

6

Appendices

Appendices..... 1-72

- i. Section 6 of the Banking Regulation Act 1949 1-2
- ii. The Third Schedule to the Banking Regulation Act, 1949 3-14
- iii. Illustrative Format of Report of the Auditor of a
Nationalised Bank 15-17
- iv. Illustrative Format of Report of the Auditor on the
Standalone Financial Statements of a Banking Company 18-25
- v. Illustrative Format of Report of the Branch Auditor
of a Nationalised Bank..... 26-29
- vi. Illustrative Format of Report of the Branch
Auditor of a Banking Company..... 30-37
- vii. Illustrative Format of Engagement Letter in case of a
Nationalised Bank 38-42
- viii. Illustrative Format of Engagement Letter to be sent
to the Appointing Authority of the Nationalised Bank
by Branch Auditor 43-47
- ix. Illustrative Format of Engagement Letter to be sent
to the Appointing Authority of the Banking Company 48-54
- x. Illustrative Format of Engagement Letter to be sent
to the Appointing Authority of the Banking Company
(Separate only for Internal Financial Control u/s
143(3)(i) of Companies Act, 2013) 55-59
- xi. Illustrative Format of Written Representation Letter to be
obtained from Branch Management 60-64
- xii. Demonetization..... 65-72

APPENDIX I

Section 6 of the Banking Regulation Act 1949

(1) In addition to the business of banking, banking company may engage in any one or more of the following forms of business, namely:

- (a) the borrowing, raising, or taking up of money; the lending or advancing of money either upon or without security; the drawing, making, accepting, discounting, buying, selling, collecting and dealing in bills of exchange, hundis, promissory notes, coupons, drafts, bills of lading, railway receipts, warrants, debentures, certificates, scripts and other instruments, and securities whether transferable or negotiable or not; the granting and issuing of letters of credit, traveller's cheques and circular notes; the buying, selling and dealing in bullion and specie; the buying and selling, of foreign exchange including foreign bank notes; the acquiring, holding, issuing on commission, underwriting and dealing in stock, funds, shares, debentures, debenture stock, bonds, obligations, securities and investments of all kinds; the purchasing and selling of bonds, scrips or other forms of securities on behalf of constituents or others, the negotiating of loans and advances; the receiving of all kinds of bonds, scrips or valuables on deposit or for safe custody or otherwise; the providing of safe deposit vaults; the collecting and transmitting of money and securities;
- (b) acting as agents for any Government or local authority or any other person or persons; the carrying on of agency business of any description including the clearing and forwarding of goods, giving of receipts and discharges and otherwise acting as an attorney on behalf of customers, but excluding the business of a [managing agent or secretary and treasurer "managing agent" (w.e.f. 1st October, 1959)] of a company;
- (c) contracting for public and private loans and negotiating and issuing the same;
- (d) the effecting, insuring, guaranteeing, underwriting, participating in managing and carrying out of any issue, public or private, of State, municipal or other loans or of shares, stock, debentures, or debenture stock of any company, corporation or association and the lending of money for the purpose of any such issue;

- (e) carrying on and transacting every kind of guarantee and indemnity business;
 - (f) managing, selling and realizing any property which may come into the possession of the company in satisfaction or part satisfaction of any of its claims;
 - (g) acquiring and holding and generally dealing with any property or any right, title or interest in any such property which may form the security or part of the security for any loans or advances or which may be connected with any such security;
 - (h) undertaking and executing trusts;
 - (i) undertaking the administration of estates as executor, trustee or otherwise;
 - (j) establishing and supporting or aiding in the establishment and support of association, institutions, funds, trusts and conveniences calculated to benefit employees or ex-employees of the company or the dependents or connections of such persons; granting pensions and allowances and making payments towards insurance; subscribing to or guaranteeing moneys for charitable or benevolent objects or for any exhibition or for any public, general or useful object;
 - (k) the acquisition, construction, maintenance and alteration of any building or works necessary or convenient for the purposes of the company;
 - (l) selling, improving, managing, developing, exchanging, leasing, mortgaging, disposing of or turning into account or otherwise dealing with all or any part of the property and rights of the company;
 - (m) acquiring and undertaking the whole or any part of the business of any person or company, when such business is of nature enumerated or described in this sub-section;
 - (n) doing all such other things as are incidental or conducive to the promotion or advancement of the business of the company;
 - (o) any other forms of business which the Central Government may by notification in the Official Gazette, specify as a form of business in which it is lawful for a banking company to engage.
- (2) No banking company shall engage in any form of business other than those referred to in sub-section (1).

APPENDIX II

The Third Schedule to the Banking Regulation Act, 1949

(See Section 29)

FORM 'A' Form of Balance Sheet

Balance Sheet of _____ (here enter name of the Banking Company)

Balance Sheet as on 31st March – (Year) (000's omitted)

	<i>Schedule</i>	<i>As on 31.3__</i> <i>(current year)</i>	<i>As on 31.3__</i> <i>(previous</i> <i>year)</i>
Capital & Liabilities			
Capital	1		
Reserves & Surplus	2		
Deposits	3		
Borrowings	4		
Other liabilities and provisions	5		
Total			
Assets			
Cash and Balances with Reserve	6		
Bank of India			
Balances with banks and money at call and short notice	7		
Investments	8		
Advances	9		

Guidance Note on Audit of Banks (Revised 2017)

	<i>Schedule</i>	<i>As on 31.3__ (current year)</i>	<i>As on 31.3__ (previous year)</i>
Fixed Assets	10		
Other Assets	11		
Total			
Contingent Liabilities	12		
Bills for Collection			

**Schedule I
Capital**

	<i>As on 31.3__ (current year)</i>	<i>As on 31.3__ (previous year)</i>
I. For Nationalised Banks		
Capital (Fully owned by Central Government)		
II. For Banks Incorporated Outside India		
Capital (The amount brought in by banks by way of start-up capital as prescribed by RBI should be shown under this head.)		
Amount of deposit kept with RBI under section 11(2) of the Banking Regulation Act, 1949		
Total		
III. For Other Banks		
Authorised Capital		
(..... shares of Rs.... each)		
Issued Capital		
(..... shares of Rs..... each)		
Subscribed Capital		
(.....shares of Rs..... each)		

Called-up Capital

(..... shares of Rs... each)

Less: Calls unpaid

Add: Forfeited shares

Total

Schedule 2 Reserves & Surplus

	As on 31.3__ (current year)	As on 31.3__ (previous year)
I. Statutory Reserves		
Opening Balances		
Additions during the year		
Deductions during the year		
II. Capital Reserves		
Opening Balances		
Additions during the year		
Deductions during the year		
III. Share Premium		
Opening Balances		
Additions during the year		
Deductions during the year		
IV. Revenue and Other Reserves		
Opening Balance		
Additions during the year		
Deductions during the year		
V. Balance in Profit and Loss Account		
Total (I, II, III, IV and V)		

Schedule 3 Deposits

		As on 31.3__ (current year)	As on 31.3__ (previous year)
A.	I. Demand Deposits		
	(i) From banks		
	(ii) From others		
	II. Savings Bank Deposits		
	III. Term Deposits		
	(i) From banks		
	(ii) From others		
	Total (I, II and III)	_____	_____
B.	(i) Deposits of branches in India	_____	_____
	(ii) Deposits of branches outside India	_____	_____
	Total	_____	_____

Schedule 4 Borrowings

		As on 31.3__ (current year)	As on 31.3__ (previous year)
I.	Borrowings in India		
	(i) Reserve Bank of India		
	(ii) Other banks		
	(iii) Other institutions and agencies		
II.	Borrowings outside India		
	Total (I & II)	_____	_____
	Secured borrowings included in I & II above – Rs.	_____	_____

Schedule 5
Other Liabilities and Provisions

	As on 31.3__ (current year)	As on 31.3__ (previous year)
I. Bills payable		
II. Inter-office adjustments (net)		
III. Interest accrued		
IV. Others (including provisions)		
Total	_____	_____

Schedule 6
Cash and Balances with Reserve Bank of India

	As on 31.3__ (current year)	As on 31.3__ (previous year)
I. Cash in hand (including foreign currency notes)		
II. Balances with Reserve Bank of India		
(i) in Current Account		
(ii) in Other Accounts		
Total (I & II)	_____	_____

Schedule 7
Balances with Banks and Money at Call & Short Notice

	As on 31.3__ (current year)	As on 31.3__ (previous year)
I. In India		
(i) Balances with banks		
(a) in current accounts		
(b) in other deposit accounts		

Guidance Note on Audit of Banks (Revised 2017)

(ii)	Money at call and short notice		
	(a) with banks		
	(b) with other institutions		
	Total (i & ii)	_____	_____
II.	Outside India	_____	_____
(i)	in current accounts		
(ii)	in other deposit accounts		
(iii)	Money at call and short notice		
	Total	_____	_____
	Grand Total (I & II)	_____	_____

**Schedule 8
Investments**

	As on 31.3__ (current year)	As on 31.3__ (previous year)
I. Investments in India in		
(i)	Government securities	
(ii)	Other approved securities	
(iii)	Shares	
(iv)	Debentures and bonds	
(v)	Subsidiaries and/or joint ventures	
(vi)	Others (to be specified)	
	Total	_____
II. Investments Outside India in	_____	_____
(i)	Government securities (including local authorities)	
(ii)	Subsidiaries and/or joint ventures abroad	
(iii)	Other investments (to be specified)	
	Total	_____
	Grand Total (I & II)	_____

**Schedule 9
Advances**

	<i>As on 31.3__</i> <i>(current year)</i>	<i>As on 31.3__</i> <i>(previous year)</i>
A. (i) Bills purchased and discounted		
(ii) Cash credits, overdrafts and loans repayable on demand		
(iii) Term loans		
Total		
B. (i) Secured by tangible assets		
(ii) Covered by bank/Government guarantees		
(iii) Unsecured		
Total		
C. I. <i>Advances in India</i>		
(i) Priority sectors		
(ii) Public sector		
(iii) Banks		
(iv) Others		
Total		
II. <i>Advances outside India</i>		
(i) Due from banks		
(ii) Due from others		
(a) Bills purchased and discounted		
(b) Syndicated loans		
(c) Others		
Total		
Grand Total (C.I. & C.II)		

Schedule 10
Fixed Assets

	<i>As on 31.3__</i> <i>(current year)</i>	<i>As on 31.3__</i> <i>(previous year)</i>
I. Premises		
At cost as on 31 st March of the preceding year		
Additions during the year		
Deductions during the year		
Depreciation to date		
II. Other Fixed Assets (including furniture and fixtures)		
At cost as on 31 st March of the preceding year		
Additions during the year		
Deductions during the year		
Depreciation to date		
Total (I & II)		

Schedule 11
Other Assets

	<i>As on 31.3__</i> <i>(current year)</i>	<i>As on 31.3__</i> <i>(previous year)</i>
I. Inter-office adjustments (net)		
II. Interest accrued		
III. Tax paid in advance/tax deducted at source		
IV. Stationery and stamps		
V. Non-banking assets acquired in satisfaction of claims		
VI. Others*		
Total		

* In case there is any unadjusted balance of loss the same may be shown under this item with appropriate footnote.

Schedule 12 Contingent Liabilities

	<i>As on 31.3__ (current year)</i>	<i>As on 31.3__ (previous year)</i>
I. Claims against the bank not acknowledged as debts		
II. Liability for partly paid investments		
III. Liability on account of outstanding forward exchange contracts		
IV. Guarantees given on behalf of constituents		
(a) In India		
(b) Outside India		
V. Acceptances, endorsements and other obligations		
VI. Other items for which the bank is contingently liable		
Total	_____	_____

Form 'B' Form of Profit & Loss Account for the year ended 31st March _____

		(000's omitted)
	<i>Year ended</i>	<i>Year ended</i>
<i>Schedule</i>	<i>31.3__</i>	<i>31.3__</i>
	<i>(current year)</i>	<i>(previous year)</i>
I. Income	_____	_____

Guidance Note on Audit of Banks (Revised 2017)

Interest earned	13		
Other income	14		
Total			
II. Expenditure			
Interest expended	15		
Operating expenses	16		
Provisions and contingencies			
Total			
III. Profit / Loss			
Net profit/loss (–) for the year			
Profit/loss (–) brought forward			
Total			
IV. Appropriations			
Transfer to statutory reserves			
Transfer to other reserves			
Transfer to -			
Government/Proposed dividend			
Balance carried over to			
balance-sheet			
Total			

**Schedule 13
Interest Earned**

	<i>Year ended</i>	<i>Year ended</i>
	<i>31.3__</i>	<i>31.3__</i>
	<i>(current year)</i>	<i>(previous year)</i>
I. Interest/discount on advances/bills		
II. Income on investments		
III. Interest on balances with Reserve Bank of India and other inter-bank funds		

IV. Others

Total

**Schedule 14
Other Income**

	<i>Year ended</i>	<i>Year ended</i>
	<i>31.3__</i>	<i>31.3__</i>
	<i>(current year)</i>	<i>(previous year)</i>
I. Commission, exchange and brokerage		
II. Profit on sale of investments		
<i>Less: Loss on sale of investments</i>		
III. Profit on revaluation of investments		
<i>Less: Loss on revaluation of investments</i>		
IV. Profit on sale of land, buildings and other assets		
<i>Less: Loss on sale of land, buildings and other assets</i>		
V. Profit on exchange transactions		
<i>Less: Loss on exchange transactions</i>		
VI. Income earned by way of dividends etc. from subsidiaries, companies and/or joint ventures abroad/in India		
VII. Miscellaneous income		
Total		

Note: Under items II to V, loss figures may be shown in brackets.

**Schedule 15
Interest Expended**

	<i>Year ended</i>	<i>Year ended</i>
	<i>31.3__</i>	<i>31.3__</i>
	<i>(current year)</i>	<i>(previous year)</i>
I. Interest on deposits		

Guidance Note on Audit of Banks (Revised 2017)

II. Interest on Reserve Bank of India/inter-bank borrowings

III. Others

Total

Schedule 16
Operating Expenses

	<i>Year ended</i> 31.3__ <i>(current year)</i>	<i>Year ended</i> 31.3__ <i>(previous year)</i>
I. Payments to and provisions for employees		
II. Rent, taxes and lighting		
III. Printing and stationery		
IV. Advertisement and publicity		
V. Depreciation on bank's property		
VI. Directors' fees, allowances and expenses		
VII. Auditors' fees and expenses (including branch auditors' fees and expenses)		
VIII. Law charges		
IX. Postage, telegrams, telephones, etc.		
X. Repairs and maintenance		
XI. Insurance		
XII. Other expenditure		
Total		

APPENDIX III

Illustrative Format of Report of the Auditor of a Nationalised Bank

Independent Auditor's Report

To The President of India _____ (*Name of the Bank*)

Report on the Financial Statements

1. We have audited the accompanying financial statements of XYZ Bank ('the Bank') as at 31 March 201X, which comprise the Balance Sheet as at 31 March 201X, and the Profit and Loss Account, and the Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information. Incorporated in these financial statements are the returns of _____ branches audited by us and _____ branches audited by statutory branch auditors. The branches audited by us and those audited by other auditors have been selected by the Bank in accordance with the guidelines issued to the Bank by the Reserve Bank of India. Also incorporated in the Balance Sheet and the Statement of Profit and Loss are the returns from _____ branches which have not been subjected to audit. These unaudited branches account for _____ percent of advances, _____ per cent of deposits, _____ per cent of interest income and _____ per cent of interest expenses.

Management's Responsibility for the Financial Statements

2. Management is responsible for the preparation of these financial statements in accordance with Banking Regulation Act 1949, Reserve Bank of India guidelines from time to time and accounting standards generally accepted in India. This responsibility includes design, implementation and maintenance of internal control relevant to the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

3. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Standards on Auditing issued by the Institute of Chartered Accountants of India. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on effectiveness of the bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

6. In our opinion, as shown by books of bank and to the best of our information and according to the explanations given to us:

- (a) the Balance Sheet, read with the notes thereon is a full and fair Balance Sheet containing all the necessary particulars, is properly drawn up so as to exhibit a true and fair view of the state of affairs of the Bank as at 31 March 201X in conformity with accounting principles generally accepted in India;
- (b) the Profit and Loss Account, read with the notes thereon shows a true balance of profit/loss, in conformity with accounting principles generally accepted in India, for the year covered by the account; and
- (c) the Cash Flow Statement gives a true and fair view of the cash flows for the year ended on that date.

Report on Other Legal and Regulatory Requirements

7. The Balance Sheet and the Profit and Loss Account have been drawn up in accordance with Section 29 of the Banking Regulation Act, 1949;

8. Subject to the limitations of the audit indicated in paragraph 1 to 5 above and as required by the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/1980, and subject also to the limitations of disclosure required therein, we report that:

- (a) We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit and have found them to be satisfactory;
 - (b) The transactions of the Bank, which have come to our notice, have been within the powers of the Bank; and
 - (c) The returns received from the offices and branches of the Bank have been found adequate for the purposes of our audit.
9. We further report that:
- a) the Balance Sheet and Profit and Loss account dealt with by this report are in agreement with the books of account and returns;
 - b) the reports on the accounts of the branch offices audited by branch auditors of the Bank under section 29 of the Banking Regulation Act, 1949 have been sent to us and have been properly dealt with by us in preparing this report;
 - c) In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement comply with the applicable accounting standards.

For ABC and Co.
Chartered Accountants

Signature
(Name of the Member Signing the Audit Report)
(Designation)[#]
Membership Number
Firm registration number

Place of Signature:
Date of Report:

[#] Partner or proprietor as the case may be.

APPENDIX IV

Illustrative Format of Report of the Auditor on the Standalone Financial Statements of a Banking Company

Note:

Auditors have no comments under Section 143(3)(f) and (h) of the Companies Act, 2013.

INDEPENDENT AUDITOR'S REPORT

To the Members of _____ Bank (*name of the Bank*)

Report on the Standalone Financial Statements

1. We have audited the accompanying standalone financial statements of _____ Bank Limited ('the Bank'), which comprise the Balance Sheet as at 31 March 201X, the Profit and Loss Account, the Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information [*in which are incorporated the Returns* for the year ended on that date audited by the branch auditors of the Bank's branches at (location of branches)]*¹

Management's Responsibility for the Standalone Financial Statements

2. The Bank's Board of Directors is responsible for the matters stated in section 134(5) of the Companies Act, 2013 ('the Act') with respect to the preparation of these standalone financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Bank in accordance with the accounting principles generally accepted in India, including the Accounting Standards specified under section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014 and provisions of Section 29 of the Banking Regulation Act, 1949 and circulars and guidelines issued by the Reserve Bank of India ('RBI') from time to time. This responsibility also includes

* The auditors need to consider mentioning the coverage of branches based on directions, if any, provided by the RBI in their individual appointment letters issued to various Banks.

¹ Where applicable.

maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the Bank and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

3. Our responsibility is to express an opinion on these standalone financial statements based on our audit.

4. We have taken into account the provisions of the Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of the Act and the Rules made thereunder.

5. We conducted our audit of the Bank including its branches in accordance with Standards on Auditing ('the Standards') specified under section 143(10) of the Act. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements.

6. An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal financial control relevant to the Bank's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by the Bank's Directors, as well as evaluating the overall presentation of the financial statements.

7. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the standalone financial statements.

Opinion

8. In our opinion and to the best of our information and according to the explanations given to us, the aforesaid standalone financial statements give the information required by the Banking Regulation Act, 1949 as well as the

Companies Act, 2013 in the manner so required for banking companies and give a true and fair view in conformity with accounting principles generally accepted in India of the state of affairs of the Bank as at 31st March, 20XX, and its profit/loss and its cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

9. The Balance Sheet and the Profit and Loss Account have been drawn up in accordance with the provisions of Section 29 of the Banking Regulation Act, 1949 read with Section 133 of the Companies Act, 2013 read with Rule 7 of the Companies (Accounts) Rules, 2014.

10. As required by sub-section (3) of section 30 of the Banking Regulation Act, 1949, we report that:

- (a) we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit and have found them to be satisfactory;
- (b) the transactions of the Bank, which have come to our notice, have been within the powers of the Bank.
- (c) the returns received from the offices; and branches of the Bank have been found adequate for the purposes of our audit.

11. Further, as required by section 143(3) of the Act, we further report that:

- i. we have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
- ii. in our opinion, proper books of account as required by law have been kept by the Bank so far as it appears from our examination of those books *[and proper returns adequate for the purposes of our audit have been received from branches not visited by us]²*.
- iii. the reports on the accounts of the branch offices audited by branch auditors of the Bank under section 143(8) of the Companies Act 2013 have been sent to us and have been properly dealt with by us in preparing this report².
- iv. the Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this report are in agreement with the books of account *[and with the returns received from the branches not visited by us]²*.

² Where applicable.

- v. in our opinion, the aforesaid standalone financial statements comply with the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014, to the extent they are not inconsistent with the accounting policies prescribed by RBI;
- vi. on the basis of written representations received from the directors as on 31 March 201X taken on record by the Board of Directors, none of the directors is disqualified as on 31 March 201X from being appointed as a director in terms of Section 164(2) of the Act; *(or the requirements of section 164(2) of the Act are not applicable considering the Bank is a branch of _____, which is incorporated in _____);* and
- vii. with respect to the adequacy of the internal financial controls over financial reporting of the Bank and the operating effectiveness of such controls, refer to our separate Report in “Annexure A”.
- viii. with respect to the other matters to be included in the Auditor’s Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us:
 - (a) the Bank has disclosed the impact of pending litigations on its financial position in its financial statements - Refer Schedule XX - Note XX to the financial statements; *(or the Bank does not have any pending litigations which would impact its financial position³)*
 - (b) the Bank has made provision, as required under the applicable law or accounting standards, for material foreseeable losses, if any, on long-term contracts including derivative contracts - Refer Schedule XX - Note XX to the financial statements; *(or the Bank did not have any long-term contracts including derivative contracts for which there were any material foreseeable losses.³)* and
 - (c) there has been no delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Bank *(or, following are the instances of delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Bank or there were no amounts which were required to be transferred to the Investor Education and Protection Fund by the Bank³).*

For ABC and Co.
Chartered Accountants

³ As may be applicable.

(Firm's Registration No.)

Signature
(Name of the Member Signing the Audit Report)
(Designation)[#]
Membership Number

Place of Signature:

Date of Report

[#] Partner or proprietor, as the case may be.

Annexure A to the independent auditor's report of even date on the standalone* financial statements of _____ Bank Limited

Report on the Internal Financial Controls under Clause (i) of Sub-section 3 of Section 143 of the Companies Act, 2013

1. We have audited the internal financial controls over financial reporting of _____ Bank Limited ('the Bank') as at 31 March 201X in conjunction with our audit of the standalone* financial statements of the Bank for the year ended on that date.

Management's Responsibility for Internal Financial Controls

2. The Bank's Board of Directors is responsible for establishing and maintaining internal financial controls based on _____ [for example, "the internal control over financial reporting criteria established by the Bank considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting ('the Guidance Note') issued by the Institute of Chartered Accountants of India ('the ICAI')."] These responsibilities include the design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the orderly and efficient conduct of its business, including adherence to Bank's policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Companies Act, 2013 ('the Act').

Auditor's Responsibility

3. Our responsibility is to express an opinion on the Bank's internal financial controls over financial reporting based on our audit. We conducted our audit in accordance with the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting ('the Guidance Note') and the Standards on Auditing ('the Standards'), issued by the ICAI and deemed to be prescribed under section 143(10) of the Act, to the extent applicable to an audit of internal financial controls, both issued by the ICAI. Those Standards and the Guidance Note require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether adequate internal financial controls over financial reporting was established

and maintained and if such controls operated effectively in all material respects.

4. Our audit involves performing procedures to obtain audit evidence about the adequacy of the internal financial controls system over financial reporting and their operating effectiveness. Our audit of internal financial controls over financial reporting included obtaining an understanding of internal financial controls over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.
5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the Bank's internal financial controls system over financial reporting.

Meaning of Internal Financial Controls Over Financial Reporting

6. A bank's internal financial control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A bank's internal financial control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the bank; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the bank are being made only in accordance with authorizations of management and directors of the bank; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the bank's assets that could have a material effect on the financial statements.

Inherent Limitations of Internal Financial Controls Over Financial Reporting

7. Because of the inherent limitations of internal financial controls over financial reporting, including the possibility of collusion or improper management

override of controls, material misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal financial controls over financial reporting to future periods are subject to the risk that the internal financial control over financial reporting may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinion

8. In our opinion, the Bank has, in all material respects, an adequate internal financial controls system over financial reporting and such internal financial controls over financial reporting were operating effectively as at 31 March 201X, based on _____ [for example, “the internal control over financial reporting criteria established by the Bank considering the essential components of internal control stated in the Guidance Note issued by the ICAI”].

For ABC and Co.
Chartered Accountants
(Firm’s Registration No.)

Signature
(Name of the Member Signing the Audit Report)
(Designation)⁴
Membership Number

Place of Signature

Date of Report

⁴ Partner or proprietor, as the case may be.

APPENDIX V

Illustrative Format of Report of the Branch Auditor of a Nationalised Bank

Independent Bank Branch Auditor's Report

To,
The Statutory Central Auditors
_____ Bank

Report on the Financial Statements

1. We have audited the accompanying Financial Statements of _____ Branch of _____ (*name of the Bank*) which comprise the Balance Sheet as at 31st March 20XX, Profit and Loss Account for the year then ended, and other explanatory information.

Management's Responsibility for the Financial Statements

2. Management of the Branch is responsible for the preparation of these Financial Statements that give true and fair view of the financial position and financial performance of the Branch in accordance with the Banking Regulation Act 1949, complying with Reserve Bank of India Guidelines from time to time. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

3. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The Procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making

those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

6. In our opinion, and to the best of our information and according to the explanation given to us, read with the Memorandum of Changes (mentioned in para 11 below), the financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the Balance Sheet, of the state of affairs of the Branch as at March 31, 20XX; and

(b) in the case of Profit and Loss Account, of the Profit / Loss for the year ended on that date.

Report on Other Legal and Regulatory Requirements

7. The Balance Sheet and the Profit and Loss Account have been drawn up in accordance with Section 29 of the Banking Regulation Act, 1949;

8. Subject to the limitations of the audit as indicated in Paragraphs 3 to 5 above and paragraph 10 below, we report that:

a. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of the audit and have found them to be satisfactory.

b. The transactions of the branch which have come to my/our notice have been within the powers of the Bank.

9. We further report that:

a. the Balance Sheet and Profit and Loss account dealt with by this report are in agreement with the books of account and returns;

b. In our opinion, the Balance Sheet and Profit and Loss Account comply with the applicable accounting standards.

Other Matters Paragraph

10. No adjustments/provisions have been made in the accounts of the Branch in respect of matters usually dealt with at Central Office, including in respect of:

- (a) Bonus, ex-gratia, and other similar expenditure and allowances to branch employees;
 - (b) Terminal permissible benefits to eligible employees on their retirement (including additional retirement benefits), Gratuity, Pension, liability for leave encashment benefits and other benefits covered in terms of 'AS 15 – Employee Benefits' issued by the Institute of Chartered Accountants of India;
 - (c) Arrears of salary/wages/allowances, if any, payable to staff;
 - (d) Staff welfare contractual obligations;
 - (e) Effect of adjustments that might arise upon the reconciliation/ matching of outstanding entries in the inter office accounts impact of which is presently not quantifiable.
 - (f) Interest on overdue term deposits;
 - (g) Depreciation on fixed assets;
 - (h) Auditors' fees and expenses;
 - (i) Taxation (Current Tax and Deferred Tax).
 - (j) Provision for Standard Assets including Restructured Accounts, Teaser Loan;
 - (k) Additional provision for sub-standard infrastructure loan accounts;
 - (l) Provision for unsecured portion and diminution in fair value in respect of Restructured accounts;
11. The following is a summary of Memorandum of Changes submitted by us to the branch management¹.

Memorandum of Changes (summary)			
	No.	Increase	Decrease
a. In respect of Income			
b. In respect of expenditure			
c. In respect of Assets			
d. In respect of Liabilities			
e. In respect of Gross NPAs			
f. In respect of Provision on NPAs ²			

¹ Where Applicable.

² Applicable in cases where banks determine provision at Branch level.

Appendices

g. In respect of Classification of Advances		XXX	XXX
h. In respect of Risk Weighted Assets			
i. Other items (if any)			

For ABC and Co.
Chartered Accountants

Signature
(Name of the Member Signing the Audit Report)
(Designation)³
Membership Number
Firm registration number

Place of Signature
Date

³ Partner or proprietor as the case may be.

APPENDIX VI

Illustrative Format of Report of the Branch Auditor of a Banking Company

Independent Bank Branch Auditor's Report

To,
The Statutory Central Auditors
_____ Bank

Report on the Financial Statements

1. We have audited the accompanying Financial Statements of _____ Branch of _____ (*name of the Bank*) which comprise the Balance Sheet as at 31st March 20XX, Profit and Loss Account for the year then ended, and other explanatory information.

Management's Responsibility for the Financial Statements

2. Management of the Branch is responsible for the matters stated in section 134(5) of the Companies Act, 2013 ('the Act') with respect to the preparation of these standalone financial statements that give a true and fair view of the financial position and financial performance of the Branch in accordance with the accounting principles generally accepted in India, including the Accounting Standards specified under section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014 and provisions of Section 29 of the Banking Regulation Act, 1949 and circulars and guidelines issued by the Reserve Bank of India ('RBI') from time to time. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the Branch and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

3. Our responsibility is to express an opinion on these financial statements based on our audit. We have taken into account the provisions of the Act, the accounting and auditing standards and matters which are required to be included in the audit

report under the provisions of the Act and the Rules made thereunder. We conducted our audit of the branch in accordance with the Standards on Auditing ('the Standards') specified under section 143(10) of the Act. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The Procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

6. In our opinion, and to the best of our information and according to the explanation given to us, read with the Memorandum of Changes (mentioned in para 11 below), the financial statements give the information required by the Banking Regulation Act, 1949 as well as the Act, in the manner so required for banking companies and give a true and fair view in conformity with the accounting principles generally accepted in India of the state of affairs of the branch as at March 31, 20xx and its profit/loss for the year then ended.

Report on Other Legal and Regulatory Requirements

7. The Balance Sheet and the Profit and Loss Account have been drawn up in accordance with the provision of Section 29 of the Banking Regulation Act, 1949 read with Section 133 of the Act read with Rule 7 of the Companies (Accounts) Rules, 2014.

8. As required by sub-section (3) of section 30 of the Banking Regulation Act, 1949, we report that:

- a. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of the audit and have found them to be satisfactory.
- b. The transactions of the branch which have come to my/our notice have been within the powers of the Bank.

9. Further, as required by section 143(3) of the Act, we further report that:
- a. we have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
 - b. in our opinion, proper books of account as required by law have been kept by the branch so far as appears from our examination of those books;
 - c. The Balance Sheet and the Profit and Loss account dealt with by this report are in agreement with the books of account.
 - d. in our opinion, the aforesaid standalone financial statements comply with the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014, to the extent they are not inconsistent with the accounting policies prescribed by RBI;
 - e. with respect to the adequacy of the internal financial controls over financial reporting of the Branch and the operating effectiveness of such controls, refer to our separate Report in "Annexure A".
 - f. with respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us:
 - (a) the Branch has disclosed the impact of pending litigations on its financial position in its financial statements - Refer Schedule XX - Note XX to the financial statements; *(or the Branch does not have any pending litigations which would impact its financial position⁵)*
 - (b) the Branch has made provision, as required under the applicable law or accounting standards, for material foreseeable losses, if any, on long-term contracts including derivative contracts - Refer Schedule XX - Note XX to the financial statements; *(or the Branch did not have any long-term contracts including derivative contracts for which there were any material foreseeable losses⁵)* and
 - (c) there has been no delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Branch *(or, following are the instances of delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Branch or there were no amounts which were required to be transferred to the Investor Education and Protection Fund by the Branch⁵)*.

⁵ As may be applicable.

Other Matters Paragraph

10. No adjustments/provisions have been made in the accounts of the Branch in respect of matters usually dealt with at Central Office, including in respect of:

- (a) Bonus, ex-gratia, and other similar expenditure and allowances to branch employees;
- (b) Terminal permissible benefits to eligible employees on their retirement (including additional retirement benefits), Gratuity, Pension, liability for leave encashment benefits and other benefits covered in terms of 'AS 15 – Employee Benefits' issued by the Institute of Chartered Accountants of India;
- (c) Arrears of salary/wages/allowances, if any, payable to staff;
- (d) Staff welfare contractual obligations;
- (e) Old unreconciled/unlinked entries at debit under various heads comprising Inter branch/office Adjustments;
- (f) Interest on overdue term deposits;
- (g) Depreciation on fixed assets;
- (h) Auditors' fees and expenses;
- (i) Taxation (Current Tax and Deferred Tax).

11. The following is a summary of Memorandum of Changes submitted by us to the branch management¹.

Memorandum of Changes (summary)			
	No.	Increase	Decrease
a) In respect of Income			
b) In respect of expenditure			
c) In respect of Assets			
d) In respect of Liabilities			
e) In respect of Gross NPAs			
f) In respect of Provision on NPAs ²			
g) In respect of Classification of Advances		XXX	XXX
h) In respect of Risk Weighted Assets			
i) Other items (if any)			

¹ Where Applicable.

² Applicable in cases where banks determine provision at Branch level.

For ABC and Co.
Chartered Accountants

Signature
(Name of the Member Signing the Audit Report)
(Designation)³
Membership Number
Firm registration number

Place of Signature
Date

³ Partner or proprietor as the case may be.

Annexure A to the independent auditor's report of even date on the financial statements of _____ Branch of _____ Bank Limited

Report on the Internal Financial Controls under Clause (i) of Sub-section 3 of Section 143 of the Companies Act, 2013

1. We have audited the internal financial controls over financial reporting of _____ Branch of _____ Bank Limited ('the Branch') as at 31 March 201X in conjunction with our audit of the financial statements of the Branch for the year ended on that date.

Management's Responsibility for Internal Financial Controls

2. The Management of the Branch is responsible for establishing and maintaining internal financial controls based on _____ [for example, "the internal control over financial reporting criteria established by the Branch considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting ('the Guidance Note') issued by the Institute of Chartered Accountants of India ('the ICAI')".] These responsibilities include the design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the orderly and efficient conduct of its business, including adherence to Branch's policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Companies Act, 2013 ('the Act').

Auditor's Responsibility

3. Our responsibility is to express an opinion on the Branch's internal financial controls over financial reporting based on our audit. We conducted our audit in accordance with the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting ('the Guidance Note') and the Standards on Auditing ('the Standards'), issued by the ICAI and deemed to be prescribed under section 143(10) of the Act, to the extent applicable to an audit of internal financial controls, both issued by the ICAI. Those Standards and the Guidance Note require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether adequate internal financial controls over financial reporting was established

and maintained and if such controls operated effectively in all material respects.

4. Our audit involves performing procedures to obtain audit evidence about the adequacy of the internal financial controls system over financial reporting and their operating effectiveness. Our audit of internal financial controls over financial reporting included obtaining an understanding of internal financial controls over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.
5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the Branch's internal financial controls system over financial reporting.

Meaning of Internal Financial Controls Over Financial Reporting

6. A branch's internal financial control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A branch's internal financial control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the branch; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the branch are being made only in accordance with authorizations of management and directors of the bank; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the branch's assets that could have a material effect on the financial statements.

Inherent Limitations of Internal Financial Controls Over Financial Reporting

7. Because of the inherent limitations of internal financial controls over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may occur

and not be detected. Also, projections of any evaluation of the internal financial controls over financial reporting to future periods are subject to the risk that the internal financial control over financial reporting may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinion

8. In our opinion, the Branch has, in all material respects, an adequate internal financial controls system over financial reporting and such internal financial controls over financial reporting were operating effectively as at 31 March 201X, based on _____ [for example, “the internal control over financial reporting criteria established by the Branch considering the essential components of internal control stated in the Guidance Note issued by the ICAI”].

For ABC and Co.
Chartered Accountants
(Firm’s Registration No.)

Signature
(Name of the Member Signing the Audit Report)
(Designation)⁶
Membership Number

Place of Signature

Date of Report

⁶ Partner or proprietor, as the case may be.

APPENDIX-VII

Illustrative Format of Engagement Letter in case of a Nationalised Bank

{The following letter is for use as a guide and will need to be varied according to individual requirements and circumstances relevant to the engagement.}

To the Board of Directors..... (name of the Bank).

(Address)

[Date]

Subject: Engagement Letter

Dear Sirs,

We refer to the letter No. datedreceived from(Name of the relevant authority) informing us about our (re)appointment/ as the statutory central auditor of the Bank to carry out the statutory audit of the balance sheet, profit and loss account and cash flow ("financial statement) as per section 30 of Banking Regulation Act, 1949 ("the Act") for the financial year(s) beginning April 1, 20XX and ending 31st March 20YY, including Tax Audit, issuance of the Long Form Audit Report and, as a part of the audit, verification and/ or certification of certain specific aspects, as listed in your aforementioned letter. The aforesaid financial statements of the Bank include, where applicable, consolidated financial statements of the Bank and all of its subsidiaries, associate companies and joint ventures. We are pleased to confirm our acceptance and understating of this engagement by means of this letter.

1. Scope and Objective

Our audit of the financial statements will be conducted with the objective of our expressing an opinion if the aforesaid financial statements give the information required by the Act in the manner so required, and give a true and fair view in conformity with the applicable accounting principles generally accepted in India, of the state of affairs of the Bank as at 31st March 20XX, and its profit/loss and its cash flows for the year ended on that date.

We will conduct our audit in accordance with the Standards on Auditing (SAs), issued by the Institute of Chartered Accountants of India (ICAI) and also in accordance with any other applicable pronouncement of the Institute, as well as the requirements of the Banking Regulation Act, 1949, and the guidelines/directions issued by the Reserve Bank of India under the said statutes, from time to time. Those Standards require that we comply with the ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend upon the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of the accounting estimates made by the Management, as well as evaluating the overall presentation of the financial statements.

Because of the inherent limitations of an audit, including the possibility of collusion or improper management override of controls, there is an unavoidable risk that some material misstatements due to fraud or error may occur and may not be detected, even though the audit is properly planned and performed in accordance with SAs.

In making our risk assessments, we consider internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. However, we will communicate to you in writing concerning any significant deficiencies in internal control relevant to the audit of the financial statements that we have identified during the audit.

2. Management's Responsibility

Our assignment will be conducted on the basis that the Management and, where appropriate, those charged with governance of the Bank (Audit Committee/Board) acknowledge and understand that they have the responsibility:

- (a) For the preparation of financial statements that give a true and fair view in accordance with the applicable Financial Reporting Framework. This includes:
 - Compliance with the applicable provisions of the Act;
 - Proper maintenance of accounts and other matters connected therewith;

- Preparation of financial statements on a going concern basis;
 - Preparation of annual accounts in accordance with third schedule to the Banking Regulation Act, 1949, the applicable Accounting Standards and providing proper explanation relating to any material departures from those Accounting Standards;
 - Selection of accounting policies and applying them consistently and making judgements and estimates that are reasonable and prudent, so as to give a true and fair view of the state of affairs of the Bank at the end of the financial year and of the profit or loss of the Bank for that period;
 - Taking proper care and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of assets of the Bank and preventing and detecting frauds and other irregularities;
 - Laying down internal financial controls to be followed by the Bank and that such internal financial controls are adequate and were operating effectively; and
 - Devising proper systems to ensure compliance with the provisions of all applicable laws including compliance with the relevant directions/circulars of the Reserve Bank of India, including for those aspects which have been specifically listed for verification/ certification by us in your aforementioned letter and that such systems were adequate and operating effectively.
- (b) Informing me / us of facts that may affect the financial statements, of which Management may become aware during the period from the date of my / our report to the date the financial statements are issued.
- (c) In terms of relevant circulars/notifications issued by RBI following the demonetization and ceasing to be legal tender, of currency notes in the denominations of Rs. 500 and Rs.1000 (referred to as Specified Bank Notes-SBN), pursuant to the Gazette Notification No.2652 dated November 8, 2016, issued by the Government of India, identifying and informing us whether all transactions/events in connection therewith have been faithfully captured and duly recorded and all related compliances as required, faithfully made/ carried out by the management;

Also conforming that in connection with the above, there are no enquiries/investigations initiated, in progress or concluded by the Bank, the RBI, any investigating agency/authority, or in any internal Inspection,

review, audit, examination or otherwise, that could have any financial/monetary implications on the bank/Branch and/or that needs to be addressed/recognized/accounted;

And further conforming that there are no issues/matters that would lead to a belief that there is any impropriety/ fraud by any employee/customer in relation to the affairs of the bank/branch that needs to be brought to our attention or for our consideration.

(d) to provide us with:

- i. access, at all times, to all information, including the books, account, vouchers and other records and documentation, of the Bank, whether kept at the Head office or elsewhere, of which the Management is aware, that are relevant to the preparation of the financial statements such as records, documentation and other matters. This will include books of account maintained in electronic mode;
- ii. Access, at all times, to the records of all the subsidiaries (including associate companies and joint ventures
- iii. Access to reports, if any, relating to internal reporting on frauds (e.g., vigil mechanism reports etc.),
- iv. additional information that we may request from the management for the purpose of the audit, including any internal audit, concurrent audit, revenue audit, stock audit, Reserve Bank of India's Inspection report; and
- v. unrestricted access to persons within the entity, from whom we determine it necessary to obtain audit evidence. This includes our entitlement to require from the officers of the Bank such information and explanations, as we may think necessary for the performance of our duties as auditor of the Bank;
- vi. As part of our audit process, we will request from the Management, written confirmation concerning representations made to us in connection with the audit, including confirmations in respect of the balances held by the Branch with other banks, and such other items on the financial statements of the Branch, as may be considered necessary by us for the purpose of our assignment. It may also be noted that non provision of any information/ confirmation, requested by us from the branch management, may result in limitation on the scope of our assignment.

C. Other Matters

My / Our report prepared in accordance with relevant provisions of the Act would be addressed to the shareholders/members of the bank for adoption of the accounts at the Annual General Meeting. In respect of other services, my / our report would be addressed to the Board of Directors. The form and content of my / our report may need to be amended in the light of my / our audit findings.

We also wish to invite your attention to the fact that, our audit process is subject to 'peer review'/ 'quality review' under the Chartered Accountants Act, 1949 to be conducted by an independent reviewer. The reviewer may inspect, examine or take abstracts of our working papers, in the course of the peer review/quality review.

I / We may involve specialists and staff from my / our affiliated network firms to perform certain specific audit procedures during the course of my / our audit.

In terms of Standard on Auditing 720 – “The Auditor’s Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements” issued by the ICAI, I / we request you to provide to me / us a Draft of the Annual Report containing the audited financial statements so as to enable me / us to read the same and communicate material inconsistencies, if any, with the audited financial statements, before issuing the auditor’s report on the financial statements.

{Other relevant information}

{Insert Other information, such as fee arrangements, billings⁷ and other specific terms, as appropriate.}

We look forward to full cooperation from your staff during our audit.

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our aforementioned assignment/s including our respective responsibilities. (Kindly also mark a copy of such acknowledgement to the concerned official/s of the respective branch managements.)

⁷ For example, “My / Our fees and out-of-pocket expenses for the audit of the financial statements for the year have been fixed by the members at the Annual General Meeting at Rs._____, plus out-of-pocket expenses and indirect taxes/ will be mutually agreed between the Board of Directors of the Company and me / ourselves.” I / We will bill as the work progresses. I / We will notify you promptly of any circumstances I / we encounter that could significantly affect my / our estimate of fees and discuss with you any additional fees, as necessary.”

Date: (name of the firm)
Place: Chartered Accountants
.....
(Signature)
(name of the member)
(Designation⁸)

Acknowledged on behalf of Bank

.....

(Signature)

Name and Designation

Date

Copy to: Chairman, Audit Committee

Attached: Letter of Acceptance duly signed by us.

⁸ Partner or proprietor, as the case may be.

APPENDIX- VIII

Illustrative Format of Engagement Letter to be sent to the Appointing Authority of the Nationalised Bank by Branch Auditor

{The following letter is for use as a guide and will need to be varied according to individual requirements and circumstances relevant to the engagement.}

The Board of Directors

(or the appropriate representative of senior management).

[Date]

Subject: Engagement Letter

Dear Sirs,

I/We refer to the letter No. datedreceived from(Name of the relevant authority) informing me/us about my/our appointment to carry out the statutory audit of the (name of the branch) branches of your Bank for the financial year beginning April 1,20XX and ending 31st March 20YY, including Tax Audit, issuance of the Long Form Audit Report and, as a part of the audit, verification and/ or certification of certain specific aspects pertaining to these branches, as listed in your aforementioned letter.

1. Scope and Objective

We are pleased to confirm our acceptance for the aforementioned assignment through the Letter of Acceptance attached herewith and the following sets out the area of responsibility of the Branch Management and myself/ourselves subject to the following:

- i) Our audit of the financial statements of these branches will be conducted with the objective of our expressing an opinion on the truth and fairness of the financial statements of these branches. These financial statements include the Balance Sheet (Form A) and the Profit and Loss Account (Form B) (collectively referred as "Financial Statement") for the year ended 31st March 20XX.

- ii) We will conduct our audit in accordance with the Standards on Auditing (SAs) and any other applicable pronouncement issued by Institute of Chartered Accountants of India (ICAI), as well as the requirements of the Banking Regulation Act, 1949, and the guidelines/ directions issued by the Reserve Bank of India under the said statutes, from time to time. Those Standards require that we comply with the ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements.
- iii) An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend upon the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
- iv) Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with SAs.
- v) In making our risk assessments, we consider internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. However, we will communicate to you in writing concerning any significant deficiencies in internal control relevant to the audit of the financial statements that we have identified during the audit.
- vi) We invite your attention to the fact that, in terms of RBI Circular No. DBS.FGV.(F).No. BC/ 23.08.001/2001-02 dated May 3, 2002 relating to implementation of recommendations of the Committee on Legal Aspects of Bank Frauds (Mitra Committee) and the recommendations of the High Level Group set-up by the Central Vigilance Commission applicable to all scheduled commercial banks (excluding RRBs) we are required to report to the RBI anything susceptible to fraud or fraudulent activity or any act of excess power or any foul play in any transaction.

2. Management's Responsibility

Our assignment will be conducted on the basis that the branch management and, where appropriate, those charged with governance of the bank acknowledge and understand that they have responsibility:

- (a) For the preparation of financial statements that give a true and fair view in accordance with the applicable Financial Reporting Framework. This includes:
 - the responsibility for the preparation of financial statements on a going concern basis;
 - the responsibility for selection and consistent application of appropriate accounting policies, including implementation of applicable Accounting Standards, along with proper explanation relating to any material departures from those Accounting Standards;
 - the responsibility for making judgements and estimates that are reasonable and prudent, so as to give a true and fair view of the state of affairs of the branch at the end of the financial year and of the profit or loss of the branch for that period.
- (b) for such internal controls, as the branch management determines, are necessary to enable the preparation of financial statements, that are free from material misstatement, whether due to fraud or error. The responsibility for internal controls also implicitly enshrines the responsibility for compliance with the relevant directions/ circulars of the Reserve Bank of India, including for those aspects which have been specifically listed for verification/ certification by us in your aforementioned letter; and
- (c) to provide us with:
 - (i) access to all information, including the books, account, vouchers and other records and documentation, of the branch, whether kept at the branch office or elsewhere, of which the branch management is aware, that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - (ii) additional information that we may request from the branch management for the purpose of the audit, including any internal audit, concurrent audit, revenue audit, stock audit, Reserve Bank of India's Inspection report; and

- (iii) unrestricted access to persons within the entity, from whom we determine it necessary to obtain audit evidence. This includes our entitlement to require from the officers of the branch such information and explanations, as we may think necessary for the performance of our duties as auditor.

3. Other Matters

As part of our assignment, we will request from the branch management, written confirmation concerning representations made to us in connection with the audit, in accordance with Standard on Auditing 580 – “Written Representations”, issued by the ICAI including confirmations in respect of the balances held by the Branch with other banks, and such other items on the financial statements of the Branch, as may be considered necessary by us for the purpose of our assignment.

It may also be noted that non provision of any information/ confirmation, requested by us from the branch management, may result in limitation on the scope of our assignment.

In terms of Standard on Auditing 720 – “The Auditor’s Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements” issued by the ICAI, we request you to provide to us a Draft of the Annual Report containing the audited financial statements so as to enable us to read the same and communicate material inconsistencies, if any, with the audited financial statements, before issuing the auditor’s report on the financial statements.

We also wish to invite your attention to the fact that, our audit process is subject to ‘peer review’/ ‘quality review’ under the Chartered Accountants Act, 1949, to be conducted by an independent reviewer. The reviewer may inspect, examine or take abstracts of our working papers, in the course of the peer review / quality review.

We look forward to full cooperation from your staff during our audit.

Our fees for the said audits (excluding fees for Tax Audit and the travelling expenses will be as specified by the Reserve Bank of India/ State Bank of India⁹.

Our fees for audit of Non Business Offices/ CMS Branches, as well as the tax audit fees of the branches, would be as specified in your aforementioned letter.

Please sign and return the attached copy of this letter to indicate your

⁹ As may be appropriate.

Guidance Note on Audit of Banks (Revised 2017)

acknowledgement of, and agreement with, the arrangements for our aforementioned assignment/s including our respective responsibilities. (Kindly also mark a copy of such acknowledgement to the concerned official/s of the respective branch managements.)

XYZ & Co.

Chartered Accountants

.....

(Signature)

(Name of the Member)

Designation¹⁰

Date:

Place:

Acknowledged on behalf of Branch ofBank

.....

(Signature)

Name and Designation

Date

Attached: Letter of Acceptance duly signed by us.

¹⁰ Partner or proprietor, as the case may be.

APPENDIX- IX

Illustrative Format of Engagement Letter to be sent to the Appointing Authority of the Banking Company ¹¹

{The following letter is for use as a guide and will need to be varied according to individual requirements and circumstances relevant to the engagement.}

To the Board of Directors (name of the Bank).

(Address)

[Date]

Subject: Engagement Letter

Dear Sirs,

We refer to the letter No. datedreceived from(Name of the relevant authority) informing us about our (re)appointment/ ratification as the auditors of(Name of the Bank) (hereinafter “the Bank”) to carry out the statutory audit of the financial statements of the Bank as defined in section 2(40) of the Companies Act 2013 (“the Act”) for the financial year(s) beginning April 1, 20XX and ending 31st March 20YY, including Tax Audit, issuance of the Long Form Audit Report and, as a part of the audit, verification and/ or certification of certain specific aspects, as listed in your aforementioned letter. The aforesaid financial statements of the Bank include, where applicable, consolidated financial statements of the Bank and all of its subsidiaries, associate companies and joint ventures. We are pleased to confirm our acceptance and understating of this engagement by means of this letter.

1. Scope and Objective

Our audit of the financial statements will be conducted with the objective of our expressing an opinion if the aforesaid financial statements give the information

¹¹ Presuming that there is/are no joint auditor/s and no separate branch auditors have been appointed.

required by the 2013 Act in the manner so required, and give a true and fair view in conformity with the applicable accounting principles generally accepted in India, of the state of affairs of the Bank as at 31st March 20XX, and its profit/loss and its cash flows for the year ended on that date.

We will conduct our audit in accordance with the Standards on Auditing (SAs), issued by the Institute of Chartered Accountants of India (ICAI) and deemed to be prescribed by the Central Government in accordance with section 143(10) of the 2013 Act and also in accordance with any other applicable pronouncement of the Institute, as well as the requirements of the Banking Regulation Act, 1949, and the guidelines/ directions issued by the Reserve Bank of India under the said statutes, from time to time. Those Standards require that we comply with the ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend upon the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of the accounting estimates made by the Management, as well as evaluating the overall presentation of the financial statements.

Because of the inherent limitations of an audit, including the possibility of collusion or improper management override controls, there is an unavoidable risk that some material misstatements due to fraud or error may occur and may not be detected, even though the audit is properly planned and performed in accordance with SAs.

In making our risk assessments, we consider internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. However, we will communicate to you in writing concerning any significant deficiencies in internal control relevant to the audit of the financial statements that we have identified during the audit.

2. Management's Responsibility

Our assignment will be conducted on the basis that the Management and, where appropriate, those charged with governance of the Bank (Audit Committee/Board) acknowledge and understand that they have the responsibility:

- (a) For the preparation of financial statements that give a true and fair view in accordance with the applicable Financial Reporting Framework. This includes:
- Compliance with the applicable provisions of the 2013 Act;
 - Proper maintenance of accounts and other matters connected therewith;
 - Preparation of financial statements on a going concern basis;
 - Preparation of annual accounts in accordance with the applicable Accounting Standards and providing proper explanation relating to any material departures from those Accounting Standards;
 - Selection of accounting policies and applying them consistently and making judgements and estimates that are reasonable and prudent, so as to give a true and fair view of the state of affairs of the Bank at the end of the financial year and of the profit or loss of the Bank for that period;
 - Taking proper care and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the 2013 Act for safeguarding of assets of the Bank and preventing and detecting frauds and other irregularities;
 - Laying down internal financial controls to be followed by the Bank and that such internal financial controls are adequate and were operating effectively; and
 - Devising proper systems to ensure compliance with the provisions of all applicable laws including compliance with the relevant directions/ circulars of the Reserve Bank of India, including for those aspects which have been specifically listed for verification/ certification by us in your aforementioned letter and that such systems were adequate and operating effectively.
- (b) Identifying and informing us of financial transactions or matters that may have an adverse effect on the functioning of the Bank.
- (c) Identifying and informing me / us of:
- All the pending litigations and confirming that the impact of the pending litigations on the Company's financial position has been disclosed in its financial statements;

- All material foreseeable losses, if any, on long term contracts including derivative contracts and the accrual for such losses as required under any law or accounting standards; and
 - Any delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Company.
- (d) Informing me / us of facts that may affect the financial statements, of which Management may become aware during the period from the date of my / our report to the date the financial statements are issued.
- (e) Identifying and informing me / us as to whether any director is disqualified as on March 31, 20YY from being appointed as a director in terms of Section 164(2) of the 2013 Act. This should be supported by written representations received from the directors as on March 31, 20YY and taken on record by the Board of Directors.
- (f) to provide us with:
- access, at all times, to all information, including the books, account, vouchers and other records and documentation, of the Bank, whether kept at the Head office or elsewhere, of which the Management is aware, that are relevant to the preparation of the financial statements such as records, documentation and other matters. This will include books of account maintained in electronic mode;
 - Access, at all times, to the records of all the subsidiaries (including associate companies and joint ventures as per Explanation to Section 129(3) of the 2013 Act) of the Company in so far as it relates to the consolidation of its financial statements, as envisaged in the 2013 Act;
 - Access to reports, if any, relating to internal reporting on frauds (e.g., vigil mechanism reports etc.), including those submitted by cost accountant or company secretary in practice to the extent it relates to their reporting on frauds in accordance with the requirements of Section 143(12) of the 2013 Act;
 - additional information that we may request from the management for the purpose of the audit, including any internal audit, concurrent audit, revenue audit, stock audit, Reserve Bank of India's Inspection report; and
 - unrestricted access to persons within the entity, from whom we determine it necessary to obtain audit evidence. This includes our entitlement to require from the officers of the Bank such information and

explanations, as we may think necessary for the performance of our duties as auditor of the Bank;

- As part of our audit process, we will request from the Management, written confirmation concerning representations made to us in connection with the audit, including confirmations in respect of the balances held by the Branch with other banks, and such other items on the financial statements of the Branch, as may be considered necessary by us for the purpose of our assignment. It may also be noted that non-provision of any information/ confirmation, requested by us from the branch management, may result in limitation on the scope of our assignment.

Management's Responsibility on Internal Financial Controls over Financial Reporting

- a. The management is responsible for establishing and maintaining adequate and effective internal financial controls for ensuring the orderly and efficient conduct of its business, including adherence to company's policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information.
- b. The management will make available to the auditor their evaluation and assessment of the adequacy and effectiveness of the company's internal financial controls, based on the control criteria.
- c. The management is responsible to inform the auditor of any communications from regulatory agencies concerning non-compliance with or deficiencies in financial reporting practices.
- d. The management will provide its conclusion over the company's internal financial controls based on the control criteria set as of the balance sheet date.
- e. The management is responsible to provide the component auditor's report under section 143(3)(i) in case of components that are covered under Companies Act, 2013 that form part of consolidated financial statements of the parent company.

The terms of reference for our audit of internal financial controls over financial reporting carried out in conjunction with our audit of the Company's financial statements will be as stated in the separate engagement letter for conducting such audit and should be read in conjunction with this letter.

C. Other Matters

My / Our report prepared in accordance with relevant provisions of the 2013 Act would be addressed to the shareholders of the Company for adoption of the

accounts at the Annual General Meeting. In respect of other services, my / our report would be addressed to the Board of Directors. The form and content of my / our report may need to be amended in the light of my / our audit findings.

In accordance with the provisions of Section 143(12) and 143(13) of the 2013 Act, if in the course of performance of my / our duties as auditor, I / we have reason to believe that an offence involving fraud is being or has been committed against the Company by officers or employees of the Company, I / we will be required to report to the Central Government, in accordance with the rules prescribed in this regard which, *inter alia*, requires me / us to forward my / our report to the Board or Audit Committee, as the case may be, seeking their reply or observations, to enable me / us to forward the same to the Central Government. Such reporting will be made in good faith and, therefore, cannot be considered as breach of maintenance of client confidentiality requirements or be subject to any suit, prosecution or other legal proceeding since it is done in pursuance of the 2013 Act or of any rules or orders made thereunder.

We also wish to invite your attention to the fact that, our audit process is subject to 'peer review' / 'quality review' under the Chartered Accountants Act, 1949 to be conducted by an independent reviewer. The reviewer may inspect, examine or take abstracts of our working papers, in the course of the peer review/quality review.

I / We may involve specialists and staff from my / our affiliated network firms to perform certain specific audit procedures during the course of my / our audit.

In terms of Standard on Auditing 720 – “The Auditor’s Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements” issued by the ICAI and deemed to be prescribed by the Central Government in accordance with Section 143(10) of the 2013 Act, I / we request you to provide to me / us a Draft of the Annual Report containing the audited financial statements so as to enable me / us to read the same and communicate material inconsistencies, if any, with the audited financial statements, before issuing the auditor’s report on the financial statements.

{Other relevant information}

{Insert Other information, such as fee arrangements, billings¹² and other specific terms, as appropriate.}

We look forward to full cooperation from your staff during our audit.

¹² For example, “My / Our fees and out-of-pocket expenses for the audit of the financial statements for the year have been fixed by the members at the Annual General Meeting at Rs. _____, plus out-of-pocket expenses and indirect taxes/ will be mutually agreed between the Board of Directors of the Company and me / ourselves.” I / We will bill as the work progresses. I / We will notify you promptly of any circumstances I / we encounter that could significantly affect my / our estimate of fees and discuss with you any additional fees, as necessary.”

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our aforementioned assignment/s including our respective responsibilities. (Kindly also mark a copy of such acknowledgement to the concerned official/s of the respective branch managements.)

Date: (name of the firm)

Place: Chartered Accountants

.....
(Signature)

(name of the member)

(Designation¹³)

Acknowledged on behalf ofBank

.....

(Signature)

Name and Designation

Date

Copy to: Chairman, Audit Committee

Attached: Letter of Acceptance duly signed by us.

¹³ Partner or proprietor, as the case may be.

APPENDIX- X

Illustrative format of Engagement Letter to be Sent to the Appointing Authority of the Banking Company (Separate only for Internal Financial Control u/s 143(3)(i) of Companies Act, 2013)

Date:

The Board of Directors

_____ Bank Limited
(Address)

Dear Sirs,

As per requirement of Section 143(3)(i) of the Companies Act, 2013 ("2013 Act"), we have to express our opinion on internal financial controls over financial reporting of (Name of Bank) (the 'Bank') as at March 31, XXXX in conjunction with our audit of the standalone and consolidated financial statements of the Bank for the year ended on that date.

We are pleased to confirm our understanding of the audit engagement by means of this letter.

Our audits will be conducted with the objective of expressing our opinion under Section 143(3)(i) of the Companies Act, 2013 ("2013 Act") on the adequacy of the internal financial controls system over financial reporting and the operating effectiveness of such controls as at March 31, 20X1 based on the internal control *criteria* established by you.

Audit of Internal Financial Controls Over Financial Reporting

We will conduct our audit of the internal financial controls over financial reporting in accordance with the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting ("the Guidance Note") and the Standards on Auditing issued by the Institute of Chartered Accountants of India (ICAI) and deemed to be prescribed by the Central Government in accordance with Section 143(10) of the 2013 Act as well as the requirements of the Banking Regulation Act, 1949,

and the guidelines/ directions issued by the Reserve Bank of India under the said statutes, from time to time, to the extent applicable to an audit of internal financial controls over financial reporting. These Guidance Note and Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about the adequacy of the internal financial controls system over financial reporting and their operating effectiveness as at the balance sheet date.

An audit of internal financial controls over financial reporting involves performing procedures to obtain audit evidence about the adequacy of the internal financial controls system over financial reporting and their operating effectiveness.

The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

Inherent Limitations in an Audit of Internal Financial Controls Over Financial Reporting

Because of the inherent limitations of internal financial controls over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal financial controls over financial reporting to future periods are subject to the risk that the internal financial control over financial reporting may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management's Responsibility

Our audit will be conducted on the basis that [management and, where appropriate, those charged with governance] acknowledge and understand that they have responsibility:

- (a) For establishing and maintaining adequate and effective internal financial controls based on the internal control over financial reporting criteria established by the Bank considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India for ensuring the orderly and efficient conduct of its business, including adherence to Bank's policies, the safeguarding of its assets, the

prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Act.

(b) To provide us with:

- (i) Access, at all times, to all information, including the books, account, vouchers and other records and documentation, of the Bank, whether kept at the head office of the Bank or elsewhere, of which [management] is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- (ii) All information, such as records and documentation, and other matters that are relevant to our assessment of internal financial controls;
- (iii) Management's evaluation and assessment of the adequacy and effectiveness of the Bank's internal financial controls, based on the control criteria established by the management and all deficiencies, significant deficiencies and material weaknesses in the design or operations of internal financial controls identified as part of management's evaluation.
- (iv) Additional information that we may request from [management] for the purpose of the audit.
- (v) Unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence. This includes our entitlement to require from the officers of the Bank such information and explanations as we may think necessary for the performance of our duties as auditor.
- (vi) Any communications from regulatory agencies concerning non-compliance with or deficiencies in financial reporting practices.
- (vii) Management's conclusion over the Bank's internal financial controls based on the control criteria set above as at the balance sheet date [insert date].
- (viii) Informing us of significant changes in the design or operation of the Bank's internal financial controls that occurred during or subsequent to the date being reported on, including proposed changes being considered.
- (ix) Providing us with the component auditors' report under section 143(3)(i) in the case of components that are companies covered under

the Companies Act 2013 for the purposes of our reporting in the case of the consolidated financial statements of the Bank.

- (c) As part of our audit process, we will request from (management and, where appropriate, those charged with governance), written confirmation concerning representations made to us in connection with the audit.

We also wish to invite your attention to the fact that our audit process is subject to 'peer review' / 'quality review' under the Chartered Accountants Act, 1949 to be conducted by an Independent reviewer. The reviewer may inspect, examine or take abstract of my / our working papers during the course of the peer review / quality review.

Reporting

Our audit report will be issued pursuant to the requirements of Section 143(3)(i) of the Act. The form and content of our report may need to be amended in the light of our audit findings.

Our opinion on the adequacy and operating effectiveness of internal financial controls over financial reporting in the case of the consolidated financial statements of the Bank, in so far as it relates to subsidiary companies, jointly controlled companies and associate companies incorporated in India, will be based solely on the reports of the auditors of such companies.

This letter should be read in conjunction with our letter dated ____ for the audit of the standalone and consolidated financial statements of the Bank under the Act.

We look forward to full co-operation from your staff during our audit.

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our audit of the internal financial controls over financial reporting including our respective responsibilities.

Date: _____ (name of the firm)

Place: _____ Chartered Accountants

.....
(Signature)

(name of the member)

(Designation¹⁴)

Acknowledged on behalf of _____ {Insert Bank Name} Limited

Name and Designation:

Date:

¹⁴ Partner or proprietor, as the case may be.

APPENDIX-XI

Illustrative Format of Written Representation Letter* to be obtained from the Branch Management

M/s XYZ & Co.,
Chartered Accountants,
Place

Dear Sir(s),

Sub.: Audit for the year ended March 31, 20XX

This representation letter is provided in connection with your audit of the financial statements of _____ branch of _____ bank, for the year ended March 31, 20XX, for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the state of affairs of _____ branch of _____ bank as of March 31, 20XX, and of the results of operations for the year then ended. We acknowledge our responsibility for preparation of financial statements, in accordance with the financial reporting framework applicable to the Bank, including the regulatory requirements of the Reserve Bank of India.

We confirm, to the best of our knowledge and belief, the following representations:

1. Accounting Policies

The accounting policies, as approved by the board of directors of the Bank, have been duly followed. There are no changes in the accounting policies followed by the branch during the current year.

2. Assets

2.1 All the assets owned by the bank and transferred to the branch and such other asset/s, as has/ have been acquired by the branch, has/have been duly accounted for, and none of the assets is encumbered.

2.2 Fixed assets held by branches have been properly accounted and have been physically verified at the year end. No discrepancies have been noticed on

* Kindly also refer Standard on Auditing (SA) 580, "Written Representations".

such verification. Depreciation on these assets has been adequately provided as per the policy of the bank.

2.3 In respect of assets other than fixed assets, the same have not been impaired and do not have a value lower than realizable value.

2.4 The branch is operating from a leased premises and there is no dispute with respect to the tenancy and lease charges.

2.5 The Branch has not got any notice from the landlord for evacuation or redevelopment of the premises which may possibly necessitate shifting the branch premises in the near future.

3. Capital Commitments

At the balance sheet date, outstanding commitments for capital expenditure have been duly depicted in the financial statements.

4. Cash and Bank Balances

The cash balance as on March 31, 20XX is Rs._____, and has been verified by us. Internal guidelines on periodic cash verification have been duly followed.

Fake notes received by the Bank have been duly impounded and relevant guidelines of RBI thereon have been complied.

Effective Dual custody of Cash has been maintained at all times during the financial year.

5. Liabilities

The branch has recorded all known and anticipated liabilities in the financial statements.

6. Contingent Liabilities

6.1 The branch has fully disclosed in the notes to the financial statements;

- (a) guarantees that we have given to third parties;
- (b) Letters of Credits (Local/ Import);
- (c) Letters of Comfort (Local/ Import);
- (d) Deferred Payment Credits/ Guarantees (Local/ Import); and
- (e) Other contingent liabilities.

6.2 Other than for advances, there are no matters involving the branch in any claims in litigation, arbitration or other disputes, in which there may be some

financial implications, including for staff claims, branch rentals, municipal taxes, local levies, etc., except for those which have been appropriately included under contingent liabilities.

6.3 None of the contingent liabilities disclosed are likely to result in a loss, requiring adjustment of assets or liabilities or provisions in the books of accounts.

6.4 Frivolous claims from Customers / third parties have not been included in Contingent liabilities.

Provisions for Claims and Losses

7. Provision has been made in the accounts for all known losses and claims of material amounts.

8. There have been no events subsequent to the balance sheet date, that require adjustment of, or disclosure in, the financial statements or notes thereto.

9. We have made available to you all the following latest reports on the accounts of our branch, and compliance by the branch on the observations contained therein:

- a) Previous year's branch audit report;
- b) Internal inspection reports;
- c) Report on any other Inspection Audit that has been conducted in the course of the year, relevant to the financial year 2015-16.

Apart from the above, the branch has not received any show cause notice, inspection advice, etc., from the Government of India, Reserve Bank of India or any other monitoring or regulatory authority of India that could have a material effect on the financial statements of the branch during the year.

10. Balancing of Books

The books of the accounts are computerised and hence the subsidiary records are automatically balanced with the relevant control records. In the case of manual sub-ledgers maintained, we confirm that they duly match with the general ledger balances.

11. Overdue/Matured Term Deposits

All overdue/ matured term deposits are held as matured term deposits.

12. Advances

In respect of the Advances and income thereon, the income recognition and asset classification norms prescribed by the Reserve Bank of India have been complied with.

13. Outstanding in Suspense/ Sundry Account

The year-wise/ entry-wise break up of amounts outstanding in Sundry deposits/ Sundry assets, as on March 31, 2017 has already been submitted to you along with explanation of the nature of the amounts in brief, and supporting evidences relating to the existence of such amounts in the aforesaid accounts.

14. Interest Provisions

Interest provision has been made on deposits, etc., in accordance with the extant instructions of the Head Office.

The interest provision for Head Office Interest shall be made at the Head Office.

15. Long Form Audit Report–Branch Response to the Questionnaire

In connection with the Long Form Audit Report, complete information (including all updated Internal Circulars issued till date, Receipt & disposal of Complaints & grievances) as regards each item in the questionnaire, has been made available to you in order to enable you to verify the same for the purpose of your audit.

16. Other Certification

Duly authenticated, information along with necessary source documents as regards other matters which, as per the bank's letter of appointment, require certification, has been made available to you.

17. Demonetisation

- a. The branch has complied with Notifications issued in respect of demonetization of Specified Bank Notes vide Official Gazette Notification No 2652 dated November 08, 2016.
- b. Exchange facility was not misused.
- c. The guidelines for withdrawal of legal tender for wedding celebration purpose were adhered to.
- d. Transactions not belying the Income Profile of the Customer or his earlier transaction pattern, Multiple Transactions especially below threshold limit or/and immediate transfer thereafter to 3rd party accounts were reported in the Suspicious Transaction Report.

- e. All deposits made on behalf of account holders are supported by Letter of Authority.
- f. Counterfeit currency detected during exchange/ deposit exercise were promptly reported.

18. General

There is no enquiry going on or concluded during the year by the Central Bureau of Investigation (CBI), or any other vigilance or investigating agency, on the branch or on its employees and no cases of frauds or of misappropriation of assets of the branch have come to the notice of the Management during the year, other than for amounts for which provisions have already been made in the books of accounts.

19. The provision for non-performing assets, depreciation, provision for income tax, provision for bonus, gratuity, etc., is made at the Head Office. Therefore, the same has not been provided in the branch accounts.

20. FIMMDA guidelines have been followed, wherever applicable.

21. The branch has complied with all aspects of contractual agreements, that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulating authorities, that could have a material effect on the financial statements in the event of non-compliance.

22. The other particulars required, have already been given to you, and particulars and other representations made to you from time to time are true and correct in all respects.

Thanking you,

Yours faithfully

For & on behalf of _____ branch of _____ bank

Authorised Signatory

APPENDIX-XII

Demonetization

1. **Introduction:** Bank Notes of denomination Rs. 500 and Rs. 1000 (hereinafter referred to as **Specified Bank Notes(SBN)**) ceased to exist as legal tender effective November 09, 2016, vide Official Gazette Notification No. 2652 (hereinafter referred to as **The Notification**) dated November 08, 2016. These notes could be exchanged for a value at any of the 19 Reserve Bank of India offices, any bank branches or any Head Post Office and Sub Post Office subject to limits specified as per the Notification and Press Release: 2016-2017/1142.

Provisions of Exchange Facility:

- **Exchange:** The Specified Bank Notes of aggregate value of 4000/- or below can be exchanged for any denomination of Bank notes having legal tender, with a requisition slip in the format specified by RBI and proof of identity as declared in the Notification.

The limit for exchange of Specified Bank Notes, over the counter was increased from Rs. 4000/- to Rs. 4500/- w.e.f 14th Nov 2016, vide notification no. DCM (plg) No. 272/10.27.00/2016-17 dated November 13, 2016.

The limit was again revised from Rs. 4500/- to Rs. 2000/- w.e.f November 18, 2016, vide RBI notification no. DCM (plg) No. 1302/10.27.00/2016-17 dated November 17, 2016.

The Exchange Facility was finally withdrawn and permitted only till the end of business hours on November 24, 2016 as mentioned by Government of India in the Notification earlier. However, the exchange facility has not been withdrawn from RBI Offices.

- **Deposits:** The Notification stated that no limit was specified on the quantity or value of the Specified Bank Notes to be credited to the account maintained with the branch by a person, provided the Specified Bank Notes were tendered in accordance with standard banking procedure and on production of valid Proof of Identity.

However, where compliance with extant KYC norms was not complete in an account, maximum value of specified bank notes to be deposited was restricted to Rs. 50,000/-.

- **Withdrawal:** Cash withdrawal from a bank account over the counter was restricted to Rs. 10,000/- per day subject to a weekly overall limit of 20,000/- as per the Notification.

From 14th November, 2016, the weekly limit of Rs. 20,000/- for withdrawal was increased to Rs. 24000/- vide notification RBI/2016-17/129 DCM (Plg) No. 1272/10.27.00/2016-17 dated November 13, 2016.

Notification no. RBI/2016-17/158 DCM (Plg) No.1424/10.27.00/2016-16 dated November 25, 2016 instructed banks to continue allowing their existing customers to withdraw cash from their accounts upto Rs. 24000/- in a week, till further instructions are given.

RBI vide notification no. RBI/2016-17/142 DCM (Plg) No.1317/10.27.00/2016-17 dated 21st November, 2016 allowed the current/overdraft/cash credit account holders (operational for the last 3 months or more) to withdraw cash up to Rs. 50,000/- in a week subject to certain terms and conditions. The same facility was extended to traders registered with APMC markets via notification no. RBI/2016-17/146 DCM (Plg) No.1323/10.27.00/2016-17 dated 21st November, 2016.

However, withdrawals of deposits made in current legal tender notes on or after November 29, 2016 was allowed beyond the current limits preferably in the new legal tender notes i.e. Rs. 2000/- and Rs. 500/- as per circular RBI/2016-17/163 DCM.No.1437/10.27.00/2016-17 dated November 28, 2016.

2. **Management and status at ATMs:** All ATMs and other machines used for receipt and payment of cash were shut on 9th and 10th November, 2016 as instructed via the Notification. They were re-configured to disburse banknotes of Rs. 100/- and Rs. 50/- denomination prior to reactivation of machines on November 11, 2016.

In the Notification withdrawal from ATM was restricted to Rs. 2000/- per day per card up to November 18, 2016 which was raised to Rs. 4000/- per day per card from November 19, 2016. However there was no such clarification by RBI on the increment of limit to Rs. 4000/- on November 19, 2016 and so the limit stood the same as before i.e. Rs. 2000.

Vide RBI Press Release - 2016-17/1199 dated November 14, 2016 all charges of ATM usage were waived from November 10, 2016 till November 30, 2016.

The ATMs are progressively getting recalibrated. However, at present, many ATMs are yet not calibrated to dispense the new legal tender notes. As and when they are recalibrated the cash limit of such ATMs stands enhanced to Rs. 2,500/- while the ones yet to be calibrated continue to dispense Rs. 2,000/- as updated in the FAQs hosted on RBI Website.

3. **Reporting Mechanism:** Banks were instructed to work in a manner specified in the Notification which is as follows:

November 9, 2016(Wednesday) was declared to be a non-business working day for all banks to carry out preparations for implementing the scheme as per this circular. Banks were advised to keep all the branches open on November 12 and 13, 2016 as referred by RBI in the Press release: 2016-17/1161 dated November 9, 2016.

Every banking company and every Treasury had to complete and forward a return (Annex - 1) in the prescribed format, showing the details of the cancelled notes held by it at close of business on November 8, 2016 and recalled by it, by 13:00 pm on November 10, 2016, to the concerned Regional Office of RBI, under whose jurisdiction the Head Office of the bank is located.

Each bank branch exchanging Bank notes in the denomination of Rs. 500/- and Rs. 1000/- to report at the close of each business day starting from November 10th, 2016 till the closure of the scheme on December 30th, 2016 by email or Fax to Controlling Office, a statement (as per Annex - 6) showing details of specified bank notes exchanged by it. Controlling Offices will aggregate these statements and report in Annex - 6A to Department of Currency Management, RBI.

Few banks started maintaining these records to be submitted vide Annexure 6A through their system and the same was auto pushed.

4. **Special Provisions:**

- **Pradhan Mantri Jan Dhan Yojna Accounts (PMJDY):** Certain limits as a matter of precaution were set on the operations of PMJDY accounts by RBI vide notification RBI/2016-17/165 DCM(plg) No 1450/10.27.00/ 2016-17 dated November 29, 2016 which allowed -
 - Fully KYC compliant account holders to withdraw Rs. 10,000/- from their accounts, in a month. Branch managers may allow withdrawals beyond Rs. 10,000/- only after ascertaining the genuineness of such withdrawals.

- Non-KYC compliant account holders to withdraw Rs. 5,000/- per month from amount deposited through Specified Bank Notes after November 09, 2016 within the overall ceiling of Rs. 10,000.
- NRI/NRO accounts: Specified bank notes were allowed to be deposited in the NRO accounts. If someone is not in India then written authorization to enable another person to act on their behalf was accepted.
- Notification RBI/2016-17/145 DCM(plg) No. 1320/10.27.00/21-17 dated November 21, 2016 empowered the account holders to withdraw a maximum of Rs. 2,50,000/- from a single account if there is a marriage in the house on or before December 30, 2016 on providing sufficient KYC documents.
- Farmers were allowed cash withdrawals of Rs. 25,000/- per week from their loan or deposit accounts, which were KYC compliant (clarified by FAQs last updated on December 1, 2016).
- As per circular RBI/2016-17/159 DBR.No.Ret.BC.41/12.01.001/2016-17 dated November 26, 2016, a directive was issued under section 42(1A) of the Reserve Bank of India Act, 1934 requiring all Scheduled Commercial Banks/ Regional Rural Banks / all Scheduled Primary (Urban) Co-operative Banks / all Scheduled State Co-operative Banks to maintain with the Reserve Bank of India, effective from fortnight beginning November 26, 2016 an incremental CRR of 100 per cent on the increase in NDTL between September 16, 2016 and November 11, 2016. The incremental CRR being a temporary measure was to be reviewed by RBI on December 9, 2016 or earlier.

On 2nd December 2016, the Government of India has on the recommendation of the Reserve Bank of India, decided to revise the ceiling for issue of securities under the Market Stabilisation Scheme (MSS) to Rs 6 lakh crore. The earlier limit was Rs 30,000 crore.

5. Administration and Arrangements during the process:

RBI *vide* notification no. RBI/2016-17/112 DCM (Plg) No.1226/10.27.00/2016-17 dated November 8, 2016 notified few administrative policies to be followed to facilitate the process of exchange –

- Banks were directed on how to handle the process.
- To open additional counters, extend their working hours, deploy maximum staff and also consider hiring retired employees for a temporary period, to take care of the additional workload.

- Banks to provide adequate number of note counting machines, UV Lamp, note sorting machines, etc. at their counters to take care of the work load.
- Banking hall and counters to be under CCTV surveillance and recording to be preserved.
- Separate queues suggested for convenience of Senior Citizens.
- RBI opened a control room at its central office for monitoring the progress and providing guidance to banks and members of public. RBI also proclaimed about its close vigilance on the process *vide* a press release: 2016-17/1189 dated Nov 12, 2016.
- As per RBI circular no. DCM (Plg) No. 1459/10.27.00/2016-17 dated November 29, 2016 the SBNs deposited in the currency chests, since November 10, 2016 will be considered as part of the chest balance in the soiled note category but such deposits will not be reckoned for calculating Chest Balance Limit / Cash Holding Limit. A review of the above will be taken up in the second fortnight of February 2017.
- As per RBI circular no. RBI/2016-17/153 DCM (Plg) No.1383/10.27.00/2016-17 dated November 24, 2016;
 - (i) Banks may deposit SBNs directly with the offices of RBI under whose jurisdiction they are located. These SBNs will remain, in the vaults of RBI, under the lock and key of the depositing banks till taken up for examination.
 - (ii) For the SBNs deposited by banks, RBI will afford credit to their current accounts maintained with RBI. Thereafter, if any shortage, counterfeit note, mutilated note, etc. is detected during detailed processing at RBI, the value of the same will be recovered from the bank concerned.
 - (iii) This facility is extended to all banks at all Issue Offices of RBI.
 - (iv) To avail the facility banks need to enter into an agreement (Annexure of the aforesaid circular) with Regional Offices of RBI concerned.
- As per RBI/2016-17/160 DCM (Plg) No.1430/10.27.00/2016-17 dated November 27, 2016, it has been decided to introduce a new scheme for depositing SBNs with designated currency chest at the district level, under guarantee agreement similar to the current facility available at RBI offices.
- As per RBI/2016-17/162 DCM (Plg) No.1438/10.27.00/2016-17 dated November 28, 2016 with a view to expand the ambit of the Chest Guarantee Scheme for Specified Bank Notes (SBN) - (CGSS), it has been decided that banks operating currency chests may be allowed to operate CGSS if they have additional space in their existing currency chest or additional storage

space at the same centre which is nearly as safe and secure as that of a currency chest.

Requisite approval for the above will be granted by the concerned Regional Office (RO) of RBI, on receipt of request from any bank subject to the terms and conditions laid down in the above mentioned circular.

- As per RBI/2016-17/166 DCM (Plg) No.1500/10.27.00/2016-17 dated December 01, 2016 banks were cautioned to abide only by those instructions which were either uploaded on RBI website or mailed to them through the official mail and not rely on other unsecured/unofficial channels like social media.

6. Issues

- Post November 9, 2016, there was a situation of panic among the customers of banks in the initial days to deposit and withdraw cash at ATMs, CDM's and cash counters. Cash dispensing procedure was possibly overlooked and excess cash counters were made available without the required security / dual custody at counters where cash was dispensed. Customers were also unable to withdraw full money as entitled due to lack of legal tender with banks.
- All other banking operations like disbursement of loans were affected as a result of this scheme as staff from other departments was redeployed for cash dispensation. In many cases customer KYC process was not complete and the same had to be done which consumed time. Additional accounts were also opened during the process and many inoperative accounts became operational and out of dormant status. Transactions were noted even in Jan Dhan & low frill accounts. Branches saw a surge in cash transaction volumes by at least 3 or 4 fold.
- There was no clarity with respect to exchanging the old tender notes with new tender notes as the RBI circular did not specify whether the exchange limit for exchanging the SBNs was per day or per branch. It was noticed that the limit was breached by many. To overcome this RBI issued a circular for implementing a Standard Operating Procedure (SOP) for putting indelible ink on the finger of the customers coming to a bank branch for SBNs RBI/2016-17/133 DCM (Plg) No. 1280 /10.27.00/2016-17 dated November 15, 2016.
- The risk of banks not detecting and accepting the fake notes could be possible.
- SBNs are not required to be included in the Cash Retention Limits, the same need not be included for calculation of breach of retention limits. However Insurance coverage needs to be re-looked.

- Banks need to revisit the policy of Suspicious Transaction Report (STR) post demonetization – especially transactions not in sync with earlier transactions of the customer or his income profile or the nature of the account.
- Obtaining authorization letters for deposits by persons other than the account holders
- ATM downtimes during this period and adequacy of cash in the ATM to be reviewed by the bank, as it affected customer goodwill / service.
- Some Banks issued operating instructions to the branches whereas in some cases the procedures followed at ground level was on a case to case basis depending upon customer turnouts and demand for cash withdrawal or cash availability.