

THE AUDITING PRACTICES BOARD

Practice Note 16

Consultation Draft

**Bank reports for audit purposes
in the United Kingdom
(Revised)**

July 2010

The Auditing Practices Board

The Auditing Practices Board (APB), which is part of the Financial Reporting Council (FRC), prepares for use within the United Kingdom and Republic of Ireland:

- Standards and guidance for auditing;
- Standards and guidance for reviews of interim financial information performed by auditor of the entity;
- Standards and guidance for the work of reporting accountants in connection with investment circulars; and
- Standards and guidance for auditors' and reporting accountants' integrity, objectivity and independence,

with the objective of enhancing public confidence in the audit process and the quality and relevance of audit services in the public interest.

The APB comprises individuals who are not eligible for appointment as company auditors, as well as those who are so eligible. Those who are eligible for appointment as company auditors may not exceed 40% of the APB by number.

Neither the APB nor the FRC accepts any liability to any party for any loss, damage or costs howsoever arising, whether directly or indirectly, whether in contract, tort or otherwise from any action or decision taken (or not taken) as a result of any person relying on or otherwise using this document or arising from any omission from it.

The purpose of Practice Notes issued by the APB is to assist auditors in applying auditing standards of general application to particular circumstances and industries.

Practice Notes are persuasive rather than prescriptive. However, they are indicative of good practice. Auditors should be aware of and consider Practice Notes applicable to the engagement.

This Practice Note, when finalised, will replace the previous Practice Note 16 (Revised) which was issued in December 2007.

INVITATION TO COMMENT

This consultation draft is issued by the Auditing Practices Board (APB) for public comment.

Following the publication of the clarified International Standards on Auditing (ISAs) (UK and Ireland) in October 2009, there is a need to update the APB's Practice Notes currently in issue. The changes required to PN 16 are relatively limited, the main one being to recognise that the requirement for the auditor to consider whether external confirmation procedures are to be performed is now included in ISA (UK and Ireland) 330, *The auditor's responses to assessed risks*, rather than ISA (UK and Ireland) 505, *External confirmations*, which now focuses on the design and performance of external confirmation procedures to obtain relevant and reliable audit evidence.

No changes are proposed to the process that was agreed in 2007 between the UK auditing profession and the British Bankers Association (BBA) regarding the procedures auditors use when requesting confirmation of balances, transactions or arrangements from the bankers of an entity being audited.

The 'Introduction' section of PN 16 presents an explanation of the changes that were made to the PN in 2005 to 2007 to reflect the process agreed between the UK auditing profession and the BBA. This has been retained, with only minor edits, in this consultation draft as it is believed to give a helpful explanation of the development of the agreed process and assist an understanding of it. However, it could be deleted in the final updated PN if respondents thought that appropriate.

Although the main proposed changes to PN 16 are conforming changes for the clarified auditing standards the APB invites comments on any aspect of the guidance including, in particular, whether it is helpful to retain the 'Introduction' that explains the development of the current process for obtaining bank reports.

You are invited to send written comments on the consultation draft to APB. APB would like to receive comments from those who agree with the consultation draft as well as from those who do not. Your comments will be most helpful if they refer to the relevant paragraphs and are supported by reasoning.

APB would prefer to receive letters of comment in an electronic form that facilitates 'copy and paste': these may be sent by e-mail to k.billing@frc-apb.org.uk. If this is not possible, please send letters of comment to:

Keith Billing
Project Director
The Auditing Practices Board
5th Floor
Aldwych House
71-91 Aldwych
London WC2B 4HN

Letters of comment should be sent so as to be received no later than **29 October 2010**. All comments will be regarded as being on the public record, unless otherwise requested, and will be posted to APB's website soon after receipt.

PRACTICE NOTE 16
BANK REPORTS FOR AUDIT PURPOSES
IN THE UNITED KINGDOM (REVISED)

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Preface

This Practice Note summarises the process agreed between the UK auditing profession and the British Bankers Association (BBA) regarding the procedures auditors use when requesting confirmation of balances, transactions or arrangements from the bankers of an entity being audited.

In this Practice Note bank confirmations are described as ‘bank reports’.

Introduction

Confirmations provided by banks and other financial institutions of balances and other banking arrangements usually provide the auditor with valuable audit evidence.

Over the years the auditing and banking professions have developed protocols and forms to assist this process and in 1998 the Auditing Practices Board issued Practice Note 16: “Bank reports for audit purposes” to formalise the process that existed at that time.

In October 2005, following discussions between the auditing profession and banks, facilitated by the British Bankers Association (BBA), the APB issued, as a consultation draft, a proposed revision of PN 16 intended to reflect new circumstances and to make the bank report process as efficient and effective as possible. The relatively minor changes proposed to the original Practice Note were to:

- encourage auditors to submit requests for information earlier;
- recommend the provision of a main account name and number by the auditor, to facilitate banks in identifying the appropriate customer more readily; and
- clarify that auditors do not need a new authority to disclose information every time that they ask for confirmation of bank details.

A number of respondents to the October 2005 consultation draft recommended more extensive changes to the process and it was agreed that further discussions would take place between the audit profession and the BBA. As those discussions were incomplete in autumn 2006 the APB concluded that it would be helpful to issue the October 2005 consultation draft as interim guidance to apply to audits of entities with 31 December 2006 year ends.

The subsequent discussions resulted in an agreement that in order for the auditors to benefit from improvements in the speed and accuracy of responses to their requests more extensive changes should be made to PN 16 to:

- encourage auditors to think more about the banking information they ask banks to confirm and to request additional information on trade finance and derivative and commodity trading only when there is a reasonable expectation that the client utilises such facilities. Until this time auditors often sent a blanket request for information to the bank, rather than a more targeted request based on the auditor’s knowledge of banking arrangements that exist, or are likely to exist. This resulted in delay in auditors receiving responses and considerable added complexity and cost for the banks.
- reflect the fact that most audit requests are now actioned by specialised teams based in banks’ regional service centres, rather than at branch level. This means both that audit letters sent to the branch can take time to be redirected to the service centre, and that the client knowledge that would enable a local manager to find most, if not all, the relevant information about a client quickly, could involve an extensive search across different sections and locations by the regional centre staff.
- better reflect banks’ information systems that are not designed to facilitate the production of a bank report. For example, banks’ core records are account number based and without

the main account number for each legal entity the search can be difficult. Entity names are often similar in nature and the identification of the relevant customer is not always straightforward. The provision of account number and sort code details assists in the identification of the customer.

Main changes to PN 16 in 2007

As well as confirming the changes made in the October 2005 draft, additional changes were made to PN 16 to:

- add guidance to put the decision as to whether to obtain a bank report and, if so, what information to be covered by it, into the context of a risk based approach to the audit and to encourage auditors to refer to the annual facilities letter sent by the banks to many of their clients in making their risk assessments;
- introduce new bank report templates for:
 - a Standard Request (including the option of additional information on trade finance and derivative and commodity trading) thereby allowing the bank to respond within its normal timeframe,
 - a Fast-Track Request thereby requesting the bank to respond within an accelerated timeframe, and
 - an Incomplete Information Request to be used when the auditor is not able to provide all of the information required for the Standard Request (main account sort code and account number or where additional information is requested, a sample reference to facility account numbers);
- explain that the banks have agreed:
 - to publish addresses for the centres to which requests for audit information are to be addressed on the BBA website;
 - either to acknowledge auditor requests for bank reports and provide bank contact details, or where an acknowledgement will not be given to publish on the BBA website details of where contact can be made. This facilitates the auditor in following up late or missing bank reports, or questioning information in reports that were received;
- clarify that, with a few exceptions, banks do not need a new authority to disclose information every time that auditors ask for confirmation of bank details;
- request auditors using the Standard Request to provide the main account sort code and account number for each legal entity named in the request and, where additional information is requested, a sample facility account number for trade finance or derivative and commodity trading information. This helps banks identify the appropriate information;
- remove custodian arrangements from the categories of additional information listed in the Standard Request. The existence and location of the assets held for safe keeping by banks

is unlikely to be readily identified from account number details and banks are likely to have to conduct extensive searches which often result in a ‘nil return’. If the auditor wishes to confirm the existence and nature of specific assets held for safe keeping or suspects that the entity is concealing assets they make separate arrangements to confirm these or carry out a physical inspection; and

- remove the statement requesting the bank to advise the auditor if the authority is insufficient to allow the bank to provide full disclosure of the information requested. Banks had not been doing this because of data protection regulations and auditors had been taking unwarranted comfort that they were being informed of all details of a banking relationship.

Changes to PN 16 in 2010

Following the publication of the clarified International Standards on Auditing (ISAs) (UK and Ireland) in October 2009, there was a need to update the APB’s Practice Notes to reflect the new auditing standards. The changes required to PN 16 were relatively limited, the main one being to recognise that the requirement for the auditor to consider whether external confirmation procedures are to be performed is now included in ISA (UK and Ireland) 330, *The auditor’s responses to assessed risks*, rather than ISA (UK and Ireland) 505, *External confirmations*, which now focuses on the design and performance of external confirmation procedures to obtain relevant and reliable audit evidence. No changes have been made to the process agreed between the UK auditing profession and the British Bankers Association (BBA) regarding the procedures auditors use when requesting confirmation of balances, transactions or arrangements from the bankers of an entity being audited.

Planning: Risk Assessment and Audit Evidence

1. The following International Standards on Auditing (UK and Ireland) are particularly relevant to the auditor's decisions as to whether to obtain a bank report and, if so, what information is to be covered by it:
 - ISA (UK and Ireland) 300, *Planning an audit of financial statements*
 - ISA (UK and Ireland) 315, *Identifying and assessing the risks of material misstatement through understanding the entity and its environment*
 - ISA (UK and Ireland) 330, *The auditor's responses to assessed risks*
 - ISA (UK and Ireland) 500, *Audit evidence*
 - ISA (UK and Ireland) 505, *External confirmations*
2. ISA (UK and Ireland) 300 *Planning an audit of financial statements* states that the objective of the auditor [in complying with this standard] is to plan the audit so that it will be performed in an effective manner.
3. ISA (UK and Ireland) 315 *Identifying and assessing the risks of material misstatement through understanding the entity and its environment* requires the auditor to identify and assess the risks of material misstatement at the financial statement level, and at the assertion level for classes of transactions, account balances, and disclosures. Decisions on whether or not to request a bank report and, if so, the nature of evidence to be obtained are responses to the auditor's assessment of the risks of material misstatement.
4. ISA (UK and Ireland) 330, *The auditor's responses to assessed risks* requires the auditor to consider whether external confirmation procedures are to be performed as substantive audit procedures.
5. ISA (UK and Ireland) 500, *Audit evidence* considers the relative reliability of audit evidence obtained from different sources.
6. ISA (UK and Ireland) 505 *External confirmations* addresses the design and performance of external confirmation procedures to obtain relevant and reliable audit evidence.
7. During the planning phase of the audit the auditor therefore considers the risks in relation to relevant financial statement assertions including bank related information to be disclosed in the notes to the financial statements when deciding whether to obtain a bank report.
8. Many banks lay out the facilities the entity uses, or those made available to the entity, in an annual facilities letter. The auditor takes into account the banking facilities provided when assessing the risks in relation to relevant financial statement assertions and when deciding whether to obtain a bank report and what banking information is to be confirmed. Where there is no facilities letter, the auditor asks the entity's management what banking relationships are in place.

9. Given the importance of cash to an entity's business and its susceptibility to fraudulent misuse the auditor will usually conclude that, in the absence of a bank report regarding account balances, facilities and securities, it will not normally be practical to obtain sufficient appropriate audit evidence from other sources.
10. In rare circumstances where the banking transactions and relationships are very simple and sufficient appropriate audit evidence is likely to be available from other sources the auditor may consider that obtaining a bank report of account balances, facilities and securities is unnecessary. For example, in circumstances where landlords and tenants agree voluntarily to have an audit of the service charge statement of account for a block of flats sufficient, appropriate audit evidence may be obtained from inspecting bank statements and performing analytical procedures on transactions recorded during the period.

Planning: the bank report request

11. Having decided to obtain a bank report, the auditor plans the submission of the request to the bank including:
 - determining the date by which the bank report is needed;
 - depending on the auditor's risk assessment, determining whether confirmation is needed on additional information such as trade finance transactions and balances;
 - deciding what type of report to use i.e. Standard (with or without additional information), Fast Track or Incomplete Information Requests;
 - making arrangements for assembling the necessary information to be included in the request including the main account sort code and number for each legal entity (that is, subsidiaries as well as the holding company, where a single letter is sent for all companies in a group). If the auditors have decided to confirm additional information (eg trade finance or derivative and commodity trading transactions and balances) a reference will be needed to a sample facility account number;
 - checking that the authorities provided to the banks to allow them to disclose information to the auditors are valid; and
 - ascertaining where to send the request. It is standard practice for banks to deal with requests for bank reports through a centralised delivery mechanism, using a dedicated query team. The addresses of units dealing with bank report requests for each bank are published on the BBA website at www.bba.org.uk. The designated unit will either respond on behalf of the bank or forward the request to a specialist department.
12. The normal purpose of bank reports is to provide confirmation of information already available to the auditors. In these circumstances, auditors send a Standard Request for information, including where appropriate a request for additional information. To assist banks retrieve the necessary information auditors provide the main account sort code and number for each legal entity named in the request and, where additional information

is requested, a sample facility account number for trade finance or derivative and commodity trading information.

13. When the auditors are unable to provide the main account sort code and number for all the entities in a group or sufficient references to identify additional information required the auditors make a request using an Incomplete Information Request. Circumstances where such a request might be appropriate include:
 - because information is not available from the audited entity perhaps due to a break down in controls;
 - because the auditor suspects that full information has not been provided to them by the entity for example where there is prior experience of accounts or banking relationships not notified to the auditor or where the auditor suspects impropriety regarding the entity's use of financial instruments;
 - where history shows poor record keeping, particularly of financial instruments that do not require an initial entry in the entity's records.
14. Auditors deciding to use an Incomplete Information Request need to be aware that banks cannot give information about legal entities that are not covered by an existing authority to disclose information. This means that details will be provided by the banks of all accounts and facilities relating to an entity listed on the request for a bank report, for which there is a current authority. The bank is under no obligation to tell the auditor that it holds an account or has other arrangements for an entity that is not listed in the request for information. Nor is the bank obliged to tell the auditor that it has withheld information about an entity not listed. Auditors therefore make enquiries of management and apply their understanding of the business to evaluate whether the list of entities to be included on all requests to banks, including the Incomplete Information Request, is complete.
15. Auditors also need to be aware that, where banks are asked to respond to an Incomplete Information Request, searches for possible relationships or facilities will take longer and the banks may charge their customers an additional fee. It is therefore sensible for auditors to use an Incomplete Information Requests only where their knowledge of the entity's business indicates that this is necessary.
16. Where the audit plan shows that a bank report is needed sooner than would be the case under normal procedures, the auditor requests a 'Fast Track' response. Fast Track responses are expected to be exceptional, for example where the entity has to meet a US reporting deadline within a month or less of the accounting year end. The process for Fast Track confirmation requests is considered in more detail in paragraph 30 below.

Authority to disclose

17. 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. Auditors need to satisfy themselves that an authority is in

place and up to date. A single authority can cover several legal entities provided that each entity is specified and the authorisation signatures are appropriate. Banks and building societies that are not members of the BBA may have different requirements for authority to disclose, which are ascertained by auditors before they submit their requests for information.¹

18. A new authority will be needed in the case of a new audit entity. An updated authority will be needed if there are entity changes such as new group entities or auditor changes such as reorganisation as a limited liability partnership (LLP) or merger with another practice. An illustrative letter providing authority to a bank to disclose information to the entity's auditor is included as Appendix 2.

Guarantees and other third party securities

19. 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 because of data protection regulations concerning the counter-parties. When banks do not have sufficient authority to provide full disclosure of the information requested, they advise the auditors of that fact and indicate, where that is the case, that such guarantees or third party securities exist. The auditors can then obtain details of the arrangement from the entity, for example by asking to see the relevant facility letter or loan agreement. In some cases, these procedures will suffice. In other cases, auditors will require further independent evidence, and if so they can ask banks for the specific information to be provided once consent from the guarantor or third party has been received.

Bank information

20. The key steps in the bank report process have been agreed with the BBA. The BBA has written to its members setting out guidance for them to follow in responding to requests for audit confirmations. This guidance note is reproduced in full in Appendix 3. A list of current BBA members may be viewed at the BBA's website, www.bba.org.uk. Where the entity's bank is not a BBA member, the auditor may still be able to get a positive response to a request for information. Where a bank report cannot be obtained, the auditors consider whether this represents a limitation of scope that should be referred to in the audit report.

Bank report request templates

21. The request for a bank report is issued on the auditors' own note paper using the appropriate template in Appendix 1.
22. The BBA's guidance to its members defining the information to be given in response to each type of request is set out in Appendix 3 of this Practice Note. The purpose of

¹ In addition, the BBA has indicated that it will disclose on its website details of credit institutions that do not currently retain authorities and therefore require an authority with each request.

providing three different request forms is to reflect auditors' planning decisions as to the nature and timing of the information sought.

23. The Standard and Fast Track request templates specify:
- the names of all legal entities covered by the request, together with the main account sort code and number of each entity listed;
 - reference to a sample facility account number for any additional information required. This will enable the bank to identify the units providing specialist services which need to be consulted. A full listing of all transactions or balances is not required.
 - the date for which the auditor is requesting confirmation (ie the period end date) and the date at which the report request is made;
 - a statement that neither the auditor's request nor the bank's response will create a contractual relationship between the bank and the auditor; and
 - the auditor's contact details.
24. The template for Fast Track Requests include a space for the auditor to explain the reason for the Fast Track requests and the date by which the reply is needed.
25. The Incomplete Information Request contains:
- the names of all legal entities covered by the request, together with the main account number and sort code of the parent company and for as many group entities as can be obtained by the auditor;
 - the period end date for which the auditor is requesting confirmation;
 - the date at which the report request is made;
 - a statement that neither the auditor's request nor the bank's response will create a contractual relationship between the bank and the auditor; and
 - the auditor's contact details.
- The auditor accepts that banks will not be able to provide this information on an entity that is not covered by a valid authority to disclose.
26. The APB is of the view that the inclusion of a statement that neither the auditor's request nor the bank's response will create a contractual relationship between the bank and the auditor, does not 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 auditor can reasonably rely upon information given by the bank, 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.

Timing of requests

27. Where practicable, the auditor sends the bank report request so as to reach the bank one month in advance of the period end date. It is advisable to allow more time at busy periods such as those covering December and March year ends.
28. The BBA has indicated that banks providing acknowledgements of audit requests, if so required, will endeavour to do so within 5 working days of receipt. As part of the acknowledgement process, banks may indicate either a date by which they expect to send a reply to the auditor, or provide an indication of their standard service level agreement (SLA) for the process. The BBA has advised that no practical purpose is served by an auditor's chasing for a bank report until the expected date of receipt (as stated in the bank's acknowledgement or standard SLA) has passed. Banks that do not acknowledge receipt of audit requests are identified on the BBA's website and contact details given for pursuing enquiries.
29. In straightforward circumstances the bank will endeavour to provide the information within a calendar month of the period end date. Where there is a request using an Incomplete Information Request or where a request has been made asking information about guarantees and other third party securities and specific consent is needed from a third party for such information to be released, a response may take longer.
30. For listed companies and other entities subject to tight reporting deadlines the information may be needed sooner than the normal response time of a particular bank. The BBA has therefore agreed a process for fast track responses whereby auditors state why they need the information within less than a calendar month of the period end date. The Fast Track template in Appendix 1 includes a box to be completed by the auditor when seeking an accelerated response.

Minor omissions or discrepancies

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

Accrued interest and charges

32. The provision of information about accrued interest and charges at the year end falls outside the scope of this Practice Note.

Appendix 1 – Templates for auditor request forms:

1. Standard Request (including additional information option)
2. Fast Track Request
3. Incomplete Information Request
4. Acknowledgement template

REQUEST FOR BANK REPORT FOR AUDIT PURPOSES – STANDARD

The request for a bank report is issued on the auditors' own note paper

Please note – Complete **section 6** only where additional information is required.

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.

1. BANK NAME & ADDRESS

2. AUDITOR CONTACT DETAILS

Name and address of auditor	<input type="text"/>	Contact number	<input type="text"/>
		Contact name	<input type="text"/>
Email address	<input type="text"/>		
Period end date (DD/MM/YYYY)	<input type="text"/>	Date of request (DD/MM/YYYY)	<input type="text"/>

3. Companies or other business entities

Company	Main account sort code	Main account number

4. Authority to disclose information

Authority already held
and dated
(DD/MM/YYYY)

OR

Authority Attached

5. Acknowledgement

Please complete this section if an acknowledgement is required.

Acknowledgement
required

by email

Reference number to be quoted

OR

by post

(template attached)

6. Additional information required

Trade Finance

One of the facility account numbers

Derivative &
Commodity Trading

One of the facility account numbers

REQUEST FOR BANK REPORT FOR AUDIT PURPOSES - FAST TRACK

The request for a bank report is issued on the auditors' own note paper

Please note – Complete **section 6** only where additional information is required.

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.

1. BANK NAME & ADDRESS

2. AUDITOR CONTACT DETAILS

Name and address of auditor	<div style="border: 1px solid black; height: 80px; width: 100%;"></div>	Contact number	<div style="border: 1px solid black; height: 20px; width: 100%;"></div>
		Contact name	<div style="border: 1px solid black; height: 20px; width: 100%;"></div>
Email address	<div style="border: 1px solid black; height: 20px; width: 100%;"></div>		
Period end date (DD/MM/YYYY)	<div style="border: 1px solid black; width: 100px; height: 20px;"></div>	Date response required (DD/MM/YYYY)	<div style="border: 1px solid black; width: 100px; height: 20px;"></div>
Date of Request (DD/MM/YYYY)	<div style="border: 1px solid black; width: 100px; height: 20px;"></div>		
Reason for Fast Track request	<div style="border: 1px solid black; height: 60px; width: 100%;"></div>		

3. Companies or other business entities

Company	Main account sort code	Main account number

4. Authority to disclose information

Authority already held and dated (DD/MM/YYYY) **OR** Authority attached

5. Acknowledgement

Please complete this section if an acknowledgement is required.

Acknowledgement required by email by post **OR** Reference number to be quoted (template attached)

6. Additional information required

Trade Finance One of the facility account numbers

Derivative & Commodity Trading One of the facility account numbers

REQUEST FOR BANK REPORT FOR AUDIT PURPOSES - INCOMPLETE INFORMATION

The request for a bank report is issued on the auditors' own note paper

Please note – Complete **section 6** only where additional information is required.

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.

1. BANK NAME & ADDRESS

2. AUDITOR CONTACT DETAILS

Name and address of auditor		Contact number <div style="border: 1px solid black; width: 100%; height: 20px;"></div>
		Contact name <div style="border: 1px solid black; width: 100%; height: 20px;"></div>

Email address

Period end date (DD/MM/YYYY)		Date response required (DD/MM/YYYY)	
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We confirm that there are exceptional circumstances that require us to ask for this request to be processed on the basis of incomplete account numbers, sort code and facility account numbers for all companies in the group and/or a facility account number for additional information.. We understand that this may result in the search taking longer to complete than the standard request.

3. Companies or other business entities

Company	Main account sort code	Main account number

4. Authority to disclose information

Authority already held and dated **OR** Authority attached

5. Acknowledgement

Please complete this section if an acknowledgement is required.

Acknowledgement required by email Reference number to be quoted

OR by post (template attached)

6. Additional information required

Trade Finance A facility account number if available

Derivative & Commodity Trading A facility account number if available

REQUEST FOR ACKNOWLEDGEMENT OF BANK REPORT FOR AUDIT PURPOSES

The request is issued on the auditors' own note paper

Please note – Part A is to be completed by the Auditor, Part B is to be completed by the Bank

PART A

This acknowledgement should be returned to:

Name and
address
of auditor

Please contact _____ if you have any queries on this letter

Contact number

Email Address

PART B

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

Customer Name	Main account sort code	Main account number

The request was received on (DD/MM/YYYY)

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

Name and
address of
bank

Expected response date

Name of Individual or section responsible

Telephone number

Email address



Appendix 2 - Authority to disclose information - Illustration

[xxxxx Bank PLC
25 xxx Street
Warrington
Cheshire WA1 1XQ]

[Parent Company Ltd,
Subsidiary 1 Ltd,
Subsidiary 2 Ltd]

Date

I/ 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)²

signature(s)²

cc: The auditors

² Signatures according to current bank mandates with full authority to action this authorisation.

Appendix 3 – British Bankers’ Association guidance note for banks

1. PREFACE

Since the Auditing Practices Board (APB) revision of Practice Note 16 was issued for consultation in November 2005 there have been ongoing discussions between the BBA members and representatives of CCAB bodies.

The banks have found these discussions very useful and it has enabled them to understand the difficulties that the existing process presents to auditors. We have listened to the concerns and issues from the auditors’ point of view. In turn, the auditors have listened to the banks. There is now an improved understanding of how auditors and banks can have a better working relationship, which will be to the mutual benefit of the client.

The new process is also expected to support the banks in providing an improved service.

1.1 Delivery of the bank confirmation request

Historically, banks have requested auditors to send the requests to a branch. However, many of the larger banks have now centralised such processes. That said, in the absence of a sort code and account number, the use of a branch address has at least given the banks some information to start the search process.

The acknowledgement, by the Auditing Practices Board, of the importance of providing primary sort codes and account numbers will facilitate the production of the bank response in a small number of service centres. This will enable auditors to send requests directly to a central address where this matches a bank’s business model.

1.2 Acknowledgements

Banks providing acknowledgements, if requested, of audit requests will endeavour to do so within 5 working days of receipt. Where banks send acknowledgements via email, the audit firm’s reference number for the client - and not the client’s name – will be quoted for security reasons. Banks that do not acknowledge receipt of audit requests are identified on the BBA’s website and contact details given for pursuing enquiries.

1.3 Enquiries

Many of the enquiries received by banks from auditors are classed as being pre-production, eg confirming receipt of the instruction. Many of these calls result from the acknowledgement process not working as well as it could. As banks receiving audit requests centrally are able to issue an acknowledgement earlier in the process, those operating in this way are likely to experience a reduced volume of pre-production enquiries.

For post-production enquiries, where possible, banks will provide a centralised enquiry point or details of how enquiries can be directed to the appropriate area.

1.4 Cooperation

The collaborative approach adopted by the working party of banks and auditors has been instrumental to the redesign of the request templates which will deliver improvements in the service provided. Having worked hard to discuss and understand the process and issues from both viewpoints, on-going cooperation between banks and auditors is seen as a key component to the smooth operation of the audit enquiry process. It is therefore proposed that the working group should be maintained and that liaison meetings should take place periodically, say once or twice per year, with the aim of providing a forum in which practical issues concerning the audit enquiry process can be raised.

1.5 Speed

The provision of primary account number information will address some of the issues experienced by the banks. It is essential that this information is provided, to enable the banks to commence their process more speedily. Account information is used for ensuring that the search is more robust but is also used to find information such as relationship details and allocate the request to the appropriate unit.

This will enable the banks to action the requests more quickly, not only reducing initial administration time but also the time spent locating the customers across the bank network. The banks are committed to reducing their current SLAs and this revised process will support that aspiration.

1.6 Scope

While the auditors have agreed on a best endeavours basis (see below), until periods ending on or after 26 December 2008, to provide primary sort code and account number information to subsidiary level, it is important that the banks commit to undertaking thorough searches of their records, in line with an authority to disclose, so that all evidence on a customer connection can be gathered. Auditors are not only looking for confirmation of what they already know but also evidence on what may have been omitted, deliberately or otherwise from information provided to them by their clients.

1.7 Timing

As it will take auditors at least one audit season to collect the main sort codes and account numbers for all group members, the BBA has agreed that banks will answer requests for bank reports on a best endeavours basis, until year ends on or after 26 December 2008. "Best endeavours" means that banks will search for information relating to all entities named on a request even if account numbers are not given.

1.8 Disclaimer from creating a contractual obligation

While information provided under PN16: Bank Reports for Audit Purposes does not constitute a contractual obligation between the bank and the auditor, it is a significant component of the evidence gathered in support of the audit and should be provided on a thorough and accurate basis. It is appropriate however for the bank to include a legal disclaimer in correspondence with auditors to the effect that the reply is given solely for the purpose of their audit without any responsibility on the part of the bank, its employees or agents and that it does not relieve the auditor from any other enquiry nor from the performance of any other duty.

2. CHECKING FOR ACCOUNTS AND WHY THE ACCOUNT NUMBERS ARE IMPORTANT

- 2.1 Rather than undermine the search facility offered historically, the change in practice to auditors listing account information by legal entity provides a better platform on which to undertake the search for banking facilities in support of the third party audit verification.
- 2.2 In discussion with the auditors it has been explained that bank systems are designed around an account number record. While searches by name are possible, IT systems in banks typically are designed to search by account number and not by name. Name information is usually recorded in an abbreviated format, therefore for a ‘name only’ search to be successful there needs to be an exact match between the abbreviated name recorded and the entity name listed on the audit letter request. Auditors now appreciate that considerable processing time is lost in trying to locate accounts in this way and that it can often be a trial and error exercise.
- 2.3 It is important to stress that it is not intended that searches should be restricted to the main sort code and account number provided for each entity on the audit request. Instead, the information will be used to identify the relevant customer with greater accuracy and speed. In the case of most banks, information provided is used to identify a ‘master account reference’ for an entity. It is the master account reference which is then used to search for all connected accounts in that entity name. Therefore, the ability on the part of the auditor to provide primary account number information by legal entity will result in a more comprehensive search.
- 2.4 Banks will base their search on subsidiary companies listed on the request. However, if as part of these searches, an account is identified as belonging to a subsidiary that has not been listed on the audit letter request, banks should check whether the authority to disclose covers the entity in question. Providing it is listed on the authority as a subsidiary, and signatures are appropriate, then the banks may report the existence of such an account in the audit letter reply.

3 STANDARD AND ADDITIONAL INFORMATION

- 3.1 PN16 distinguishes between standard information that is likely to be needed in respect of most audit clients and supplementary information that is likely to be relevant in fewer instances.
- 3.2 **Standard information** which will be provided for all requests comprises:
- Balances as at the year-end (providing request received in advance)
 - Details of accounts closed in the last 12 months
 - Facilities
 - Securities
 - Other banking relationships
- 3.3 **Additional information** that may be requested comprises:

- Trade finance
- Derivatives and commodity trading

3.4 During discussions, the banks have highlighted to the auditors that some 70% of requests for supplementary information about trade finance, derivatives and commodity trading result in a nil return. The provision of a sample reference to a facility account number by the auditor will assist the bank to identify the units providing specialist services which need to be consulted. Banks can give information about these supplementary facilities reasonably easily provided that sample account or reference numbers for these facilities are given. The provision of reference details also ensures that supplementary information is only sought in circumstances where the facilities in question have been provided.

3.5 Given that it will not always be possible for auditors to obtain this information banks should still undertake this type of search where an incomplete information request is submitted by the auditor. It is, however, understood that this will lengthen the response time. It is a recommendation to auditors in the practice note that this type of request is only made after due consideration of the underlying customer's business as part of the audit planning process. Audit firms will endeavour to adopt an approach in which they provide banks with suitable reference details and not to request incomplete information searches in circumstances where their knowledge of the client makes it evident that such a search is unlikely to result in additional facilities being reported.

3.6 **Standard search**

Banks and auditors have agreed that this is likely to be the most used option.

- Auditors supply main sort codes and account numbers including subsidiary legal entities
- Banks able to identify connections using provided account numbers
- Where standard search includes request for additional information, the auditors will provide sufficient reference numbers to identify the additional facilities or transactions for which confirmation is required
- Searches for additional information directed to appropriate area using sample reference numbers.

The auditors are keen to ensure that the provision of account numbers will not detract from the thoroughness of the searches conducted. Instead, it provides the bank with the information needed to facilitate a detailed search for accounts. Same care, reduced time.

3.7 **Incomplete Information Requests**

This is likely to be used only rarely, usually when the auditor has been unable to obtain any of the required information other than the main sort code and account number. Where these details are held for some subsidiaries, then standard requests can be submitted by the auditor in respect of those entities.

- Auditors to supply a *minimum* of a main sort code and account number.
- Banks make searches using legal entity names supplied by auditor against bank records.

From a bank's perspective this process takes more time and is unlikely to be as accurate as banks' systems hold information by numeric reference, not alphabetical.

4. AUTHORITY TO DISCLOSE

- 4.1 It is the auditors' responsibility to ensure that their client has provided an authority addressed to the account holding bank and that this covers all relevant legal entities. Auditors will consider, as part of the audit planning process, whether there is a need for the authority to be updated.
- 4.2 Banks should conduct searches against the legal entities listed on the audit request and accounts which are found as a result of these searches checked against the authority to disclose held on bank records.
- 4.3 Due to client confidentiality obligations, the bank should only disclose to auditors accounts in the name of entities for which they have an express authority to do so.
- 4.4 Banks will check a new authority on receipt, or where the auditor indicates the existence of an authority from a previous year, against its records. If the authority cannot be verified it will be returned to the auditor together with any request for information for referral back to the client.

5. SERVICE LEVEL AGREEMENTS

- 5.1 Service Level Agreements (SLAs) are competitive between banks and are therefore not standard, with each bank having their own arrangements. However, banks are committed to reducing their SLAs in line with more information being provided by auditors.

6. ENQUIRIES

- 6.1 Banks receive a number of enquiries from auditors. The following guidance is intended to facilitate the enquiry process.

6.2 Pre-production enquiries

Banks should send an acknowledgement to the auditor within 5 working days of receipt by post or by email as requested. Where banks do not send acknowledgements on request, they are expected to publish a central enquiry point/make known who will deal with enquiries via the BBA's public website.

With this in mind, auditors diary for receipt of acknowledgement and if not received, chase the bank to confirm receipt (this will reduce the number of urgent requests after the year-end has passed).

Banks may indicate either an expected date when the auditor will receive the reply or provide an indication of their standard SLA for the process. Auditors have been requested to refrain from chasing for a response until the expected date of receipt has passed.

6.3 Post-production enquiries

Enquiry routes for individual banks will be identified on the BBA's public website. It is for each bank to ensure that the information provided remains up-to-date.

Banks should either provide a centralised enquiry point or make known that requests should be addressed to relationship managers.

Banks may provide a unique reference for each audit letter; where they do, auditors should use this reference when making post-production enquiries.

6.4 **Fast track requests**

Banks receive many requests from auditors for an urgent response. They appreciate that there are circumstances in which it may be necessary to provide a response for an audit letter in a shortened timescale eg group companies with shorter reporting timescales. This however can only be extended on a best endeavours basis as, with a finite resource, this effectively means that staff are diverted from working on requests which were received earlier. It has therefore been agreed that, where auditors require an urgent response, they state the reason on the information request form.

7. **REQUIREMENTS**

- 7.1 **Forms** - many BBA member banks use imaging technology for workflow management. Those banks may wish to make arrangements with auditors to use standard forms that have been tested for use in an image environment. These can be obtained from the BBA website or directly from the individual banks concerned. There are barriers at present on both the banking and the auditing side to requests being submitted securely using the internet.
- 7.2 **Submitting requests** - PN16 indicates that auditors deliver a request to the bank one month before the year end. The banks have underlined for the auditors the importance of this given the volumes of requests that they receive each month. This time is used to undertake preparatory work in advance of the year-end, such as sending out requests for completion by relevant departments.
- 7.3 **Account information** – auditors have been requested to provide, as a minimum, one main sort code and account number for each legal entity listed on the request. It is clearly explained within the practice note that the provision of sort codes and account numbers by legal entity will contribute significantly to the efficiency of the search.
- 7.4 **Authority to disclose** – while there is no need to provide an authority each time, the auditors have a responsibility for checking with the client that the authority is up-to-date. Banks should regard authorities as on-going unless rescinded by the client. (In Ireland the banks and auditors have agreed that a new authority to disclose should be provided by the auditors on each occasion.)
- 7.5 **Enquiries** – auditors have been encouraged to make use of the bank reference number provided in the bank response to the request. This should improve enquiry handling as banks will be able to locate the file much more quickly.

8. **CLOSED ACCOUNTS**

- 8.1 Where an account relationship existed at the audit date but has subsequently closed an appropriate fee will be required before the audit letter process can begin. In such cases, the bank should return the request to the auditor with a request for the appropriate fee to be

provided. It should be made clear that work will not be carried out on the request until the fee is received. The standard SLA will apply from the date the fee is received or the audit date, whichever is the later.

ADDENDUM – INFORMATION PROVIDED IN BANK RESPONSES

The following tables set out the information that will be provided by banks in response to auditor requests. The banks are required to give the information in the order shown and if no information is available then this must be stated as 'None' in the response.

STANDARD INFORMATION REQUEST

1 Account and Balance Details

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 report date give the account details and date of closure.

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.

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 Facilities

Give the following details of all loans, overdrafts, and associated guarantees and indemnities:

- term
- repayment frequency and/or review date
- details of period of availability of agreed finance i.e. finance remaining undrawn
- detail the facility limit.

3 **Securities**

With reference to the facilities detailed in (2) above give the following details:

- 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 a 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.

ADDITIONAL INFORMATION REQUEST

Request for Trade Finance information

<p>1</p>	<p>Trade Finance Give the currencies and amounts of the following:</p> <ul style="list-style-type: none"> (a) Letters of Credit (b) Acceptances (c) Bills discounted with recourse to the customer or any subsidiary or related party of the customer. (d) Bonds, Guarantees, Indemnities or other undertakings given to the Bank by the customer in favour of third parties (including separately 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. <p><i>Note. For each item state the nature and extent of any facility limits and details of period of availability of agreed facility.</i></p>
<p>2</p>	<p>Securities</p> <p>With reference to the 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 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	<p>Derivatives and Commodity Trading</p> <p>Give the currencies, amounts and maturity dates on a contract by contract basis of all outstanding derivative contracts including the following:</p> <ul style="list-style-type: none"> (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) (i) credit derivatives including collateralised debt obligations (CDOs) (j) others (indicate their nature). <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. 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 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.

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