

**Empanelment of Chartered Accountant for
Concurrent Audit Assignment
in our Bank
FY 2019-20**

TAMILNAD MERCANTILE BANK LTD.
Inspection Department

Head Office,
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Last date for receipt of Application 30.04.2019

1. Introduction

Tamilnad Mercantile Bank Ltd, has its Head Office at 57 VE Road, Thoothukudi 628001. It's Inspection Department is located at 56 & 57 Beach Road (upstairs), Thoothukudi – 628 001.

Tamilnad Mercantile Bank Ltd. ("TMB") has branches all over India controlled by Regional Offices and various Departments along with ATM Cell, International Banking Division and Treasury Department located at Chennai and Thoothukudi. Bank has already procured eTHIC audit module from NCS Softsolutions (P) Ltd., and concurrent module has been automated from May 2018.

2. Broad Scope of Work under Concurrent Audit

- I. 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 procedures laid down.
- II. The scope of concurrent audit should also be wide enough to cover certain fraud-prone areas, handling of cash, deposits, advances, safe contents of securities, Investments, KYC / PMLA compliance, overdue bills, exercise of discretionary powers, sundry, and suspense accounts, inter branch reconciliation, clearing difference, treasury functions, credit card business, DP business, settlement of ATM Claims, Housekeeping review of old outstanding entries for reconciliation, examination of multiple credits to single accounts, recovery in compromise cases in accordance with the compromise agreement, value dated entries passed in both deposit and advance accounts.
- III. All relevant internal guidelines/circulars/important references as well as relevant circulars issued by RBI / SEBI and other regulatory bodies should be referred by the concurrent auditors on ongoing basis.
- IV. Under the proposed RBS approach, the supervisory process would seek to leverage the work done by concurrent auditors. Hence concurrent audit coverage would be enhanced to fulfill the needs of RBS process.
- V. Income leakages exceeding the threshold limit of Rs.50,000/- observed by the concurrent auditors at the branches would be studied for staff lapses by concerned Regional office and reported to Inspection Department.

The key areas that are broadly covered under Concurrent Audit are illustrated as under:-

1. All accounting transactions, whether paper-based or generated by the computer (e.g. all vouchers, day books / audit trails, etc.), transactions covered by the guidelines relating to Anti-money laundering (verifying, reporting, archiving, etc.).
2. All operational activities like opening / closing of accounts, large value transactions, transactions in new accounts, draft issues, remittances / transfers, lockers / safe deposit transaction etc.
3. Concurrent audit, as of now, covers transactions of Rs 2.00 lakhs and above in value; and 10% selected in random of the remaining cases, spread over all categories. Moreover, the transaction voucher should be subjected to audit within a period of one week of its occurrence.
4. Cash: all transactions like handling of cash by all personnel (receipts, payments, exchange) denomination-wise recording of transactions, storage / strong room procedures, overseeing by their supervisors, handling of fake currency notes, cash shortage or excess cash: cause, deficiencies, system weaknesses, etc., cash retention limits: their being observed, adequacy etc., i.e., general discipline in following the Bank's cash procedures.
5. ATM's-transactions in ATMs, complaints like non/short payment, "cash-out" position, verification of working of security arrangements, tracking of utilization.
6. Documentations creation of security, mortgages, registration of charges relating to new credit approvals; disbursements, compliance to covenants and legal audit.
7. Handling of Guarantees / Letters of Credit etc.
8. Income leakages, as related to collection of interest, penal interest, commission, exchange, processing, commitment and inspection charges.
9. Expenses : Vouching of all Branch / Department expenses.
10. Discretionary Powers: whether the transactions handled and approved are as per the discretionary powers vested with the Branch / Department personnel and verification of necessary approvals thereof.
11. Insurance: cover for Bank's properties; also those as related to loan assets sanctioned.
12. Handling of deposits and advances, their renewals; overdue bills, clearing differences, their follow-up.
13. Checking and reporting of reconciliation in the outstanding in the Inter-Branch /Inter-Sol Accounts, Bankers' Cheque Outstandings (BCO), Clearing Cheque Outstandings (CCO), Suspense Accounts, Sundry Deposit Accounts, Other Deposits, Subsidy Accounts, Deposit Payments, inoperative Accounts and other receivable / payable accounts.

14. Ensuring that the Branch gives proper compliance to the Internal Inspection/Audit reports.
15. Verification of Revenue Leakage month wise and reporting the detected details.
16. Verifying the statements, HO returns and statutory returns submitted by the Branch as to their adequacy and accuracy.
17. Individual analytical reports on Borrowal accounts having limits of Rs.1.00 crore and above to be compiled for the half-years ending March and September and to be submitted along with the monthly Concurrent Audit Reports of the months of March and September.
18. Inspection of borrowal units / godowns / fixed assets / stocks under pledge / hypothecation with a limit of Rs. 50.00 Lacs and above to be done in such manner so that all the accounts are covered at least once in six months and reports submitted on prescribed formats. The inspection shall cover maintenance of stock register, insurance register etc.,
19. Anti money laundering / KYC compliance at branch including reporting of unsatisfactory / suspicious transactions, risk categorization of accounts, fixing of threshold limit, maintenance of records as laid down under KYC/AML norms.
20. Identification, enumeration, categorisation and reporting of NPA accounts.
21. The Department / Branches which handles DEMAT accounts, verification of IPO transactions, verification of the relevant procedures being properly followed in respect of opening of DEMAT accounts as per Depository norms/rules and verification of periodical share transfers /settlements as per the laid down systems & procedures.
22. In case of department handling foreign exchange business, the Concurrent Auditor will place special attention to confirm that all key transactions / decisions are aligned to the Bank's policy parameters, that they are within delegated authority, within risk / cut-loss guidelines, that the front, mid and back-office functions are that, there are as per laid down procedures and policies of the Bank and to ensure no FEMA violations.
23. Operations and functions of Treasury Department including investments, funds managements, inter-bank borrowing, Repo transactions and operational functions of Service branch will also be subjected to concurrent audit.
24. Reconciliation of all outward SWIFT messages pertaining to documentary credit / trade finance.

25. Inspection shall cover Alternate Delivery Channel (ADC) products like ATMs, Internet Banking, Mobile Banking, Debit / Credit Cards, Mobile Wallet etc.,

3. Eligibility Criteria for Concurrent Auditor

The firm of Chartered Accountants that satisfy the following criteria, in general , are considered for appointment as Concurrent Auditors:-

1. If the firm is a Proprietary firm (or) an individual Chartered Accountant the person should have an experience of at least five years in his profession (viz. practicing Chartered Accountant)
2. If the firm is a partnership, one of the partners should have an experience of at least three years in his profession (viz. practicing Chartered Accountant).
3. The applicant firm / Proprietor / Individual should have conducted audits in a commercial bank for at least two years.
4. The applicant should have the UCN no. allotted by RBI.
5. In all the above case, relaxation in experience may be considered by the Committee of Executives in case of non-availability of the Chartered Accountants with the requisite experience.
6. The applicants should have an office, as far as possible, near the Bank's branch / office where concurrent audit is envisaged.
7. The applicant should not be in any black list of the Reserve Bank of India / ICAI (Institute of Chartered Accounts of India). Preference will be given for auditors who have completed Certificate course on Concurrent Audit of Banks conducted by ICAI.
8. The Bank's Inspection Department at Head Office will prepare a panel of Concurrent Auditors firms and the Audit Committee of the Board would approve the selection of the Concurrent Auditors.

4. Period of Appointment:

1. The appointment of Concurrent Auditor shall be initially for a period of one year and extended up to a maximum of three years after reviewing the performance. There should be a cooling period for Concurrent Audit at least one year after three years period and thereafter they can be considered for appointment for another branch.
2. If the external firms or partners or individual Chartered Accountants or the proprietors are found guilty of any serious acts of omissions / commissions,

their appointment may be cancelled after giving due notice and the fact may be reported to RBI and ICAI.

3. The existing concurrent auditors due for renewal after completion of three years in a branch and those concurrent auditors whose performance are not satisfactory will not be considered for appointment as Concurrent Auditors and in their place new concurrent auditors shall be appointed.

5. General terms and conditions for appointment of Concurrent Auditors:

1. The purpose of Concurrent audit, is to ensure that the banking transactions are audited within the shortest possible time so that remedial action could be initiated in time to set right irregularities and to ensure adherence of the branch to the prescribed systems and procedures on an ongoing basis. To ensure the same audit automation has been implemented.
2. In case of the branch which is authorized to deal in Foreign Exchange, the Concurrent Auditor will have to examine whether the transactions or decisions in respect of Foreign Exchange are within the policy parameters laid down by the Head Office and they do not violate provisions of FEMA and that they are within the delegated authority. They are also required to give various Certificates monthly, quarterly, half yearly, as the case may be, prescribed by Reserve Bank of India as regards to Foreign Exchange transactions to the branch manager [two more additional copies marked to Inspection Department]. Further, as per RBI requirements, the Concurrent Auditor will also issue a certificate to the effect that a 100% verification has been carried out on all Exchange Control copies of the Bill of Entry, Postal / Courier wrappers etc. and a certificate to that effect should be submitted to the Branch with a copy marked to H.O – Inspection Department on Half yearly basis.
3. Monthly reports along with the comments of the Branch Head should be submitted within 10 days from the closing date of the month through e-THIC software. The scope of Quarterly concurrent audit and Revenue audit report are included in the monthly concurrent audit reports. Apart from the Monthly reports, Concurrent Auditors should also submit Half Yearly / Analytical report as prescribed by the bank within 10 days of closing date of respective half year (i.e March and September).
4. The branches put under concurrent audit need not be subjected to revenue/income audit as per the Reserve Bank of India Guidelines. Hence

they are required to submit revenue audit on monthly basis in the prescribed format only along with the respective monthly concurrent audit report.

5. The Concurrent auditor should also verify the entries in exceptional report taken daily and initial the same for having verified the entries and found them genuine.
6. The Scope-cum Checklist / broad guidelines & Revenue audit Manual and KYC/AML guidelines for the Concurrent audit are provided. The Checklist and guidelines provided by the Bank will have to be taken as only illustrative and not exhaustive.
7. Annual Statements verification certificate is to be submitted at the year end.
8. Analytical Report on borrowal accounts having limits of Rs.1.00 crore and above for the half year ended September and March are to be submitted along with the monthly reports for the months of September and March.
9. Concurrent auditors should submit Certificate for KYC / AML compliance along with the monthly Concurrent audit report.
10. Concurrent Auditor should also ensure that all the formalities in opening and operation of DP a/cs (Demat a/cs) and IPO funding by the branch wherever the particular branch is empowered to open Demat a/c and extend IPO funding. The observations made in this regard should find a place in the monthly Concurrent audit report.
11. At the end of every month, the proprietor/senior partner of the audit firm should come in person and discuss with the branch manager about the features commented in the Concurrent audit report and the Audit Report should be submitted by the auditor through their exclusive login provided in the e-THIC software.
12. Concurrent auditor should conduct inspection of units / godown / fixed assets/stocks under pledge and hypothecation in such a way that all the accounts with a limit of Rs. 50.00 Lacs and above are inspected at least once in every six months. Godown / Stock inspection report should be in the prescribed format. The Concurrent auditor should also examine whether stock register is maintained.

5. Confidentiality

1. Applicants agrees that all information gathered from the Bank including oral enquires, letters, documents, emails, presentations, interactions, technical documentation, discussions with Bank's service providers and documents

gathered from Bank's service providers etc. related to the Bank's business and other information are to be treated as confidential information of Bank.

2. The Bank would insist on signing a Non-Disclosure Agreement with the Applicants who further qualify for the audit assignment.
3. Unauthorized disclosure of any such confidential information will amount to breach of contractual terms and in such cases Bank may pre-maturely terminate the contract and initiate any legal action as deemed fit.

6. Review on Concurrent Auditors

1. The Inspection Department, in discussion with the concerned Regional Manager, will study, say at quarterly intervals, the quality and utility of the concurrent auditor and check if they are satisfactory / need corrections.
2. Periodical structured meetings involving Regional Managers, General Manager or any senior functionary from Inspection Department and Concurrent auditors are to be held to discuss the quality of reporting, performance of Branch / auditors and to have the feedback/ suggestions from the auditors to improve the audit system. Quarterly inspection review meeting may also be utilized to achieve this objective.
3. A performance appraisal for concurrent auditors would be devised with following parameters:

Branches:

| S.N | Performance Parameters | Allotted Marks | RO Marks |
|-----|---|----------------|----------|
| 1. | Branch attendance. | 10 | |
| 2. | Timely submission of report. | 10 | |
| 3. | Spot rectification. | 10 | |
| 4. | Improvement in branch rating. | 10 | |
| 5. | Reporting in the format, quality and coverage. | 10 | |
| 6. | Visit / verification / authentication. | 10 | |
| 7. | Stock verification / end use / asset creation. | 10 | |
| 8. | Comments on documentation, charge creation & reporting. | 10 | |
| 9. | Comments on FEX business wherever applicable. | 5 | |
| 10. | Revenue leakage and recovery (above Rs.5000/- only). | 5 | |
| 11. | KYC / cash / security items / bank balance / flabby assets. | 5 | |

| | | | |
|-----|--|-----|--|
| 12. | Submission of special report / fraud / flagging of alerts etc. | 5 | |
| | Total Marks | 100 | |

Departments:

| S.No | Performance parameters | Allotted Marks | Dept Marks |
|------|---|----------------|------------|
| a. | Attendance | 20 | |
| b. | Timely submission of report | 10 | |
| c. | Spot Rectification | 10 | |
| d. | Comments on operation/ compliance to Internal policy guidelines | 15 | |
| e. | Reporting format, quality and coverage | 10 | |
| f. | Submission of Special Report/fraud/flagging of alerts etc. | 15 | |
| g. | Comments on compliance to regulatory requirement | 20 | |
| | Total Marks | 100 | |

Regional Head / Department Head shall submit the above performance appraisal quarterly for concurrent auditor posted in the branches under his control to Inspection Department for continuous evaluation. Concurrent auditors who are poorly rated in the performance evaluation (below 50%) shall not be considered for appointment next year.

- Where the performance of concurrent auditors are far from satisfactory, the Bank may terminate the arrangement with due approval from the Audit Committee of the Board and after due notice to the Audit's firm. It may also be informed to RBI and ICAI.

7. Appointment Letter

- To ensure against the audited branch/ department influencing any audit activity vis-à-vis, to ensure audit independence and integrity, the appointment order will be signed and sent only by the related Controller and not by the branch. The appointment letters will furnish in full detail, the tasks to be

performed, the time frame, etc. while the Auditors will be furnished with necessary guidelines issued by the Bank, he should also have adequate knowledge of regulatory requirements. The appointment letter should also contain a suitable confidentiality clause to the effect that the concurrent auditor should not divulge any information/statements/particulars furnished to him by the bank and maintain them in strict confidence.

8. Remuneration of Concurrent auditors

1. Remuneration for the Concurrent Auditors will be as per the fees fixed by the Audit Committee of the Board. The fees will vary with the business volume of the branch, the nature of special business (the foreign exchange, central processing center, service branch, Treasury, Data Processing / IT, International banking, etc.)
2. The fees will be reviewed at intervals, as and when the Audit Committee of the Board, deems fit.

Contact Details

The contact details for submitting the proposal is as follows:

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