

ANNEXURE - V
TERMS AND CONDITIONS

The following are the terms and conditions for applying for empanelment as Concurrent Auditor in Karnataka Grameena Bank from ____to _____.

Mandatory Conditions for Appointment:

1. Applicant should either be a LLP / Partnership firm or Proprietorship, already in the panel of the RBI, which are circulated among the Banks for Statutory Branch Audit of the Banks from time to time. Registration with RBI and category allotted by RBI are mandatory.
2. The empanelment and allocation of branches to the auditors will be purely the prerogative of the Bank. Such empanelment shall be initially for a period of twelve months and can be extended for a period of one year; subject to condition that maximum period of empanelment is not more than two years subject to necessary approvals and review of performance.
3. The Concurrent Audit firm should furnish the name, qualification and skill set of the persons, who shall be conducting audit in the branch, to the Bank before commencing audit assignment and such persons will have to continue audit for all the Twelve months.
4. The Concurrent Audit firm shall undertake that they will not sub contract the audit assignment.
5. The Concurrent Audit firm shall not lobby directly or indirectly for considering any credit proposals of their friends / clients to the Bank / auditee branch.
6. "The eligible auditor / firm should be qualified under provisions of Section 141 of Companies Act 2013 for appointment as auditors of the Bank. Auditors should not be disqualified under Section 141 of the Companies Act, 2013 read with Rule 10 of The Companies (Audit and Auditors) Rules,2014 to accept this empanelment."
7. The Concurrent Audit firm or the partners / LLP or its designated partners / or the proprietor or any of their clients should not have any credit facilities with the auditee branch for which they are applying for except credit facilities against their own deposits.

8. The LLP / firm / any partners/designated partners / Proprietor should not have statutory audit (Central audit or Branch Audit), credit audit, valuation of fixed / current assets or any other similar assignments with Bank / or / any branch of Karnataka Grameena Bank.

9. The LLP / firm / any partners/designated partners of the firm / Proprietor should not have any disciplinary matters pending with IBA / ICAI / RBI / National Financial Reporting Authority- NFRA and they should not have suffered any disqualification.

10. The Auditors' Services should not have been terminated or stopped by our bank earlier for (i) want of satisfactory performance or (ii) serious acts of commission or omission or (iii) professional misconduct or (iv) any other adverse reasons.

11. If the name of the ECA is appearing in the list of Third Party Entities- TPEs prepared by IBA, or list of entities blacklisted by professional bodies such as ICAI or blacklist of other banks, then no empanelment would be considered.

12. The eligible auditor / LLP / Firm should be having sufficient experience in conducting concurrent audits of Banks / Bank branches.

13. No weightage shall be given for audit experience in small finance banks and payment banks.

14. The Bank has the discretion to change the allocation of the branches based on any administrative exigencies.

15. The offer of appointment shall be treated as provisional till the empaneled audit firm takes up the audit assignment within the stipulated date in the stipulated auditee unit.

16. Whenever any of the Proprietor / Partner of the Audit firm / designated partner of a LLP is related to any of the employees / Directors of the Bank, the details and relationship with such employees / Directors should be specifically mentioned in the application and the Bank reserves the right to accept or reject the application depending on the merits/demerits of the case.

17. The Bank has the discretion to withhold, consider, accept or reject any of the application based on any of the RBI / Government / ICAI / NFRA / Internal guidelines of the Bank.

18. The selected / empanelled audit firm should give their consent in writing / undertaking letter in the prescribed format agreeing to comply with and bound by the terms & conditions prescribed by the Bank. The empanelled / selected

auditor / Audit Firm / LLP shall sign on the Do's & Don'ts statement in order to have proper "arm's length relationship" with the Branch / Department for which they shall be conducting Audit (Annexure –IV).

19. The Audit team shall conduct Quality Audit during Concurrent Audit and verify compliance of 100% of observations which are serious in nature and 10-15% of other observations of previous month. All non-compliance to be reported without exception

20. The Bank has the discretion to consider or reject any of the applications based on any of the RBI/ Government / Internal guidelines of the Bank.

21. Only the audit firm provisionally selected for empanelment will be communicated through e-mail / letter. No individual intimation will be sent to the audit firm whose applications not considered for empanelment.

Methodology of Empanelment:

1. The eligible interested LLPs / partnership firms / Proprietary Concerns should apply in the prescribed format posted on the Bank's website "https://https://karnatakagb.bank.in/" on or before the specified date. They should send the application to General Manager, Inspection Wing, Karnataka Grameena Bank, Head Office, #32 Sanganakal Road, Gandhinagar, Bellary.583103.

2. The applicants shall send one set of completely filled application and other forms scanned pdf copy to banks mail id iciw.inspection@kgbk.in.

3. Mere submission of application by the audit firms for empanelment as Concurrent Auditor in Karnataka Grameena Bank shall not entitle them automatically for assignment. The application will be processed and the applicants selected for empanelment will be communicated in due course.

4. The empanelment / allotment of branches shall be based on the availability of branches and number of audit firms in particular area. The Bank reserves the right to empanel / reject any audit firm for Concurrent Audit.

5. Based on the above, the audit firm will be provisionally selected for empanelment.

6. Bank shall communicate the provisional selection to such Firms by way of e-mail / letter and call for the applications or it's hard copies and letter of acceptance before a specified due date. After receipt of this communication the audit firms should send self-attested copies of

A. Hard copy of application, duly signed by the authorized signatory.

B. Self-attested Hard copies of:

- (a) Copy of partnership deed / memorandum and Articles of association,
- (b) Certificate of registration with ICAI/ROC in the case of companies,
- a) (c) Copy of UCN registration with RBI,
- (c) Copies of letters received from the other Banks assigning the work of concurrent audit / statutory audit/other audits to audit firms as reported in the application,
- (d) Letters of acceptance of terms and conditions in the prescribed format. (Format as per Annexure II)
- (e) Certificate issued by the Registrar of Companies (showing LLPIN).
- (f) Copy of LLP Agreement signed by all the partners. (In case there is no LLP agreement, Schedule I of the LLP Act signed by all the partners).
- (g) Copy of DIN/DPIN of the designated partners in case of LLP.
- (h) Any other relevant enclosures/evidence / reports which audit firm has mentioned in the application.

7. On receipt of the above documents the Bank shall scrutinise the same and verify the correctness of application/annexures. Thereafter, the bank shall communicate the empanelment initially by way of empanelment letter.

8. After receipt of application, and letter of acceptance from the Firms the Bank will empanel the audit firm for concurrent audit for the period of one year subject to correctness of information furnished in the application.

9. If the selected firm has not sent copies of other details as called for and letter of acceptance duly signed by them within the due date, the provisional selection will stand automatically cancelled. No separate intimation in this regard will be communicated.

10. Procedure relating to issue of Letter of Authority to enable the audit firm to verify relevant files/records at specific branch allotted to audit firm for conducting Concurrent Audit will be informed to audit firm separately while confirming the acceptance / empanelment letter. The Audit Firm shall give an undertaking letter in the prescribed format as per **Annexure III**.

11. In respect of firms which are not being selected, no communication will be entertained.

12. Bank may conduct a day's workshop for selected auditors for familiarisation of our terminologies before actual commencement of concurrent audit. No traveling / halting allowance or any such allowances will be payable for attending such workshops.

13. The audit firm which is provisionally selected for empanelment will be communicated through letter and the acceptance to the Bank's offer is to be

confirmed by the audit firm immediately followed by supporting documents in duplicate as quoted in point no, 6 above.

14. The present offer of empanelment is purely provisional and subject to the applicant taking up the audit assignment within the stipulated date.

15. The auditor shall maintain in strict confidence, the information containing instructions to Inspecting Officers issued during the period, index of circular issued during the period, indicative list of serious irregularities observed by the internal inspectors, indicative list of early warning signals, shall not use or disclose to others. This should be maintained even after the termination of the agreement.

16. The appointment of concurrent audit is purely contractual and for a specific period of twelve months.

17. After termination of the contract the auditor / firm shall not use/keep any material information given by the Bank. They shall return all materials belonging to the Bank after the termination of this agreement, unless otherwise instructed in writing in Bank.

18. The Bank shall have the absolute discretion in allotting the branch, revising fee structure, stipulating terms and conditions of the appointment like experience in concurrent audit of our branches / other banks and termination of the services of the empanelled auditor with / without giving notice at any point of time including during the pendency of the contract.

19. GST – TDS will be deducted at 2% on all eligible payments.

Methodology for review of the performance of auditors:

1. The system of Concurrent Audit has been introduced mainly with the following objectives:

- a) To keep all routine work of the branch under continuous check so as to supplement Bank's efforts to ensure a robust internal control system at the branch in the critical and sensitive areas.
- b) To ensure that violation, if any, in the procedures of the bank are brought to the notice of the management immediately so that timely corrective and remedial steps can be taken.
- c) To pick up and report early warning signals in right time to alert the management.
- d) To report serious irregularities/fraudulent activities noticed at the branch to management at the right time.
- e) To ensure the quality of credit portfolio with due focus on credit appraisal, sanction, creation of security, end-use, monitoring, recovery aspects etc.,

2. The audit firm shall own professional responsibility for concealment of facts / not reporting serious irregularities or losses on account of non-reporting / non-detection of early warning signals / frauds.

3. The Regional Inspectorate will also evaluate the performance of the auditors at quarterly intervals based on the following parameters:

- a. Adequacy of the coverage of audit areas and Quality, clarity of reporting, Skills of the Staff employed
- b. Timely detection and reporting of Income leakage as well as serious irregularities.
- c. Timely reporting of serious irregularities, early warning signals, deficiencies in appraisal, disbursement, monitoring, detection and reporting of frauds/Special reports
- d. Physical verification of securities created charged to the Bank
- e. Reporting in technology / information security/KYC/AML/ CFT compliance areas.
- f. Submission of jotting sheets to branches and follow up for rectification.
- g. Timely submission of reports.
- h. Contribution to improvement in overall control by the branch.

4. (i) Failure to detect fraud or serious irregularities, which comes to the knowledge of bank at a later date or during subsequent audits / investigations, shall be treated as a deficient service & omission of serious nature.

(ii) In such cases, the names of such ECAs (who have done concurrent audit of the branch / unit which witnessed the fraud / serious irregularity during the corresponding period) shall be depanelled by our bank and they shall not be eligible for applying any future empanelment in our bank (such as credit audit, valuation of current assets, etc.) and the name of the audit firm shall be updated in Repository of depeneled ECAs maintained by IBA.

5. If the performance is found wanting, then the services of the auditors shall be terminated forthwith with intimation at the discretion of the Bank and such Audit firms shall stand derecognized.

6. The Bank may convene the meetings of select auditors at periodical intervals at the specified centres for interaction.

7. The auditor / firm shall indemnify the Bank against all actions, omissions, proceedings, claims, suits, damages and any other expenses for causes attributable to the auditor / firm including any loss suffered on account of any breach of the terms and conditions of the offer of the empanelment.

Termination / cancellation of Empanelment:

1. If the provisionally selected firm has not sent original hard copies of the application and other documents duly signed by them within the stipulated time, their provisional selection shall be rejected.
2. If any of the information / documents furnished by the auditor is found to be untrue / incorrect, the Bank's offer shall automatically stand cancelled without entertaining any further correspondence.
3. Deliberate omission of facts, information about disqualification which comes to the knowledge of bank at a later date.
4. Any serious acts of Commissions, omissions, misconduct, deviations in professional ethics or any other reason bank may deem fit and appropriate to the situation.
5. Reported disqualification as per Section 141 of Companies Act 2013 for appointment as auditors of the Bank and also as given in Section 141 of the Companies Act read with Rule 10 of The Companies (Audit and Auditors) Rules, 2014.
6. In case the application is rejected for reasons mentioned above, the Bank shall identify a new auditor for the branch, at its discretion and the applicant shall not claim any right for audit of said or any other branch.
7. Bank reserves the right to terminate & de-panel the empanelment forthwith without any notice and without assigning any reasons in case of (i) proven misconduct (ii) getting any adverse reports or adverse confidential information (iii) bank feels that its interests may be jeopardized, besides reserving its rights for initiating other action as deemed fit.
8. The empanelled ECAs may request for relinquishment of audit assignment due to reasons like death of partner, health grounds; availing of credit facilities from our bank either by the auditor or by their legal representatives.
9. The appointment for Concurrent Audit is purely contractual and for a specific period of twelve months. However, the Bank reserves the right to terminate the contract at any point of time for whatsoever reasons as the Bank may deem fit.
10. Whenever, the assignment is terminated or relinquishment is permitted, the External Concurrent Auditors concerned are eligible for audit remuneration only up to the end of previous month for which a fully completed report is received. In such cases, Bank reserves the right (i) to adjust the same (audit remuneration) towards commission / omission if any or

(ii) withhold the same for a period of six months or till suitable administrative decision is taken whichever is earlier

11. After termination of the contract, the auditor / firm shall not use or keep any of the material information given by the Bank like Manuals, Circulars , memos / information handouts etc. or make any representations to public or outsiders as continuing this contract. The auditor / firm shall return all materials belonging to the Bank after termination of this contract / agreement, unless otherwise instructed in writing by the Bank.

12. Whenever termination is made, the ECA shall have no right to demand fees for the unexpired period of empanelment/contract on any ground whatsoever

13. The Bank shall have the absolute discretion in allotting the branch, revising fee structure, stipulating terms and conditions of the appointment like experience in Concurrent Audit of our branches / other banks etc. and termination of the services of the empanelled auditor after giving due notice at any point of time including during the pendency of the contract.

14. Due to rationalization of branches, if any Branch/ Unit merge with another Branch/Unit you will be given opportunity to conduct Concurrent Audit of the acquired Branch subject to the acquiring Branch/ Unit is not under External Concurrent Audit. If the acquiring Branch is already under Concurrent Audit by External Chartered Accountant, then your firm shall forgo the assignment and further if no new branch is allotted to your firm during the empanelled period, such period will also be counted as one complete year of empanelment. In this regard, decision of Inspection Wing, Head office will be final.

Details of Fee Structure:

The Monthly Audit fee payable to External Concurrent Auditors is Rs. 10000/- per month per Branch / Office.

1. The Audit firm shall follow the time norms for completing the Audit and submitting the Audit report to the branch/Regional Office /Regional Inspectorate. If there is any delay in submission of the report or the report is wanting in material aspect 10% of the monthly Audit Fee will be deducted without any further reference to the auditor till the deficiency continues. The 10% deduction is in the nature of penalty & is not refundable at a later date.
2. Audit fee will be paid (after deducting applicable TDS and any other type of tax as per Government rules) by the Inspection Wing, Head Office within fifteen days after receipt of monthly Audit Completion Certificate along with original invoice, as the case maybe.
3. Other than the above, no separate Travelling Allowance/Halting Allowance / Out of Pocket Expenses, fees for inspecting the securities/attending training / workshops, conducting audit of Extension Counters etc., will be paid.
4. Fee structure will be reviewed solely at the discretion of the Top Management.

Methodology for conducting concurrent audit / reporting:

1. The audit team should be led by the Chartered Accountant – Proprietorship /Partner of the audit firm with experienced assistants as the work may warrant. The audit personnel should not be changed so that continuity and consistency is maintained. If there is any change in the constitution of the firm during the period of appointment it shall be informed to the Bank immediately.
2. The audit team should visit the branch for a minimum of two man days per month.
3. The audit firm shall conduct appropriate due diligence before employing any personnel who will be entrusted with the work of conducting the concurrent audit of the Bank. The audit firm is also responsible for any commission and omission of its employees which may cause and or likely to cause any loss / damage to the Bank or its clients.

4. Before commencing the audit, the members of the Audit team should be properly introduced to the Branch In charge by proper introduction letter containing the specimen signatures and photo/s of the persons conducting the Audit duly attested by the Chartered Accountant – Proprietor / partner of the firm.

5. Auditor shall be guided by our Concurrent Audit manual, HO Circulars, Other Manual of Instructions and other guidelines issued by the Bank from time to time (which are available in the branch / intranet of the Bank called “VAHINI”) for conducting the audit of the branch. Regional Inspectorate will provide information on important circulars, guidelines & ITIOs (Instructions to Inspecting Officers) to the concerned auditors, at periodical intervals. No hard copies will be provided to the auditors.

6. Auditors shall ensure coverage areas in concurrent audit as per NABARD norms (minimum items of coverage are given in Annexure I of NABARD circular 131/DoS-08/2017 Ref.No.NB.HO.DoS.CFMC/677/J-1/2017-18 dated 24.05.2017 and NABARD circular 55/DoS-09/2012 Ref.No.NB.DoS.HO.POL/4915/J-1/2011-12 dated 12.03.2012).

7. In addition to the above the following are the Coverage Norms as per our Bank rules:

- a) The main role of concurrent audit is to supplement the efforts of the Bank in carrying out simultaneous internal check of the transactions and other verifications and compliance with the procedures laid down.
- b) The scope of concurrent audit shall be wide enough / focused to cover certain fraud - prone areas such as handling of cash, deposits, advances, off-balance sheet items, internet banking, etc.
- c) In determining the scope, importance should be given to checking high-risk transactions having large financial implications as opposed to transactions involving small amounts.
- d) All aspects of branch working including (income leakage; money laundering; physical assets like gold jewellery pledged; security items, etc.) shall also be looked into and significant audit areas should not escape the attention of the concurrent auditor.
- e) Security verification charged to the Bank / perfection of documentation should be ensured.
- f) The reporting format & certificates have to be updated by the concurrent auditors based on the Circulars and other administrative instructions issued from time to time, whenever required.
- g) The reporting format is a self-contained reporting document.

- h) The auditors should keep watch on large withdrawals from cash credit accounts and any deviations observed should be reported to the controlling office immediately.
 - i) The Transaction and Reconciliation position of internal office accounts and GLs transactions to be verified by the auditors and any deviations observed should be reported to the controlling office immediately.
8. The audit team should adopt the following procedure in the matter of reporting their findings.
- a) Auditors to prepare jotting sheets, in duplicate, on daily basis duly listing the findings and hand over to the Branch manager / in charge officer at the branch at the end of the day against their acknowledgement and follow up for prompt rectification / spot rectification. The auditors shall also discuss their findings with the branch in charge at regular intervals.
 - b) As on the last day of the month, the audit firm shall prepare an Audit Summary report (as applicable) after discussing with branch in charge and submit it to the branch, controlling office i.e., Regional office and RI in whose jurisdiction the branch falls. Upon completion of the audit of the given branch in full audit firm shall enter all the observations identified in the concurrent audit module and prepare a final report in triplicate after discussing with the branch and the original copy of the final report duly acknowledged by the Branch Manager / in charge officer shall be submitted to Regional Office & Regional Inspectorate immediately after completion.
 - c) The serious irregularities if any, noticed shall be covered exhaustively in the executive summary submitted to the Regional Office.
 - d) The serious irregularities are to be reported to the Regional Office / Regional Inspectorate on the same day of detection / identification.
 - e) Any transactions of serious nature which is against normal banking practices / any other un-healthy practices indulged by the branch staff, persistent irregularities, shortage of securities, transactions of fraudulent nature, borrowal accounts giving early warning signals and other serious irregularities like deficiency in sanction or documentation / pendency in Documentation / Incomplete documentation / non-renewal or non-recovery of expired limits / non-obtention or not making available LoRs for loan accounts beyond 36 months, expired limit status and so on should be submitted to / brought to the notice of Regional office / Regional Inspectorate through special report and over phone / email. Any failure / omission / negligence on the part of the audit firm shall render the firm liable for action and termination of audit assignment. The special report should cover the critical areas mentioned in the check list

/ guidelines and the irregularities / shortcomings observed during the course of the audit.

- f) Auditors are however free to report any other deficiencies which they may come across during the course of their audit. The special report should reach Head Office within seven days of the final reporting made.

Indemnities and penalties:

1. The ECA/s shall indemnify the Bank against all actions, omissions, proceedings, claims, suits, damages and any other expenses for causes attributable to the auditor / firm including any loss suffered on account of any breach of the terms and conditions of the offer of the appointment.

2. If the performance is found wanting, then the services of the ECAs may be terminated / blacklisted with due intimation at the discretion of the Bank and such Audit firms shall stand de-empanelled.

3. The above is without prejudice to referring the issues to the regulators/professional body (ICAI / RBI / NABARD / IBA) and also claim damages for such unsatisfactory service, whatsoever by the firm or any of its employees.

4. The Audit firm shall follow the time norms for completing the Audit and submitting the Audit report to the branch / Regional Office / Regional Inspectorate. If there is any delay in submission of the report or the report is wanting in material aspect 10% of the monthly Audit Fee will be deducted without any further reference to the auditor till the deficiency continues. The decision of the GM, Inspection Wing, Head Office shall be final in this regard.