



Attachment to Board Meeting Summary Paper

Subject: Update of Guidance Statement AGS 1002 *Bank Confirmation Requests*

Prepared by: AUASB Technical Group

Date: 8 February 2010

## ATTACHMENT A

### Issues

The AUASB is requested to consider and resolve the following issues:

| Item #   | Changes  | Issues Addressed   | Approve?<br>Y/N |
|--|--|--|-----------------|
| The main changes proposed to the Guidance Statement are: |  |  |                 |
| 1  | <u>Additional guidance</u><br>Additional guidance provided to address issues raised by practitioners and banks. Significant new guidance includes:   |  |                 |
| 1.1  | <ul style="list-style-type: none"><li>Explanation of the audit process and how bank confirmations <u>may</u> assist the auditor. [Para 10-21]</li></ul>  | Misunderstanding by some auditors regarding the reasons for requesting (or not) bank confirmations.                      |                 |
| 1.2  | <ul style="list-style-type: none"><li>Clear statement that bank confirmations are <u>not required</u> by the Australian Auditing Standards, but may be a valuable audit procedure depending on the nature of the audit engagement. [Para 15]</li></ul> | Unnecessary requests for bank confirmations.   |                 |
| 1.3  | <ul style="list-style-type: none"><li>Highlighting the need to remain alert to the possibility of fraud in the bank confirmation process. [Para 22-25]</li></ul>   | IAASB Staff Audit Practice Alert <i>Emerging Practice Issues Regarding the Use of External Confirmations</i> (Nov 2009). |                 |
| 1.4  | <ul style="list-style-type: none"><li>Detailed procedures for all stages of the bank confirmation process, including:</li></ul>  | Lack of detailed procedures.   |                 |

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| 1.5    | <ul style="list-style-type: none"> <li>Designing the request, including the provision of updated standard request forms, for use when appropriate.[Para 30-33] [Appendix 1] [Appendix 2]</li> </ul>                | Unclear requests; out-of-date bank confirmation request forms.   |                 |
| 1.6    | <ul style="list-style-type: none"> <li>Pre-completing the standard request forms, when used. [Para 34-35]</li> </ul>   | Assists banks to locate relevant customer and associated bank information more quickly.  |                 |
| 1.7    | <ul style="list-style-type: none"> <li>Guidance on bank addresses for the lodgement of requests, as agreed with the ABA. [Para 36-38]</li> </ul>   | No clear contact point for lodging Bank Confirmation Requests; requests sent to the wrong person / branch..  |                 |
| 1.8    | <ul style="list-style-type: none"> <li>Bank requirement for formal Authority to Disclose information and provision of sample authorisation letter. [Para 39-42] [Appendix 3]</li> </ul>                            | Bank requirement; failure to provide authority causes delay.   |                 |
| 1.9    | <ul style="list-style-type: none"> <li>Specific guidance about timing the request, as agreed with the ABA. [Para 44-45] Specific guidance re busy June and December period ends [Para 44]</li> </ul>               | Late lodgement of request makes it difficult for bank to meet audit deadlines; June and December period ends present peak workload for banks.  |                 |
| 1.10   | <ul style="list-style-type: none"> <li>Acknowledgement by banks of receipt of requests, where requested by the customer /auditor and sample request for acknowledgement form. [Para 46-48] [Appendix 4]</li> </ul> | “Lost” requests result in delay and re-work.   |                 |
| 1.11   | <ul style="list-style-type: none"> <li>Follow-up procedures, including guidance on timing, bank turnaround times and bank contact details for follow-up, as agreed with the ABA. [Para 49-54]</li> </ul>           | Reduce the volume of pre-production enquiries, which cause additional work for bank and delay; bank turnaround times; no clear contact point for follow-up of late Bank Confirmation Requests. |                 |
| 1.12   | <ul style="list-style-type: none"> <li>What to expect when a bank (or auditor) uses electronic bank confirmation processes. [Para 59-66]</li> </ul>  | Increasing use of electronic bank confirmations by banks and auditors.   |                 |
| 2      | <p><u>Updated form</u></p> <p><i>Bank Confirmation – Audit Request (General)</i> [Appendix 1]</p>  | Out-of-date bank confirmation request forms.   |                 |

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| 2.1    | <p>The main changes are:</p> <ul style="list-style-type: none"> <li>Revised instructions</li> </ul>  | Unclear instructions on form.   |                 |
| 2.2    | <ul style="list-style-type: none"> <li>Revised auditor information; including auditor’s email address; check boxes for Authority to Disclose, Third Party Authority and Acknowledgement (if required)</li> </ul> | Unclear bank and auditor details.   |                 |
| 2.3    | Provision for BSB number to be provided by client /auditor (Sections 1 and 2). This is similar to the UK, where the request includes the main account number and sort code.                                      | Assists banks to locate relevant customer and associated bank information more quickly.   |                 |
| 2.4    | <ul style="list-style-type: none"> <li>Removal of need for “interest rate” (Sections 1 and 2)</li> </ul>   | Unnecessary information, available from other sources, if required.   |                 |
| 2.5    | <ul style="list-style-type: none"> <li>Removal of former Section 7 relating to <i>Sealed Packets, Locked Boxes, etc</i></li> </ul>   | Unnecessary information; separate request, if required.   |                 |
| 2.6    | <ul style="list-style-type: none"> <li>Addition of a new Section 6 relating to <i>Leases</i></li> </ul>  | <p>Auditors would like banks to provide this information. However, CBA has commented that:</p> <p>Given the original premise of streamlining the standard bank confirmation request. There is a proposed increase in the information required compared to the current request. Clients have never requested this extra information in the past.</p> <p>There is also a possible interpretation risk between “lease term” and “Repayment terms” definition. Finally given the nature of the request is it fair to ask banks to calculate “Total value of future minimum repayments”? With the basics of the lease disclosed the auditors should be able to calculate this for themselves and therefore place greater reliance on the calculation.</p> <p><u>Staff Recommendation:</u> that Section 6 relating to <i>Leases</i> be further modified by removing the need for banks to calculate ‘Total value of future minimum repayments’.</p> |                 |

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| 2.7    | <ul style="list-style-type: none"> <li>Addition of a new Section 9 relating to <i>Defaults and Breaches</i></li> </ul>   | <p>Auditors would like banks to provide this information. However, CBA has commented that:</p> <p>Given the original premise of streamlining the standard bank confirmation request, is this information necessary? Primary focus should be establishing existence and completeness of the banking arrangements.</p> <p><u>Staff Recommendation:</u> that Section 9 relating to <i>Defaults and Breaches</i> be retained.</p> |                 |
| 3      | <p><u>Updated form</u><br/><i>Bank Confirmation – Audit Request (Treasury and Other Operations)</i> [Appendix 2]</p> <p>The main changes are:</p> <p>3.1 <ul style="list-style-type: none"><li>Name change to include <i>Treasury and Other Operations</i></li></ul></p> <p>3.2 <ul style="list-style-type: none"><li>Revised instructions</li></ul></p> <p>3.3 <ul style="list-style-type: none"><li>Revised auditor information; including auditor’s email address; check boxes for Authority to Disclose, Third Party Authority and Acknowledgement (if required)</li></ul></p> <p>3.4 <ul style="list-style-type: none"><li>Further examples provided in Section 9 <i>Other Contractual Arrangements</i></li></ul></p> | <p>Out-of-date bank confirmation request forms.</p> <p>Broader scope required by auditors, e.g. “other contractual arrangements”.</p> <p>Unclear instructions on form.</p> <p>Unclear bank and auditor details.</p> <p>More current examples required.</p>  |                 |
| 4      | <p><u>New Sample Letter</u><br/><i>Example Letter: Customer Request and Authority to Disclose</i> [Appendix 3]</p>   | <p>Unclear requests; lack of authority to disclose information.</p>   |                 |
| 5      | <p><u>New Sample Letter/Form</u><br/><i>Example: Request for Acknowledgement of Bank Confirmation Request</i> [Appendix 4]</p>   | <p>“Lost” requests result in delay and re-work.</p>   |                 |

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| Other Issues |  |                  |                 |
| 6            | <p><u>Authorisation of the Bank Confirmation by the Bank</u></p> <p>The CBA and WBC have commented on the instruction on the standard Bank Confirmation Request forms that the banks must “<i>sign the completed form and return the original</i>”. They consider that, with the increasing automation of the process, it is not practical for banks to sign (or stamp) forms.</p> <p>Auditors, on the other hand, require bank confirmation forms to be signed, to assist in verifying the origin of the response and the reliability of the information provided.</p> <p>WBC has suggested that a section in the disclaimer could state that the document is electronically generated and not signed. The CBA has suggested removing the instruction for the bank to sign the form.</p> <p><u>Discussion:</u> the problem is, to some extent, a matter for the banks to resolve.</p> <p>Where hard copies are provided it is sound practice, from both the auditor’s and the bank’s perspective, that the person preparing the response acknowledges their response and takes responsibility for it, by signing (or stamping) it. There are risks for the bank where information is provided without anyone being accountable for that information.</p> <p>Electronic responses are different and cannot be signed or stamped physically. However, the guidance at paragraph 66 suggests techniques that might be employed by the bank and auditors to verify the identity of the sender. It is likely that, as electronic processes become more widely used, and more sophisticated, such techniques will become more common (e.g. electronic signatures). Further, if the auditor has doubts about the reliability of an electronic bank response, the guidance at paragraphs 64-65 suggests other procedures the auditor might employ to verify its origin. The guidance makes it clear that an electronic process introduces new risks and emphasises the importance of auditors and banks agreeing processes that minimise such risks and enable the auditor to continue to rely on the information provided in a bank confirmation (paragraph 61).</p> <p><u>Staff Recommendation:</u> Further comment to be obtained from the PAG regarding current practice and experience, i.e. is it common for banks not to sign? What do auditors do when a bank confirmation is not signed? Subject to the comments received, suggest no changes to the standard forms as drafted in Appendix 1 and Appendix 2 of the Guidance Statement.</p> |                  |                 |

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