

Annexure - 1

TERMS AND CONDITIONS FOR APPOINTMENT OF EXTERNAL AUDITORS, CONDUCTING CONCURRENT AUDIT & REPORTING AND REVIEW OF PERFORMANCE.

The following are the terms and conditions for applying for empanelment as Concurrent auditor in Canara Bank for the year 2009 - 2010:

1. Conditions for appointment:

1. Applicant should be either a Partnership or Proprietorship firm.
2. The allocation of branches to the auditors will be purely the prerogative of the Bank.
3. The concurrent audit firm should furnish the name and qualification 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 months.
4. The concurrent audit firm will undertake that they will not sub contract the audit assignment.
5. The concurrent audit firm will not lobby directly or indirectly for considering any credit proposals of their friends/Relatives/clients/non-clients to the Bank.
6. Auditors should not have been disqualified under Section 226 of the Companies Act, 1956 to accept this appointment.
7. The Concurrent audit firm should not have their clients enjoying credit facilities with the branch for which they are applying for.
8. The firm/any partners' of the firm should not have statutory audit assignments for any branch of Canara Bank.
9. The firm/any partners' of the firm should not have any disciplinary matters pending with ICAI/RBI and they should not have suffered any disqualification.
10. The firms should be having sufficient experience in conducting audits in Banks.
11. The firms should be nearer to the proposed audit branch
12. Only one branch will be allotted to a selected firm.

2. Details of Fee Structure:

1. The period of audit assignment is for ONE YEAR only. During the period, the performance of the audit firm will be reviewed at periodic intervals.
2. The audit fee will be decided based upon the aggregate business figure of the branch as at 31.3.09 and the same will as under:-

Sl. No	Aggregate Business of branch	Fees /Month (Rs)
1.	Upto Rs.300 Cr a. Advances not more than Rs. 50 cr b. Advances more than Rs. 50 cr	8,000 10,000
2.	More than 300 Cr a. Advances not more than Rs.50 cr b. Advances more than Rs.50 cr	10,000 12,000

3. Audit fee will be paid (after deducting applicable TDS) by the concerned branch within 7 days after receipt of monthly Executive Summary/Quarterly Report, as the case may be.
4. Other than the above, no separate Traveling Allowance/Halting Allowance/Out of Pocket Expenses, fees for inspecting the securities/attending training/workshops, conducting audit of Extension Counters etc., will be paid whatsoever.

3. Methodology for application / selection:

1. The eligible/interested firms should apply online only on Bank's website i.e., www.canarabank.com during the stipulated period only from 07.08.2009 to 27.08.2009. They should not send the hard copy of application/annexures to the Bank without being called for. No correspondence/communication from the applying firms will be entertained by the Bank whatsoever till the Bank communicates selection (if selected) to them.
2. The firms have to necessarily furnish their choice of 3 branches in descending order in the application in the website.
3. An acknowledgement number for each completed application will be generated for completed application and the same will be displayed in the website immediately after submitting the application. This shall serve as a future reference no. for Bank / audit firms. The applicant

firm can take printout of the completed/submitted application along with the acknowledgement number.

4. Mere application by the audit firms for appointment as concurrent auditor in Canara Bank shall not entitle them automatically for the assignments and Bank's decision shall be final.
5. The appointment/allotment of branches shall be based upon the availability of branches and number of audit firms in a particular area. Bank reserves the right to appoint any audit firm for concurrent audit.
6. Upon selection of an audit firm for empanelment, Bank shall communicate the selection to such firms by way of e mail/letter and call for the hard copies of application and letter of acceptance before a specified due date. After receipt of this communication, the selected audit firms should send the application and copies of the registration certificate issued by ICAI, Proof of UCN Registration issued by RBI, appointment letters of other Banks (wherever applicable) etc., within the specified date.
7. After receipt of application & letter of acceptance from the firms, Bank will empanel the audit firm for concurrent audit for the year 2009-2010, subject to correctness of facts in the application/annexures.
8. If the selected firms have not sent hard copies of the application and letter of acceptance duly signed by them, Bank shall remind such firms again advising them to respond within 7 days failing which their application will be rejected and communicated accordingly without entertaining any further correspondence.
9. In respect of firms, which are not being selected, no communication will be sent by the Bank and no correspondence will be entertained.
10. Bank may conduct a day's workshop for the selected external auditors for familiarization of our terminology & actual commencement of concurrent audit. No Travelling Allowance/Halting Allowance or any such lapses payable for attending such workshop by selected external auditors.

IV. Methodology for conducting audit / reporting:

1. The audit team for conducting the concurrent audit at the branch should be led by the Chartered Accountant/Partner/Proprietor of the audit firm with experienced assistants as the work may warrant.
2. Where the stipulated audit fees is Rs.8000/-, then the audit team shall visit the branch @ 3 days/week subject to a minimum of 15 days/month, out of which the Chartered Accountant/Partner of the audit firm shall visit the branch for 3 days, preferably during the end of the month.

3. Where the stipulated audit fees is Rs.10,000/- or Rs.12,000/- per month, the audit team shall visit the branch @ 4 days/week subject to a minimum of 20 days per month, out of which the Chartered Accountant/Partner of the audit firm shall visit for 4 days, preferably during the end of the month.
4. The audit personnel should not be changed so that continuity and consistency is maintained. (refer point I.3).
5. If there is any change in the constitution of the firm during the period of appointment it shall be informed to the bank immediately for our records/ consideration.
6. 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 partner of the firm/officials of concerned Zonal Inspectorate.
7. Auditor to be guided by Circulars, other guidelines issued by HO from time to time and Manual of Instructions (which is in the branch custody) for conducting the audit of the branch. Zonal Inspectorate will provide soft copies of the important circulars, guidelines & ITIOs (Instructions to Inspecting Officers) to the E-Mail address of the concerned auditors, on a periodical basis. No hard copies will be provided to the auditors.
8. Auditors should do parameter checking of the software to ascertain that the interest rates and other parameters are in accordance with the latest Circulars and guidelines of the bank to check any leakage of legitimate income to the bank.
9. The auditors shall also verify various hardware/software is kept properly and proper access control is maintained during the branch operations.
10. The auditors should keep watch on large withdrawals from cash credit accounts with limits of Rs. 25 lacs and above and any deviations observed should be reported to the controlling office immediately..
11. Verification of securities (charged to loans and advances) to be conducted as per the guidelines issued by the Bank from time to time.
12. The audit team should adopt the following procedure in the matter of reporting their findings
 - a) Auditors to prepare jotting sheets, in duplicate, on a weekly basis duly listing the findings and hand over to the nodal officer at the branch at the end of the week against their acknowledgement and follow up for prompt rectification. The auditors shall discuss their findings with the branch in charge at regular intervals.

- b) As on the last day of the month the Chartered Accountant/Partner of the audit firm shall prepare an Executive Summary after discussing with branch in charge along with annexure 13 (of Quarterly Report) and submit it to the controlling office i.e., Circle and ZI in whose jurisdiction the branch falls. Along with the quarterly report meant for Circle Office, the copies of jotting sheets shall be enclosed.
- c) The Executive Summary should cover the critical points mentioned in the checklist/guidelines and the irregularities / shortcomings observed during the course of conducting the audit. Auditors are however free to report on any other relevant aspects which you come across during the course of audit.
- d) Any transactions of serious nature which is unusual/not normal to the banking practice or usual course of business or any other unhealthy practices indulged by the branch staff, persistent irregularities, shortage of securities while doing physical verification of securities, transactions of fraudulent nature, borrowal accounts giving early warning signals, other serious irregularities like disbursements without proper sanction/incomplete documents /irregularities as per norms defined for Part B/ Special Report, income leakages of Rs.10,000/- in any account/branch as a whole on a monthly basis may however be reported immediately to the concerned Circle head and Zonal Inspectorate having jurisdiction over the branch by way of separate letter along with Executive Summary to Circle Head with copy to General Manager, Inspection Wing. Any failure/omission/negligence on the part of the firm shall render the firm liable for action and termination of audit assignment.
- e) The serious irregularities referred to above shall be detailed in full upon selection of an Audit firm and during proposed workshop session for Auditors. Soft copy of the same along with other manual/checklist/ITIO will be provided in CD before commencing the Audit assignment. The same shall form part and parcel of Terms and conditions of appointment.
- f) The executive summary along with the annexure should be submitted by the auditor so as to reach the controlling office by 7th of the succeeding month. Concurrent Audit report (Quarterly) should be prepared along with the executive summary for the month and submitted to controlling offices so as to reach 7th of succeeding month.

V. Methodology for review of the performance of the auditors:

- a. 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 system and procedures of the bank are brought to the notice of the management immediately so that timely corrective and remedial steps can be taken and avoid repetition.
 - 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 in right time.
 - e) To ensure the quality of credit portfolio with due focus on credit appraisal, sanction, 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 Zonal Inspectorates may convene a meeting of select auditors at periodic intervals at the specified centers for interaction.
4. The Zonal Inspectorate will also evaluate the performance of the auditors at periodical intervals based on the following parameters:
 - a) Adherence to time norms for overall attendance (15 days /20 days), attendance by the Chartered Accountants. (3 days/ 4 days)
 - b) Adequacy of the coverage of audit areas and reporting, as per norms
 - c) Timely submission of Executive Summary/Quarterly Report
 - d) Timely reporting of serious irregularities/early warning signals.
 - e) Contribution to improvement in overall control by the branch
 - f) Failure to detect and report leakage of income as well as serious irregularities as mentioned in IV 12.d

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