

Auditing Guidance Statement

AGS 1002
(October 1995)

Bank Confirmation Requests

Prepared by the **Auditing Standards Board** of the
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AUDITING GUIDANCE STATEMENT

AGS 1002 "BANK CONFIRMATION REQUESTS"

Introduction

- .01 This Auditing Guidance Statement (AGS) has been prepared by the Auditing Standards Board (AuSB) to provide guidance on the inquiry and confirmation methods of obtaining audit evidence regarding an entity's banking relationships. While this AGS deals specifically with communications with members of the Australian Bankers' Association, the guidance is to be applied to confirmations requested of other financial institutions, for example, building societies and credit unions.
- .02 "Bank confirmation request" means a request of a bank to provide independent confirmation for audit purposes of such information as the entity's account balances, securities, treasury management instruments, documents and other related information held by the bank on behalf of the entity.

Bank Confirmation Requests

- .03 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.
- .04 Through knowledge of the entity's business and audit planning, the auditor gains an understanding of the nature and extent of the entity's banking and treasury operations. Based on this understanding, the auditor would determine the significance of banking activities to the audit by reference to materiality and audit risk. The auditor would send bank confirmation requests when the entity's banking activities, including treasury operations, are significant to the audit.
- .05 Standard bank confirmation request forms provide for the confirmation or provision of information which is customarily held by banks. The use of standard forms is considered to be of benefit to both banks and to auditors. Accordingly, two standard bank confirmation request forms, as set out in the Appendices, have been developed in conjunction with the Australian Bankers' Association and are recommended for use by auditors. The two forms are:

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- (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 the entity's treasury operations and use of treasury management instruments.
- .06 When the auditor requires confirmation of matters not covered by the standard request forms, 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.
- .07 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 standard forms may not be appropriate and the auditor will need to consider alternative confirmation procedures.
- .08 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 completeness of the information provided, a separate letter would be sent to the bank inquiring specifically about potential matters of concern.

Disclaimer

- .09 The two standard 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 Auditing Standards Board's legal advisers are of the opinion 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.

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- .10 In view of the disclaimer noted in AGS 1002.09 and the limitation noted in AGS 1002.14, sole reliance on the standard form to satisfy the completeness assertion is unwarranted. 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.

Completion and Dispatch of Forms

- .11 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 3. When a third party is involved, the third party will also need to provide an authorisation allowing disclosure or confirmation of the details.
- .12 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 branch 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.

Australian Bankers' Association

- .13 The Australian Bankers' Association has requested that the bank confirmation request be forwarded to the bank at least fourteen 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 Association 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.
- .14 The Australian Bankers' Association also advises that the present recording systems of the banks do not necessarily maintain together all information for entities in an economic entity, or all accounts of a customer, and banks may experience difficulty in providing information on accounts not listed by the entity.
- .15 The Australian Bankers' Association 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.

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Operative Date

- .16 This AGS is operative in relation to the first financial reporting period commencing on or after 1 July, 1996 and supersedes Statement of Auditing Practice AUP 1 "Bank Confirmation Requests" as issued in May 1991.

Compatibility with International Standards and Statements on Auditing

- .17 There is no corresponding International Standard or Statement on Auditing.

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1. CREDIT ACCOUNT BALANCES

Give details of all account balances in favour of the bank customer as at
 Include details of any current accounts, interest bearing deposits, foreign currency accounts, convertible certificates of deposit, money market deposits, etc. If not listed below.

Account Name	Account Number	Balance	Currency	Interest Rate

2. DEBIT ACCOUNT BALANCES

Give details of all account balances owed to the bank as at
 by the bank customer in respect of overdraft accounts, bank loans, term loans etc and also repayment terms.

Account Name	Account Number	Bal. & Currency	Overdraft Limit	Interest Rate	Repayment Terms e.g. monthly, quarterly, etc

3. PROMISSORY NOTES/BILLS OF EXCHANGE HELD FOR COLLECTION ON BEHALF OF THE CUSTOMER

Maker/Acceptor	Amount	Due Date

4. CUSTOMER'S OTHER LIABILITIES TO THE BANK CONFIRMATION DATE

List liabilities owed, include:

- (a) Bills discounted with recourse, endorsed drafts/notes, forward exchange contracts, letters of credit, liability in respect of shipping documents where customer's account not yet debited.
- (b) Include date, name of beneficiary, amount and brief description of any guarantees, bonds or indemnities undertaken by the bank on behalf of the customer (with recourse) or given by the customer.
- (c) Other liabilities – give details.

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Name of Liability	Amount	Currency	Due Date

5. ITEMS HELD AS SECURITY FOR CUSTOMER'S LIABILITIES TO THE BANK

Indicate if securities relate to particular borrowings or liabilities to the bank and whether lodged in the customer's name. Also include details of any negative pledge arrangements.

If lodged by a third party, that party's authority to disclose details must be attached.

Description (include amount is applicable)

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6. ACCOUNTS OPENED/CLOSED

List details of any accounts opened or closed during the twelve months prior to confirmation

date

	/		/	
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Account Name	Account Number	Account Name	Account Number

7. SEALED PACKETS, LOCKED BOXES, SECURITY PACKETS ETC.

Are sealed packets held on behalf of the customer? Yes No

Are locked boxes held on behalf of the customer? Yes No

Are security packets held on behalf of the customer? Yes No

8. UNUSED LIMITS/FACILITIES

Please confirm details of all available unused limits/facilities at confirmation date.

Types of Facility	Amount of Facility	Amount of Facility Unused	Conditions of Facility Use

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9. OTHER INFORMATION

Please confirm (see shaded area) and/or provide any other details (unshaded area) relating to any financial relationships not dealt with under any other above headings.

This certificate has been completed from our records at branch only. The Bank and its staff are unable to warrant the correctness of that information and accordingly hereby disclaim all liability in respect of the same. The information contained herein is confidential and provided for private use in confirmation of our customer accounts for audit purposes only. It may not be used for any other purpose or by any other persons. In particular this is not a credit reference.

Authorising Officer's Signature	Name	Bank Stamp	Date Completed & Returned
	Title		
Telephone No.			

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Confirmation Date	Third Party Authority is attached	Yes <input type="checkbox"/>
		No <input type="checkbox"/>

1. BALANCES OF ACCOUNTS (DEPOSITS & ADVANCES), SECURITIES HELD

(a) Please confirm details of all account balances [indicating currency (CCY)] as at

...../...../

(b) include details of: nostro accounts, vostro accounts, current accounts, interest bearing deposits, foreign currency accounts, convertible certificates of deposit, money market deposits, etc. If not listed. Confirm details of any securities held for payment eg, Promissory Notes.

(c) Confirm details of direct liabilities (bank & term loans etc), indicating the collateral lodged by the customer in respect to each outstanding loan. Details of repayment terms should also be confirmed.

Account Name	Account Number	Balance DR/CR	CCY	Interest Rate	Interest Accrued	Date Paid	Other Charges	Maturity Date	Collateral Lodged

2. FORWARD RATE AGREEMENTS (FRAs)

Please confirm details of all outstanding forward rate agreement contracts at confirmation date.

Period of Contract		Number of Contracts	Notional Principal Amount	CCY	Contract/Hedge Rate	Fixed/Floating	Contract Borrower/Contract Lender
Start Date	Expiry Date						

3. FOREIGN CURRENCY CONTRACTS

Please confirm details of all outstanding foreign exchange contracts at confirmation date. Obligations to purchase/sell currency should be confirmed in terms of the bank's indebtedness.

Purchase Currency	Amount	Sell Currency	Amount	Exchange Rate	Deal Date	Maturity Date

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4. SINGLE CURRENCY INTEREST RATE SWAPS CONFIRMATION DATE

Please confirm details of outstanding single currency interest rate swaps.

Start Date	Maturity Date	Notional Principal Amount	CCY	Receive Fixed/Floating	Payment Frequency	Interest Rate	Last Received	Pay Fixed/Floating	Payment Frequency	Interest Rate	Last Paid

5. CROSS CURRENCY INTEREST RATE SWAPS

Please confirm details of outstanding cross-currency interest rate swaps.

Start Date	Maturity Date	Received/Purchase Currency				Interest Rate	Last Received	Pay/Sell Currency				
		Notional Principal Amount	CCY	Payment Frequency				Notional Principal Amount	CCY	Payment Frequency	Interest Rate	Last Paid

6. OPTIONS (INTEREST, CURRENCY AND COMMODITIES)

Please confirm details listed of outstanding options contracts as at confirmation date. Indicate the nature of each option contract eg. Interest Rate Options (cap, collar etc).

Nature of Option Contract	Option Type American/European	Premium	Strike Price	CCY	Expiry Date	Put/Call Option	Buy/Sell	Contracts Outstanding (No)

7. TREASURY FUTURES CONTRACTS

Please confirm details listed of outstanding Treasury Futures Contracts eg. BABs, Bonds.

Type of Futures Contract	Value Month	Number of Contracts	Funds on Deposit & Margin Calls	Long/Short	Contracted Sales Price

8. NETTING (OFFSET) ARRANGEMENTS

Please confirm the details of the following netting arrangements.

Item Subject to Netting Arrangements	Conditions of Netting

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9. OTHER CONTRACTUAL ARRANGEMENTS

Provide details of any other contractual arrangement(s) between the customer and the bank eg, forward bank bills/bonds, repurchase agreements, transactions packaged as a unique product for the customer, etc.

Nature of Contract	Deal Date	Maturity Date	Value Date	Face Value	Consideration	Coupon

This certificate has been completed from our records at branch only. The Bank and its staff are unable to warrant the correctness of that information and accordingly hereby disclaim all liability in respect of the same. The information contained herein is confidential and provided for private use in confirmation of our customer accounts for audit purposes only. It may not be used for any other purpose or by any other persons. In particular this is not a credit reference.

Authorising Officer's Signature	Name	Bank Stamp	Date Completed & Returned
	Title		
Telephone No.			

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APPENDIX 3

EXAMPLE CLIENT REQUEST LETTER

The Manager

Date

Bank Name

Address

BSB No.

Dear Sir,

Bank Confirmation Request

Client Name

We would appreciate if you could provide for audit purposes the information requested in the attached form(s):

- Bank Confirmation – Audit Request (General)
- Bank Confirmation – Audit Request (Treasury Operations)

To facilitate the timely completion of the audit, it would be appreciated if the forms were completed and returned by (Insert date).

Please mail the original of the completed form(s) direct to our auditors as named in the forms and the duplicate to us. Stamped, addressed envelopes are enclosed for this purpose.

Any charge for providing this information is to be debited to _____ Account.

Yours faithfully

Authorised Signatory/Signatories
Client Name