

GS 009
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Guidance Statement GS 009 *Bank Confirmation Requests*

Issued by the **Auditing and Assurance Standards Board**

Draft

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AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) formulates Guidance Statement GS 009 *Bank Confirmation Requests* as set out in paragraphs 1 to 34, pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001*, for the purposes of providing guidance on procedural auditing and assurance matters.

This Guidance Statement provides guidance to assist the auditor to fulfil the objectives of the audit or assurance engagement. It includes explanatory details and suggested procedures on specific matters for the purposes of understanding and complying with *AUASB Standards*. The auditor exercises professional judgement when using this Guidance Statement.

The Guidance Statement does not prescribe or create new mandatory requirements.

Dated 30 June 2008

M H Kelsall
Chairman - AUASB

GUIDANCE STATEMENT GS 009

Bank Confirmation Requests

Application

- 1 This Guidance Statement has been formulated by the Auditing and Assurance Standards Board (AUASB) to provide guidance to auditors on the enquiry and confirmation methods of obtaining audit evidence regarding an entity's bank relationships.

Issuance Date

- 2 This Guidance Statement is issued on 1 XXX 2008 by the AUASB and replaces AGS 1002 Bank Confirmation Requests issued in October 1995.

Introduction

- 3 While this Guidance Statement deals specifically with communications with members of the Australian Bankers' Association (ABA), the guidance is to be applied to confirmations requested of other financial institutions, for example, building societies and credit unions.
- 4 "Bank confirmation request" means a request of a bank or other financial institution to provide independent confirmation for audit purposes on such information as the entity's account balances, securities, treasury management instruments, documents and other related information held by the bank or financial institution on behalf of the entity.

Auditor's Consideration of Bank Confirmation Requests

- 5 Information obtained from bank confirmation requests assists auditors in discharging their responsibilities to obtain sufficient appropriate audit evidence by providing external evidence in relation to such matters as the existence, completeness and valuation of assets and liabilities.
- 6 ASA 300 Planning an Audit of a Financial report requires the auditor to plan the audit so that the engagement will be performed in an effective manner.

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- 7 ASA 315 Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement 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 confirmation report and, if so, the nature of evidence to be obtained is determined by the auditor's assessment of the risks of material misstatement.
- 8 ASA 505 External Confirmations states that the auditor should determine whether the use of external confirmations is necessary to obtain sufficient appropriate audit evidence at the assertion level.
- 9 During the planning phase of an 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 confirmation report. The auditor would send bank confirmation requests when the entity's banking activities, including treasury operations, are significant to the audit.
- 10 Many banks document 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 confirmation 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.
- 11 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 a bank confirmation request of account balances, facilities and securities is unnecessary. For example, where an engagement is undertaken to audit the service charge 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 Confirmation Request

- 12 The request for a bank confirmation report is issued on the auditors' own note paper using the appropriate templates in Appendices 1 and 2.

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- 13 Banks are aware of the information required from requests for “General” and “Treasury Operations” information. The ABA’s guidance to its members defining the information to be given in response to each type of request is set out in Appendices 1 and 2 of this Guidance Statement.
- 14 Having decided to obtain a bank confirmation report, the auditor plans the submission of the request to the bank including:
- determining the date by which the bank confirmation request is needed;
 - deciding what type of bank confirmation request to use:
 - (a) Bank Confirmation – Audit Request – General (Appendix 1) – the information to be confirmed or requested relates to normal banking activities and is substantially the same for a range of entities; and
 - (b) Bank Confirmation – Audit Request – Treasury Operations (Appendix 2) – the information to be confirmed or requested relates to entity’s treasury operations and use of treasury management instruments.
 - making arrangements for assembling the necessary information to be included in the bank confirmation request including the account name, BSB code and account number for the main account held by each entity (including subsidiaries as well as the parent company, where a single letter is sent for all companies in a group) with every bank with which the client has a relationship. If the auditors have decided to confirm additional information (e.g., 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. For example with some banks it is standard practice to deal with requests for bank confirmation reports through a centralised delivery mechanism, using a dedicated query team.

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- 15 When the auditors are unable to provide the main account BSB code and account number for all the entities or sufficient references to identify additional information required, the auditors make a separate request to the bank to supply the relevant details. Circumstances where such a request might be appropriate include:
- because information is not available from the client, perhaps due to a break down in controls;
 - because the auditor suspects that full information has not been provided to them by the client, for example where there is prior experience of accounts or banking relationships not provided to the auditor or where the auditor suspects impropriety regarding the client'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.
- 16 Auditors deciding to make a request in the circumstances outlined in paragraph 15 need to be aware that banks cannot give information about entities that are not covered by an existing authority to disclose information. As a consequence this means that banks will provide details only of those accounts and facilities relating to the entities listed on the request for a bank confirmation 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 with an entity 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. The auditor therefore seeks to ensure that the list of entities to be included on all requests to banks is complete and that the entities are covered by a valid authority to disclose.
- 17 Auditors also need to be aware that, where banks are asked to respond to the circumstances outlined in paragraph 15, 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 such requests only where their knowledge of the client's business indicates that this is necessary.
- 18 When the auditor requires confirmation of matters not covered by the general request form, a separate letter would be sent to cover the particular matter. The letter to the bank would clearly identify the details of the matter for which confirmation is required, for example interest accrued, and would carry the entity's authorisation for the bank to provide the confirmation to the auditor.

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- 19 Some entities may have intricate and/or multiple relationships with banks or other financial intermediaries which may provide limited or specialised services. In these cases the general request form may not be appropriate and the auditor will need to consider alternative confirmation procedures.
- 20 The auditor will review the bank's reply. The auditor may need to carry out additional tests on matters relating to the entity's banking relationship, for example when other audit procedures indicate doubt as to the completeness of the information provided, a separate letter would be sent to the bank inquiring specifically about potential matters of concern.

Disclaimer

- 21 Both the General and Treasury Operations bank confirmation request forms include a disclaimer in favour of the bank and its staff. Whilst the disclaimer may limit the liability of the bank to the auditor, the AUASB is of the view that the inclusion of the disclaimer will not affect the level of satisfaction an auditor may derive from the information obtained from a bank confirmation request in terms of its reliability as appropriate audit evidence. Accordingly, the auditor can reasonably rely upon information given by the bank provided it is not clearly wrong, suspicious, inconsistent in itself, ambiguous, or in conflict with other evidence gathered during the course of the audit. When there is evidence to suggest that the information provided by the bank is inaccurate or incomplete the auditor would contact the bank and request clarification in writing. For example, when a question on the bank confirmation request form remains unanswered by the bank.
- 22 In view of the disclaimer noted in Guidance Statement 009.21 and the limitation noted in Guidance Statement 009.32, sole reliance on bank confirmation requests to satisfy the completeness assertion will not suffice. If the auditor believes there is a risk that material accounts, agreements or transactions exist and of which the auditor is unaware, the auditor would contact the bank and request further information.

Authority to Disclose

- 23 Banks require the explicit written authority of their customers to disclose the information requested. The ABA 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 entities provided that each entity is specified and the authorisation signatures are appropriate. Banks, building societies or other financial intermediaries that are not members of the ABA may have different requirements for authority to disclose, which need to be ascertained by auditors before they submit their requests for information.

- 24 A new authority will be needed in the case of a new audit client. An updated authority will be needed if there are client changes such as new group entities or auditor changes such as reorganisation as a limited liability partnership 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 3

Completion and Dispatch of Forms

- 25 The entity is to complete and sign a letter of authorisation to the bank requesting completion of the bank confirmation request forms. An example letter of request is provided in Appendix 4. When a third party is involved, the third party will also need to provide an authorisation allowing disclosure or confirmation of the details.
- 26 The auditor, in consultation with the entity, is responsible for completing the shaded areas of the confirmation request forms prior to forwarding the forms to the bank. The information to be confirmed is to be listed under the appropriate item headings as at the confirmation date. The bank's staff is responsible for completing the information requested in the unshaded areas of the form, checking the information supplied in the shaded areas of the form and signing and stamping the form to evidence the confirmation of that information.

Guarantees and other Third Party Securities

- 27 The provision of information about guarantees and other third party securities has, on occasion, resulted in significant delays in the completion of bank confirmation requests 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.

Timing of Requests

- 28 Where practicable, the auditor sends the bank confirmation request so as to reach the Bank at least 15 days in advance of the period end date. It is advisable to allow more time at busy periods such as those covering June and December year ends
- 29 The ABA has indicated that banks providing acknowledgements of audit requests (refer Appendix 5), if asked, 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 ABA has advised that no practical purpose is served by an auditor's chasing for a response until the expected date of receipt has passed. Banks that do not acknowledge receipt of audit requests are identified on the ABA's website and contact details given for pursuing enquiries
- 30 In straightforward circumstances the Bank will endeavour to provide the information within 15 days of the period end date. Where the auditor's request contains incomplete information or where a request has been made asking information about guarantees and other third party securities and specific customer consent is needed from a third party for such information to be released, a response may take longer

Australian Bankers' Association

- 31 The ABA has requested that the bank confirmation request be forwarded to the bank at least 15 days prior to the date by which a reply is required. This allows the bank sufficient time to arrange for the information to be provided by its various departments. The ABA also advises that a charge may be made for completing the bank confirmation request forms. Auditors are asked to advise the entity of these facts.
- 32 The ABA also advises that the present recording systems of the banks do not necessarily maintain together all information for entities in a reporting entity, or all accounts of a customer, and banks may experience difficulty in providing information on accounts not listed by the entity.

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- 33 The ABA has undertaken to inform its members of the need for the timely completion of bank confirmation requests in order to facilitate the timely completion of audits.

Conformity with International Pronouncements

- 34 There is no corresponding International Standard or Statement on Auditing

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