BANKING JUDGMENT LAB · THE IN-TRAY · THE GROUNDWORK · WORKSHEET

Assurance and Conduct

Ten files on how far the numbers can be trusted, and the rules a banker keeps.

Ten one-minute files. Each gives a short setup, a few numbers and four possible calls. Make the call on paper; the reads are on the last pages — each names the senior banker's call and shows the working, with no score. Most files have more than one defensible call; the read says how far each sits from the senior's.

Free to reuse under CC BY 4.0 — copy a file into your notes, a tutorial or a slide, with a link back to https://www.bankingjudgmentlab.com/in-tray/groundwork. Every business on these pages is a composite built for teaching, not a client. Money is in US dollars. The files, with the same reads read in place, and 114 more like them, are at https://www.bankingjudgmentlab.com/in-tray/groundwork.

THE FILES

FILE 1 OF 10 · THE BORROWER · ASSURANCE

A borrower's audit report carries a paragraph headed 'Material uncertainty related to going concern'. The opinion itself is unmodified.

Signal or noise?

[A] A signal worth reading against the bank's own facility dates.

[B] Noise. The opinion is clean.

[C] Noise. It's standard wording.

[D] A signal. The auditor doubts the business can continue without new funding or change.

FILE 2 OF 10 · THE BORROWER · ASSURANCE

The auditor's opinion on a borrower's accounts is 'except for': it could not verify the stock at one warehouse, which holds 30% of inventory. The stock is the bank's main security.

What do you ask first?

[A] What stock is at that warehouse, and why it could not be counted.

[B] Whether the rest of the accounts are clean.

[C] Nothing. The rest of the opinion is clean.

[D] Whether the auditor can be asked to change the opinion.

FILE 3 OF 10 · THE BORROWER · ASSURANCE

A company's draft accounts carry a going-concern note: its trading depends on the bank renewing a US$4m facility that expires five months after the balance date. The auditor asks the bank for a letter confirming it intends to renew.

What do you say first?

[A] Write the letter. The renewal is likely.

[B] Decline to write anything. A bank never gives assurances.

[C] Say what is true: the facility runs to its date and no decision has been taken.

[D] Bring the renewal forward, so the question goes away.

FILE 4 OF 10 · THE BORROWER · ASSURANCE

At its year-end a borrower is in breach of a leverage covenant on a loan that is not due for three years. On 18 December its CFO asks the bank for a waiver letter, dated before 31 December.

Signal or noise?

[A] Noise. Waivers are routine. Sign it.

[B] A signal. Read the breach and ask what the waiver is for before anything is dated.

[C] A signal. Refuse: a breach is an event of default.

[D] Noise, if the breach is small.

FILE 5 OF 10 · THE BORROWER · ASSURANCE

An auditor's confirmation request lists a borrower's overdraft and term loan. The bank's records agree with both — and also hold a US$1.5m guarantee the bank has given to the borrower's landlord, which the request does not mention.

OVERDRAFT	TERM LOAN	GUARANTEE TO THE LANDLORD
US$1.9m	US$5.0m	US$1.5m · not on the request

What does the bank confirm?

[A] The two balances asked about, and nothing else.

[B] Everything it holds: the balances, the guarantee, the security and any undrawn limits.

[C] The balances, with a note that other facilities exist.

[D] Nothing more until the borrower approves the extra disclosure.

FILE 6 OF 10 · THE BORROWER · ASSURANCE

A borrower's accounts for the year to 31 March are signed on 20 June. On 2 June its other bank had declined to renew a US$3m line, and the borrower had not told the auditor.

Signal or noise, for the lender reading the accounts in July?

[A] Noise. The accounts are for the year to March.

[B] A signal. A facility lost before signing belongs in the accounts; its absence says the auditor was not told.

[C] A signal. Reject the accounts and demand a restatement.

[D] Noise, if the borrower has since found another lender.

FILE 7 OF 10 · THE CONDUCT · CONFLICTS

A borrower whose loan you are about to recommend sends you two tickets to a final, worth about US$1,000.

Your move?

[A] Accept them after the loan is approved.

[B] Accept. It's a gesture, not a bribe.

[C] Accept, and stay objective.

[D] Decline them, or declare them under the bank's policy before the decision.

FILE 8 OF 10 · THE CONDUCT · MARKET INTEGRITY

A listed borrower tells you in confidence that it will announce a large loss next week. A friend asks whether they should sell their shares in it.

Your move?

[A] Tell your friend you can't give advice on shares.

[B] Hint that now might be a good time to sell.

[C] Tell them; it will be public in a week anyway.

[D] Say nothing about it, and do not trade.

FILE 9 OF 10 · THE CONDUCT · FINANCIAL CRIME

You have reported a client's transactions as suspicious. The client calls and asks why its new payments are being held.

Your answer?

[A] Say the bank is carrying out routine checks.

[B] Say nothing about the report, and pass the question to the team that handles it.

[C] Tell the client a report has been made, to be transparent.

[D] Release the payments, to keep the client.

FILE 10 OF 10 · THE CONDUCT · FINANCIAL CRIME

A new business client is owned by a company in another country, which is owned by a trust whose beneficiaries are not disclosed.

What do you ask first?

[A] Why the structure was set up this way.

[B] Nothing. The accounts are strong.

[C] For two years of bank statements.

[D] Who ultimately owns and controls the business.

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THE READS

FILE 1 · THE BORROWER · ASSURANCE

The senior read: D. A signal. The auditor doubts the business can continue without new funding or change.

A going-concern paragraph means the auditor found events or conditions that cast significant doubt on the business continuing, often its funding. The bank's own renewal may be the uncertainty. This is a material uncertainty about going concern.

FILE 2 · THE BORROWER · ASSURANCE

The senior read: A. What stock is at that warehouse, and why it could not be counted.

A qualified opinion marks the part of the accounts the auditor could not stand behind. When that part is 30% of the stock, and the stock secures the loan, the qualification sits inside the bank's collateral. This is a qualified audit opinion.

FILE 3 · THE BORROWER · ASSURANCE

The senior read: C. Say what is true: the facility runs to its date and no decision has been taken.

A letter saying the bank will renew is a commitment its committee has not made; a flat refusal tells the auditor something has changed when nothing has. The bank can say exactly what is true, and the auditor's conclusion on going concern is the auditor's to draw. This is going concern and bank support.

FILE 4 · THE BORROWER · ASSURANCE

The senior read: B. A signal. Read the breach and ask what the waiver is for before anything is dated.

The date is the tell: without a waiver in hand at the balance date, a loan in breach can have to be shown as due within a year, and the balance sheet changes shape. The bank may waive, but it is being asked to fix the accounts, so it reads the breach first. This is covenant breach and debt classification.

FILE 5 · THE BORROWER · ASSURANCE

The senior read: B. Everything it holds: the balances, the guarantee, the security and any undrawn limits.

A confirmation is the auditor's independent view of what the bank holds, and the borrower's authority covers all of it. The guarantee is a liability the accounts may not show; that is exactly what the request exists to find. A bank that answers only the question asked has confirmed the balance sheet the client wrote. This is the bank confirmation.

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FILE 6 · THE BORROWER · ASSURANCE

The senior read: B. A signal. A facility lost before signing belongs in the accounts; its absence says the auditor was not told.

What happens between the balance date and the signing can change what the accounts should say — a lost facility goes straight to going concern, and the auditor needed to know. Accounts silent on it were signed on an incomplete picture; the lender's first question is what else the auditor was not told. This is a subsequent event.

FILE 7 · THE CONDUCT · CONFLICTS

The senior read: D. Decline them, or declare them under the bank's policy before the decision.

A gift of value from someone awaiting your decision is a conflict whether or not it moves you, because nobody else can tell. Declining or declaring it removes the doubt. This is conflicts of interest.

FILE 8 · THE CONDUCT · MARKET INTEGRITY

The senior read: D. Say nothing about it, and do not trade.

Price-moving information received in confidence may not be traded on or passed on, by you or by anyone you tell. A week's head start is the whole of its value. This is material non-public information.

FILE 9 · THE CONDUCT · FINANCIAL CRIME

The senior read: B. Say nothing about the report, and pass the question to the team that handles it.

Telling a client, or anyone, that a suspicious activity report has been made can alert them, and in many countries is an offence in itself. Questions go to the people trained to answer them. This is tipping off.

FILE 10 · THE CONDUCT · FINANCIAL CRIME

The senior read: D. Who ultimately owns and controls the business.

A bank must know the people who ultimately own or control a client. Layers of companies and trusts can be legitimate, but they are also how ownership is hidden, so the chain is traced to its end. This is beneficial ownership.

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