



technical factsheet 75

CCAB explanatory note: bank reports for audit purposes

Statement issued by the Consultative Committee of Accountancy Bodies in August 2002

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Appendix I: Bank Acknowledgement of Auditor Request

Following a dialogue with the British Bankers' Association and the Auditing Practices Board, CCAB has developed this Explanatory Note to provide guidance that will be useful both to banks and practitioners and will help to alleviate some of the delays and frustrations experienced by both parties.

Bank reports for audit purposes are currently dealt with by APB Practice Note 16 *Bank reports for audit purposes*. It is not intended that this Explanatory Note should replace, update, supplement or be appended to PN 16, but rather that it should provide additional guidance for members of CCAB bodies.

Members of the British Bankers' Association will accept the new form from 1 November 2002.

This statement is published by ACCA on behalf of the Consultative Committee of Accountancy Bodies.

INTRODUCTION

- 1 UK auditors confirm information about their clients' banking facilities by means of bank reports for audit purposes (bank reports). Bank reports are an important part of the independent audit process. The provision of such reports is an integral part of the lending process and constitutes a service to customers for which banks charge. The format of the bank report is agreed by the British Bankers' Association (BBA) and the Auditing Practices Board (APB). Formats for bank reports are included in BBA 'Instructions to banks regarding the receipt of requests for information for audit purposes', and in APB Practice Note 16 'Bank reports for audit purposes'.
- 2 The completion of bank reports has become increasingly complicated for several reasons:
 - many companies operate through complex group structures
 - even relatively small entities are making use of a broader range of financial services
 - statutory accounting and auditing requirements are becoming increasingly stringent. Greater emphasis has been placed in recent years on, for example, information concerning going concern assumptions, related party transactions and the risks associated with financial instruments
 - the expanding range of facilities generally made available by banks has necessitated the involvement of an increasing number of specialist divisions in the provision of services to individual customers.
- 3 Moreover, entities and their auditors are coming under increasing pressure to prepare the accounts and complete the audit process within shorter time periods than were previously necessary.

CONSIDERATIONS FOR AUDITORS AND BANKS - BANKS ACKNOWLEDGEMENT OF AUDITOR REQUESTS

- 4 In order to expedite the provision of responses to requests for bank reports, auditors and banks should use the example 'Bank Acknowledgement of Auditor Request' (acknowledgement) detailed below. The purpose of the acknowledgement is to provide auditors with assurance that the request for the bank report has been received, and with a point of contact within the bank to whom enquiries can be addressed. The named contact may be an account relationship manager, an assistant to the account relationship manager or a contact within a national or regional service centre, depending on the bank's internal arrangements.

CONSIDERATIONS FOR AUDITORS

- 5 APB Practice Note 16 describes the procedures auditors follow and includes the agreed format of the bank report. Auditors indicate whether they wish the bank to provide standard information comprising the more mainstream facilities that are likely to have been extended to any entity, or whether they also require supplementary information to cover other specialist facilities, such as trade finance, derivatives and custodian services.
- 6 The following aspects of the bank audit confirmation process are important in improving the efficiency with which standard bank reports are submitted and processed:
 - requests for bank reports must be submitted, accompanied where necessary with the customer's authority to disclose information, no less than 14 days in advance of the audit confirmation date. Delays in submitting requests for bank reports lead to delays in responses, particularly at busy times of the year. Auditors draw attention to any ongoing standing authority that continues to apply or enclose a new authority where necessary (where they are undertaking an audit for a client for the first time, for example)
 - requests for bank reports should be accompanied by the acknowledgement referred to above and detailed below
 - envelopes should be headed 'Bank report for audit purposes' and addressed to the account relationship manager at the branch or division maintaining the main banking relationship with the customer. Heading the envelope in this way will ensure that processing starts without delay in the event that the relationship manager is away from the office.

CONSIDERATIONS FOR BANKS

- 7 Requests for bank reports do not provide account numbers and sort codes because auditors are seeking to ascertain if there are any bank accounts or facilities of which they are unaware. Much of the usefulness of the bank report as audit evidence is lost if account numbers and sort codes are provided in requests for bank reports.

In responding to requests for bank reports, banks may need to consult a number of business divisions internally, including those responsible for:

- current account balances
- sterling account balances
- money market deposits
- securities
- contingent liabilities (including acceptances, endorsements, guarantees, irrevocable letters of credit and assets pledged as collateral security)
- commitments (including documentary credits and short-term trade related facilities, forward asset purchases and forward deposits placed, undrawn note issuance and revolving underwriting facilities and undrawn formal standby facilities, credit lines and other commitments to lend)
- derivatives (including futures and forwards, Forward Rate Agreements, swaps, options, caps, collars and floors)
- leasing
- factoring and invoice discounting.

Acknowledgements

- 8 Where auditors include the acknowledgement, referred to above and detailed below, with a request for a bank report, the acknowledgement should be returned to the auditor as soon as possible. Auditors should be aware that some 400,000 bank reports need to be completed every year and accordingly appreciate that it takes time for individual requests to be processed.

Responses to requests

- 9 In collating responses banks should bear in mind that the bank report is an essential element of the audit process for many entities and the information it contains is required within two months of the audit confirmation date. For listed companies and other entities subject to tight reporting deadlines the period may be significantly shorter. Failure to submit or complete bank reports within a reasonable time can have a significant effect on customers and may result in the need for a qualified audit report or in an investigation by relevant regulatory bodies. It also means that the bank has not provided the customer with a service integral to the lending relationship and may create difficulties for the bank when it comes to reviewing facilities provided.

Minor omissions or discrepancies

- 10 Minor omissions or discrepancies in the information provided by the bank may be dealt with informally by telephone or e-mail, although auditors may request written confirmation of changes to the information provided.

Debit and credit balances

- 11 A borrowing customer may maintain several accounts with a bank, some in debit and others in credit, perhaps at different branches of the bank. These balances should not be netted off in the bank report. The standard and supplementary requests for information agreed by the BBA and the APB request details of all bank accounts. Auditors are obliged to form their own independent opinion as to whether debit and credit balances should be aggregated into a single net item.

Guarantees and other third party securities

- 12 The provision of information about guarantees and other third party securities has, on occasion, resulted in significant delays in the completion of bank reports because banks have been unable to release the information sought without specific customer consent. When banks do not have sufficient authority to provide full disclosure of the information requested, they should advise the auditor of that fact and indicate, where that is the case, that such guarantees or third party securities exist. The auditor can then obtain details of the arrangement from the client, by asking to see the relevant facility letter or loan agreement, for example. In some cases, these procedures will suffice. In other cases, auditors will require further independent evidence, and in such cases they can ask banks for the specific information to be provided once consent from the guarantor or third party has been received.

Accrued interest and charges

- 13 Banks frequently receive requests for information about accrued interest and charges on a daily basis. This information is not within the guidance agreed by the BBA and the APB and any such request may be declined if the bank cannot generate the data from its computerised records.

This Explanatory Note has been prepared and issued by the British Bankers' Association and the Consultative Committee of Accountancy Bodies (the CCAB). It does not form part of APB Practice Note 16 'Bank reports for audit purposes'. It has been forwarded to the Review Panel of the Small Business Banking Code for consideration of whether the Code should in future include a commitment on the part of the industry concerning the completion of bank reports for audit purposes.

It has been proposed within the context of the Company Law Review that certain companies with a turnover of up to £4.8m should be exempt from audit. It is likely, however, that many companies will forego their statutory right to audit exemption on the grounds that they consider the audit to be relevant to their circumstances or because of a current or future dependency on external financing.

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BANK ACKNOWLEDGEMENT OF AUDITOR REQUEST

PART A - This Part To Be Completed By The Auditor

This acknowledgement should be returned to:

Name Position

Firm

Address

.....

Tel. No. E-mail*

* If available.

PART B - This Part To Be Completed By The Bank

Thank you for your request for a bank report for audit purposes in respect of

.....
(customer's name)

The request was received on:

.....
(day/month/year)

Your request is being processed and the letter will be completed once we have gathered the information sought. In the event of your needing to contact us, please address any enquiries to:

Name Position

Bank

Address

.....

Tel. No. E-mail*

* If available.