# Helpsheet: References on clients’ financial status and loan serviceability

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## Introduction

Where a client is proposing to undertake a significant financial obligation, a lender or other third party may seek information or assurance from an accountant regarding the financial status of a client. This will form part of the lenders decision making process on whether the client is an acceptable risk. As a result, the lender is going to place some reliance on that reference and the accountant must consider the risk inherent in such a situation and mitigate that risk as far as possible.

## Providing a reference

A reference may be requested in a variety of forms and may seek either to confirm factual information, seek assurance on the client’s financial status or both. Where confirmation of factual information is sought this is more straightforward, however where any form of assurance is sought then this is a forecasting situation.

The lender is asking the accountant to provide some assurance on whether the client will be able to meet future obligations. Realistically, no amount of enquiry can provide the assurance needed to confirm that the client would have sufficient income to service such an obligation. The reference should not, therefore, comment in positive terms on future income or solvency.

It is possible that the accountant could give assurance as to present solvency by reporting on the ability of the client to pay debts as they fall due and/or on the excess of assets over liabilities. However, such a report should not be given without carrying out a detailed review of accounts and projections. The expense of such a review would probably not be justified and should only be carried out after agreeing specific engagement terms between the accountant, client and lender – a due diligence report would be required to provide such assurance.

The accountant can provide useful information to the lender without too much expense, such as:

* the length of time during which the accountant has acted on behalf of the client.
* the income or profits of the client as declared to HMRC in the latest tax return.
* if it is the case, that, in the accountant’s experience, he has no reason to suppose that the client would be likely to enter a commitment which he is not expected to be able to fulfil.

The last of the above statements carries some risk. That statement should not be made without due consideration and it may be the case that the accountant would decline to make that statement due to insufficient information or because the accountant has not been long acting for the client. There is always the possibility that the accountant holds the opposite view!

To avoid the possibility of an implied contract, accountants should not charge any additional fees for a reference and they should disclaim, in writing, any liability for providing the reference.

In some cases, a lender will request a reference on a prescribed form. Care should be taken not to be tempted by the form into commenting on present or future solvency without carrying out the work referred to above. If necessary, accountants should amend the wording of the report or provide explanatory wording to reflect the limited view that they are in the position to provide.

An example reference for an individual or smaller entity is provided below.

### Example reference on clients’ financial status and their ability to service loans

Without liability

Dear Sirs

**[CLIENT NAME]**

**REFERENCE IN CONNECTION WITH THE LENDING APPLICATION**

The above client has approached us for a reference in connection with a proposed loan by you of £…….….. repayable by monthly instalments of £………….. over …………… years.

We have acted in connection with our client’s [personal/business] affairs since ………… . However, it should be noted that our knowledge of our client’s affairs may not be fully up to date. In addition, we have not carried out any specific work in relation to this statement.

Our client’s net income as declared to HM Revenue & Customs as at 5 April …….. amounted to £………….. .

Whilst we have no reason to believe that our client would be likely to enter into a commitment which they did not expect to be able to fulfil, we have made no assessment of our client’s continuing income or future outgoings.

Whilst the information provided above is believed to be true, it is provided without acceptance by us of anyresponsibility or liability whatsoever. Any use you make of the information is therefore entirely at your own risk.

Yours faithfully

[FIRM]

cc [Client name]

## Further information and assistance

Further assistance and information can be obtained from the Practice Support team. You can contact them through the Practice Support section of the [ICAS Technical helpdesk](https://www.icas.com/contact-us/icas-technical-helpdesk).

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