 1 Ltd,

Subsidiary 2 Ltd]

If / We authorise [xxxx Bank PLC] **including all branches and subsidiaries to provide to our auditor** [XXX Accountants] **any information that they may request from you regarding all and any of our accounts and dealings with you.**

signature(s)

Appendix 5 – BBA membership listing

Abbey National plc	Bank of Baroda
ABC International Bank plc	Bank of Ceylon
ABN AMRO Bank N.V.	Bank of China
Adam & Company plc	Bank of China International (UK) Ltd
AIB Group (UK) Plc	Bank of Cyprus (London) Ltd
Alliance & Leicester plc	Bank of India
Allied Bank of Pakistan Ltd	Bank of Ireland
Alpha Bank London Ltd	Bank of Montreal
Alpha Credit Bank	Bank of Scotland
American Express Bank Ltd	Bank of Tokyo-Mitsubishi (UK) Limited
Anglo Irish Bank Corporation plc	Bank Saderat Iran
Anglo-Romanian Bank Limited	Bank Sepah-Iran
Arab Bank plc	Bank Tejarat
Arab National Bank	Bankers Trust Company
Arbuthnot Latham & Co Ltd	Bankgesellschaft Berlin AG
Australia & New Zealand Banking Group Ltd	Banque Arabe et Internationale d'Investissement
AY Bank Ltd	Banque Banorabe
Banca Commerciale Italiana	Banque Francaise de l'Orient
Banca di Roma S.p.A.	Banque Internationale a Luxembourg
Banca Monte Dei Paschi di Siena SpA	Banque Nationale de Paris p.l.c.
Banca Nazionale del Lavoro SpA	Barclays Bank PLC
Banco Ambrosiano Veneto	Barclays Capital
Banco Bilbao Vizcaya	Bayerische Hypotheken-und Wechsel- Bank AG
Banco Central Hispanoamericano SA	Bayerische Landesbank Girozentrale
Banco de la Nacion Argentina	Bayerische Vereinsbank AG
Banco do Brasil SA	Belgolaise Bank SA
Banco Espirito Santo	Beneficial Bank plc
Banco Exterior de Espana SA	Berliner Bank AG
Banco Mercantil de Sao Paulo SA	BfG Bank AG
Banco Nacional de Mexico S.A.	BHF-BANK
Banco Nacional Ultramarino, S.A.	British Arab Commercial Bank Limited
Banco Portugues do Atlantico	Brown, Shipley & Co. Limited
Banco Real S.A.	BSI-Banca della Svizzera Italiana
Banco Santander	C Hoare & Co
Banco Totta & Acores SA	CafCash Ltd
Bancomer SA	Caisse Nationale de Credit Agricole
Bangkok Bank Public Company Limited	Canara Bank
Bank Austria AG	CARIPLO – Cassa di Risparmio delle Provinciae Lombarde SpA
Bank Boston NA	Cater Allen Ltd
Bank Brussels Lambert	Charterhouse Bank Ltd.
Bank Bumiputra Malaysia Berhad	Cho Hung Bank
Bank Handlowy w Warszawie S.A.	Christiania Bank og Kreditkasse ASA
Bank Julius Baer & Co Ltd	CIBC Wood Gundy PLC
Bank Leumi (UK) Plc	Citibank NA
Bank Mellat	
Bank Melli Iran	
Bank of America NT & SA	

Clive Discount	HSBC Investment Bank plc
Close Brothers Limited	Industrial Bank of Japan
Clydesdale Bank	ING Barings
Commerzbank AG	Investec Bank (UK) Ltd
Commonwealth Bank of Australia	Istituto Bancario San Paolo di Torino S.p.A.
Compagnie Financiere de CIC et de L'Union Europeenne	Italian International Bank plc
Coutts & Co.	J Henry Schroder & Co Limited
Credit Agricole Indosuez	J P Morgan & Co
Credit Agricole Lazard Financial Products Bank	Julian Hodge Bank Limited
Credit du Nord	Kleinwort Benson Investment Management Limited
Credit Lyonnais	Kleinwort Benson Limited
Credit Suisse Financial Products	Korea Exchange Bank
Credit Suisse First Boston	Korea First Bank
Creditanstalt AG	Kredietbank NV
Credito Italiano	Landesbank Berlin Girozentrale
Crown Agents Financial Services Ltd	Landesbank Hessen – Thuringen –
Cyprus Credit Investments (UK) Limited	Lazard Brothers & Co. Limited
Daiwa Europe Bank plc	Legal & General Assurance Society Limited
Dao Heng Bank (London) Plc	Leopold Joseph & Sons Limited
Den Danske Bank	Lloyds Bank Plc
Den norske Bank ASA	London Trust Bank PLC
Deutsche Bank AG	Malayan Banking Berhad
Dexia Municipal Bank plc	Mashreq Bank psc
Direct Line Financial Services	Matheson Bank Ltd
Discount Bank and Trust Company	Matlock Bank Limited
Dresdner Bank AG	MBNA International Bank, Ltd
Dunbar Bank plc	MeesPierson N.V.
Duncan Lawrie Limited	Meghraj Bank Limited
EFG Private Bank Limited	Mellon Bank, N.A.
Emirates Bank International Limited	Merita Bank Ltd
Erste Bank	Merrill Lynch Europe
Financial & General Bank plc	Midland Bank plc
First Bank of Nigeria plc	Mitsui Trust International plc
First Union National Bank	Morgan Guaranty Trust Co of New York
Frizzell Bank Ltd	Moscow Narodny Bank Limited
Generale Bank	N.M. Rothschild & Sons Limited
Gerrard & King Limited	Nacional Financiera S.N.C
Ghana International Bank plc (GIB)	Natexis Banque
Gresham Trust plc	National Australia Bank Ltd.
Guinness Mahon & Co Limited	National Bank of Abu Dhabi
Gulf International Bank B.S.C.	National Bank of Canada
Habib Bank Limited	National Bank of Egypt International Limited
Habibsons Bank Limited	National Bank of Greece S.A.
Halifax plc	National Bank of Kuwait (Int'n) Plc
Hambros Bank Limited	National Bank of Pakistan
Hamburgische Landesbank	National Westminster Bank Plc
Harrods Bank Ltd	NationsBank NA
Havana International Bank Ltd	
Henry Ansbacher & Co Limited	

Nedcor Bank Ltd	Sudwestdeutsche Landesbank
Nomura Bank International plc	Girozentrale
Norddeutsche Landesbank	Sun Bank plc
Girozentrale	Svenska Handelsbanken
Northern Bank Limited	Swedbank
Northern Rock PLC	Syndicate Bank
Oversea-Chinese Banking Corporation Ltd.	The Asahi Bank, Ltd
PaineWebber International Bank Ltd.	The Bank of East Asia, Limited
Paribas	The Bank of Fukuoka Ltd
People's Bank, Connecticut	The Bank of New York
Philippine National Bank (Europe) PLC	The Bank of Nova Scotia
Postipankki plc	The Bank of Tokyo-Mitsubishi, Ltd
Prudential Banking plc	The Bank of Yokohama Limited
Prudential-Bache International Bank Limited	The British Linen Bank Ltd.
PT Bank Negara Indonesia (PERSERO) Tbk	The Chase Manhattan Bank
Qatar National Bank S.A.Q.	The Chiba Bank, Ltd
Rabobank International London Branch	The Chuo Trust & Banking Co Ltd
Raiffeisen Zentralbank Osterreich AG	The Commercial Bank of Korea Ltd
Rea Brothers Limited	The Cooperative Bank
Reliance Bank Ltd.	The Cyprus Popular Bank Limited
Republic National Bank of New York	The Dai-ichi Kangyo Bank Ltd.
Riggs Bank Europe Limited	The Daiwa Bank, Limited
Riyad Bank	The First National Bank of Chicago
Robert Fleming & Co Limited	The Fuji Bank Limited
Royal Bank of Canada Europe Limited	The Heritable & General Investment Bank Limited
Sabancı Bank plc	The Hiroshima Bank Ltd
Sainsbury Bank plc	The HongKong and Shanghai Banking Corporation Limited
Sakura Finance International Limited	The Industrial Bank of Japan, Limited
Sanwa International plc	The Joyo Bank Ltd
Saudi American Bank (UK) Ltd	The Long-Term Credit Bank of Japan Ltd
Saudi International Bank	The Mitsubishi Trust & Banking Corporation
SBC Warburg Dillon Read	The Mitsui Trust & Banking Co Ltd
SBI European Bank plc	The National Bank of Dubai PJSC
Scottish Widows Bank Plc	The Nikko Bank (UK) plc
Secombe Marshall & Champion PLC	The Norinchukin Bank
Secure Trust Bank Plc	The Royal Bank of Scotland plc
Shanghai Commercial Bank Ltd	The Sanwa Bank Limited
Singer & Friedlander Ltd.	The Sumitomo Bank Ltd
Skandinaviska Enskilda Banken	The Sumitomo Trust & Banking Co Ltd
Societe Generale	The Thai Farmers Bank Public Company Ltd
Sonali Bank	The Tokai Bank Ltd
Standard Bank London Ltd	The Toronto-Dominion Bank
Standard Chartered Bank	The Toyo Trust & Banking Co Ltd
Standard Life Bank Ltd	The Yasuda Trust & Banking Co Ltd
State Bank of India	Tokai Bank Ltd
State Street Bank and Trust Company	

TSB Bank plc
Turkish Bank (UK) Limited
UCB Group
Uco Bank
Ulster Bank Limited
Union Bancaire Privee, CBI-TDB
Union Bank of Nigeria PLC
Union Bank of Switzerland
United Bank Limited
United Bank of Kuwait PLC
United Mizrahi Bank Limited
Unity Trust Bank plc

Wachovia Bank N.A.
Wesleyan Savings Bank Limited
West Merchant Bank Limited
Westdeutsche Landesbank
Girozentrale
Westpac Banking Corporation
Wintrust Securities Limited
Woolwich PLC
Yorkshire Bank PLC
Zambia National Commercial Bank
Ltd
Zivnostenska Banka a.s.

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