

## Annexure II

### Guidelines and format of Internal Audit Report specifying the minimum scope to be covered.

Sr. no.	Particulars	Comments of internal auditor (whether member has complied with?)	Remarks of internal auditor (In case non compliance observed)	Whether auditor observation/qualification accepted by management?	Comments of Management (Para wise, where auditor has reported non-compliance)	Sample Size
<b>1</b>	<b>Client registration documentation /Anti Money Laundering compliance</b>					
<b>a</b>	Whether KYC, MCA/TPA, RDD are executed in the prescribed formats and the same is executed before execution of trades for the client?	<b>Yes/No</b>		<b>Yes/No</b>		<b>25 clients or 100% whichever is lower</b>
<b>b</b>	Whether UCC is allotted to the client & the same is uploaded to the Exchange with PAN?	<b>Yes/No</b>		<b>Yes/No</b>		<b>25 clients or 100% whichever is lower</b>
<b>c</b>	Whether all fields in KYC including client's financial details are filled in properly?	<b>Yes/No</b>		<b>Yes/No</b>		<b>25 clients or 100% whichever is lower</b>
<b>d</b>	Whether proper proof of identity, PAN, address, bank, demat are taken with KYC form?	<b>Yes/No</b>		<b>Yes/No</b>		<b>25 clients or 100% whichever is lower</b>
<b>e</b>	Whether MCA/TPA does not contain any contravening clauses or any clause which are not in the interest of the Investor?	<b>Yes/No</b>		<b>Yes/No</b>		<b>25 clients or 100% whichever is lower</b>
<b>f</b>	Whether all the mandatory clauses have been included in MCA/TPA?	<b>Yes/No</b>		<b>Yes/No</b>		<b>25 clients or 100% whichever is lower</b>
<b>g</b>	Whether in person verification of clients is done by the employees of the trading member only?	<b>Yes/No</b>		<b>Yes/No</b>		<b>25 clients or 100% whichever is lower</b>

<b>h</b>	If in person verification is done by DP, then whether such DP is the same entity or if one of them is the holding or subsidiary company of other?	<b>Yes/No</b>		<b>Yes/No</b>		<b>25 clients or 100% whichever is lower</b>
<b>i</b>	Whether date of verification, name and signature of the official who has done in-person verification and the member's stamp incorporated in the client registration form?	<b>Yes/No</b>		<b>Yes/No</b>		<b>25 clients or 100% whichever is lower</b>
<b>j</b>	Whether copies of all the documents executed by client are given to the respective clients?	<b>Yes/No</b>		<b>Yes/No</b>		<b>25 clients or 100% whichever is lower</b>
<b>k</b>	Whether change in address, bank account or demat account is carried out on receipt of written request along with documentary proof from the respective client?	<b>Yes/No</b>		<b>Yes/No</b>		<b>25 clients or 100% whichever is lower</b>
<b>l</b>	Whether client details including financial details are reviewed periodically and updated?	<b>Yes/No</b>		<b>Yes/No</b>		<b>25 clients or 100% whichever is lower</b>
<b>m</b>	Whether trading code and the unique client code allotted to a client and the e-mail furnished by the client for the purpose of receiving ECN and other details, are communicated by the trading member through the KYC form or otherwise in writing to the client?	<b>Yes/No</b>		<b>Yes/No</b>		<b>25 clients or 100% whichever is lower</b>
<b>n</b>	Whether trading member has sent information to clients pertaining to segments/exchanges where client is registered to trade (through copy of KYC or otherwise)?	<b>Yes/No</b>		<b>Yes/No</b>		<b>25 clients or 100% whichever is lower</b>
<b>o</b>	Whether Trading member has communicated policies & procedures to its client (through copy of KYC or otherwise)?	<b>Yes/No</b>		<b>Yes/No</b>		<b>25 clients or 100% whichever is lower</b>
<b>p</b>	<b>Whether sufficient information is obtained in order to identify persons who beneficially own or control securities account?</b>					
<b>q</b>	<b>Whether the Member has process to verify the identity of the customer and/or the person on whose behalf a transaction is being conducted?</b>					

r	Whether risk profiling of the clients has been done as per the written down policy of the trading member?	Yes/No		Yes/No		Audit period
s	Whether Member has adopted enhanced due diligence process for High risk clients?	Yes/No		Yes/No		Audit period
t	Whether continuous due diligence and scrutiny is being conducted for the clients?	Yes/No		Yes/No		Audit period
u	Whether member is having clearly defined policy for acceptance of clients and whether it has been ensured that an account is not opened where the member is unable to apply appropriate client due diligence measures/KYC Policies?	Yes/No		Yes/No		Audit period
v	Whether Member has identified clients of special category (CSC)?	Yes/No		Yes/No		Audit period
w	Whether Member has identified clients identification procedures & programs at various stages?	Yes/No		Yes/No		Audit period
x	<i>Whether Documents executed with clients does not contain clauses/terms which is in contravention to rules, regulations, articles, byelaws , circulars , directives and guidelines of SEBI and Exchanges?</i>	Yes/No		Yes/No		25 clients or 100% whichever is lower
y	<i>Whether the Trading Member has prominently displayed in its portal/web site, if any ,notice / display boards,advertisements,publication,know your client forms and member client agreement, the following details-</i> i) <i>Name of the Member as registered with SEBI,</i> ii) <i>Its own logo, if any,</i> iii) <i>Its registration number and</i> iv) <i>Its complete address with telephone numbers?</i>	Yes/No		Yes/No		Audit period

<b>z</b>	<b>Whether Constituent registration form consists of an Index Page listing all the documents contained in it and indicating briefly significance of each document?</b>	<b>Yes/No</b>		<b>Yes/No</b>		<b>15 clients</b>
<b>Za</b>	<b>Whether Registration document Folder/Book contains two parts mandatory &amp; non-mandatory?</b>	<b>Yes/No</b>		<b>Yes/No</b>		<b>15 clients</b>
<b>Zb</b>	<b>Whether Client has counter signed against stock exchange as well as market segment where he intends to trade?</b>	<b>Yes/No</b>		<b>Yes/No</b>		<b>15 clients</b>
<b>Zc</b>	<b>Whether Trading member has made provisions to capture identity and address proof of the Introducer in the KYC form?</b>	<b>Yes/No</b>		<b>Yes/No</b>		<b>15 clients</b>
<b>Zd</b>	<b>Whether Trading member has made provisions to capture details of action taken against a client by SEBI or other financial sector regulator?</b>	<b>Yes/No</b>		<b>Yes/No</b>		<b>15 clients</b>
<b>Ze</b>	<b>Whether all the documents in both the mandatory &amp; non-mandatory parts are printed in minimum font size of 11 and are legible for Investors to read?</b>	<b>Yes/No</b>		<b>Yes/No</b>		<b>15 clients</b>
<b>Zf</b>	<b>Whether Copies of duly completed Client Registration Documents viz. Constituent Registration Form (KYC), Member Constituent Agreement/ Tripartite Agreement (MCA), Risk Disclosure Document (RDD) and any other document executed by the client, was delivered to the client free of charge and with in 7 days of upload of UCC?</b>	<b>Yes/No</b>		<b>Yes/No</b>		<b>15 clients</b>
<b>Zg</b>	<b>Whether trading member has taken documentary evidence in support of financial information provided by the client for equity derivatives segment?</b>	<b>Yes/No</b>		<b>Yes/No</b>		<b>15 clients</b>
<b>Zh</b>	<b>Whether authorizations from the client sought in non-mandatory document is separate &amp; do have specific consent of the client</b>	<b>Yes/No</b>		<b>Yes/No</b>		<b>15 clients</b>

Zi	<i>Whether trading members had displayed the set of standard documents on their own website for information</i>	Yes/No		Yes/No		
Zj	<i>Whether trading member does have a specific policy regarding treatment of Inactive account and the same is displayed on the web-site?</i>	Yes/No		Yes/No		
Zk	<i>Whether mandatory documents include only KYC form, Member-Client/Tripartite Agreement, RDD and a document dealing with policies &amp; procedures?</i>	Yes/No		Yes/No		15 clients
Zl	<i>Whether Member constituent agreement does not contain any clauses other than what is specified by the Exchange/SEBI as mandatory?</i>	Yes/No		Yes/No		15 clients
Zm	Whether the account opening kits are maintained for the clients as per the SEBI circular dated August 22, 2011 (wherever applicable)?	Yes/No		Yes/No		25 clients or 100% of the clients registered after the applicable date, whichever is lower
2.	<b>Order management and risk management systems</b>					
a	Whether checks are in place to ensure that no unauthorized orders are executed from any of the terminals?	Yes/No		Yes/No		Audit Period
b	Whether control reports like orders executed away from market price, client-wise / scrip-wise / terminal-wise volumes / exposures are generated to monitor any manipulation or unwarranted activity?	Yes/No		Yes/No		5 days
c	In case of dormant accounts, if the account is reactivated then are there any checks in place to ensure that account is operated by the relevant client only ?	Yes/No		Yes/No		Audit Period

<b>d</b>	Whether initial and other margins are collected from respective clients in the prescribed form of funds, fixed deposit receipts, bank guarantees and approved securities ( <b>approved/liquid</b> ) with appropriate haircut?	<b>Yes/No</b>		<b>Yes/No</b>		<b>5 days</b>
<b>e</b>	Whether the member has a proper system for reporting the correct client margin collection to Clearing House / Clearing Corporation, in Derivatives segment?	<b>Yes/No</b>		<b>Yes/No</b>		<b>Audit Period</b>
<b>f</b>	Verify whether the margin reported by the member to the Exchange in Derivatives segment is actually collected and available in the books of accounts of the member. In case of any irregularity observed, mention the instances wherein wrong reporting of margin collected from clients/trading members was observed.	<b>Yes/No</b>		<b>Yes/No</b>		<b>5 days</b>
<b>g</b>	Whether Risk Management System (RMS) includes policy on margin collection from clients/trading member and the RMS is well documented?	<b>Yes/No</b>		<b>Yes/No</b>		<b>Audit Period</b>
<b>h</b>	Whether proper systems are in place to ensure timely collection for pay-in from the respective client as per settlement schedule?	<b>Yes/No</b>		<b>Yes/No</b>		<b>One day</b>
<b>i</b>	Whether proper monitoring mechanism is in place to review long outstanding debit balances in clients' account and recovery of the same? Give age wise analysis of debts outstanding for more than 30 days and the recovery pattern for the same	<b>Yes/No</b>		<b>Yes/No</b>		<b>Audit period</b>
<b>j</b>	Whether member has reported details of client funding, if any, to the exchange within prescribed time limit?	<b>Yes/No</b>		<b>Yes/No</b>		<b>Upload files</b>
<b>k</b>	What are the sources of funds in case client funding is observed?					
<b>l</b>	<b>Whether the trading member has not undertaken or was not party to or has not facilitated any fund based activity through financier?</b>	<b>Yes/No</b>		<b>Yes/No</b>		<b>Audit Period</b>

<b>m</b>	Whether all institutional trades are routed through custodians by following Straight Through Processing (STP)?	Yes/No		Yes/No		Logs of five dates for which trades have been verified
<b>n</b>	In case Institutional trades have not been routed through custodian, what are the reasons for the same? Whether any specific pattern is observed for the same?	Yes/No		Yes/No		
<b>o</b>	Whether member has obtained prior approval from the exchange before providing terminal to the clients under DMA facility?	Yes/No		Yes/No		Check the approval letter
<b>p</b>	Whether member has complied with regulatory requirements related to DMA?	Yes/No		Yes/No		2 cases
<b>q</b>	<b>Whether the trading member has implemented proper internal code of conduct &amp; proper internal controls to ensure that proper checks and balances are in place?</b>	Yes/No		Yes/No		Audit Period
<b>3</b>	<b>Contract notes, Client margin details and Statement of accounts</b>					
<b>a</b>	Whether contract notes are sent within prescribed time limit?	Yes/No		Yes/No		5 days
<b>b</b>	<b>Whether the trading member did not issue contract notes for fictitious transactions?</b>	Yes/No		Yes/No		5 days
<b>c</b>	Whether all prescribed details including name and signature of authorized signatory, dealing office details and brokerage are contained in contract note?	Yes/No		Yes/No		One day
<b>d</b>	Whether daily Margin statements are sent daily to respective clients?	Yes/No		Yes/No		5 days
<b>e</b>	Whether Proof of delivery / dispatch is maintained?	Yes/No		Yes/No		5 days
<b>f</b>	Whether contract notes bear running serial no?	Yes/No		Yes/No		5 Days
<b>g</b>	In case contract notes and margin details are sent in electronic form, whether sent log is maintained?	Yes/No		Yes/No		5 days
<b>h</b>	Whether trail of bounced mails is maintained and physical delivery is ensured in case of bounce mails?	Yes/No		Yes/No		5 days

i	Whether member has complied with regulatory requirements related to Electronic contract notes (ECN)?	Yes/No		Yes/No		5 days
j	Whether complete statement of accounts for funds and securities are issued on a quarterly basis to clients (wherever applicable), with error reporting clause? Whether proof of sending the same is maintained?	Yes/No		Yes/No		Quarterly statement for the quarter ended June 2010
k	<i>In cases wherein trading member has generated e-mail id for clients , Whether trading member had taken duly signed physical confirmation letter confirming the e-mail id and exercising choice to receive documents on that e-mail id.</i>	Yes/No		Yes/No		25 clients or 100% which ever is lower
L	<i>Whether the details regarding appointment of compliance officer and changes there in. If any, has been informed to the Exchange?</i>	Yes/No		Yes/No		Audit period
m	<i>Whether Trading Member has prominently displayed on contract notes, statement of funds and securities, and correspondences with the clients the following details-</i> i) <i>Name of the Member as registered with SEBI,</i> ii) <i>Its own logo, if any,</i> iii) <i>Its registration number,</i> iv) <i>Its complete address with telephone numbers,</i> v) <i>Name of the compliance officer, his telephone number and e-mail address?</i>	Yes/No		Yes/No		Audit period
n	<i>Whether trading member has not created/provided e-mail ids for clients?</i>	Yes/No		Yes/No		25 clients or 100% which ever is lower
o	<i>Whether the authorization for receiving electronic contract note is in writing and is signed by client only, not by power of attorney holder?</i>	Yes/No		Yes/No		25 clients or 100% which ever is lower

p	<b>Whether the authorization of electronic contract note contains a clause that any change in the e-mail id shall be communicated by the client through a physical letter to the trading member?</b>	Yes/No		Yes/No		25 clients or 100% which ever is lower
4	<b>Dealing with clients' funds and securities</b>					
a	Whether no cash dealings with clients are done in violation of the prescribed norms?	Yes/No		Yes/No		5 days
b	Whether in case where aggregate value of banker's cheque/demand draft/pay order is of Rs.50,000?or more per client per day then the same accompanied with name of bank account holder and the bank account number debited,duly certified by issuing bank?	Yes/No		Yes/No		5 days
c	Whether the member maintains the audit trail of the funds received through electronic fund transfers to ensure that the funds are received from their clients only?					
d	Whether pay-in / pay out was received from / made to account from the respective client account and systems are in place to ensure compliance in this regard by the member?	Yes/No		Yes/No		5 days
e	Whether client's funds / securities are transferred to respective clients within one working day of payout from Exchange?	Yes/No		Yes/No		5 days
f	<b>Whether Payments to clients is not made from own bank account?</b>	Yes/No		Yes/No		5 days
g	<b>Whether Constituent securities received as margin is not deposited in own beneficiary account?</b>	Yes/No		Yes/No		5 days
h	<b>Whether the Delivery of securities to constituent is not made from own beneficiary account?</b>	Yes/No		Yes/No		5 days
i	<b>Whether Excess Brokerage was not charged on trades executed on the Exchange?</b>	Yes/No		Yes/No		5 days

<b>j</b>	Whether clients funds and securities are not misutilised? If misutilised, instances to be provided	<b>Yes/No</b>		<b>Yes/No</b>		<b>5 days</b>
<b>k</b>	Whether collaterals of clients were not pledged with banks / other entities for raising funds? Instances to be given in case collaterals are pledged with banks / other entities.	<b>Yes/No</b>		<b>Yes/No</b>		<b>Audit period</b>
<b>l</b>	Whether funds raised by pledging client securities were utilised for respective client only? List of instances to be provided in case of non-utilisation of proceeds for respective client.	<b>Yes/No</b>		<b>Yes/No</b>		<b>Highest day of overdraft availed during the audit period</b>
<b>m</b>	Whether bank books and bank statements for each bank account are reconciled and reconciliation statement for the same is prepared periodically?	<b>Yes/No</b>		<b>Yes/No</b>		<b>Audit period</b>
<b>n</b>	Whether Register of Securities and Holding statement from depositories for each DP account are reconciliation statement for the same is prepared periodically?					<b>Audit period</b>
<b>o</b>	Whether bank book and register of Securities are in alignment with bank statements and transaction statements provided by banks and depositories respectively?					
<b>p</b>	Whether dividend and other corporate benefits received on behalf of clients is paid /credited/passed on to the respective clients account without any delay?	<b>Yes/No</b>		<b>Yes/No</b>		<b>Audit period</b>

q	<b>Whether Trading member has taken consent from the client regarding monthly/quarterly settlement?</b>	Yes/No		Yes/No		25 clients or 100% which ever is lower
r	<b>Whether Trading member has done actual settlement of funds &amp; securities as consented by the client (monthly/quarterly)?</b>	Yes/No		Yes/No		Audit Period
s	<b>Whether the periodicity of actual settlement of funds/securities is not more than 3 months/1 month in cases wherein client has consented for quarterly/monthly settlement respectively?</b>	Yes/No		Yes/No		Audit Period
t	<b>Whether trading member has sent statement of accounts for funds containing an extract from the client ledger for funds displaying all receipts/deliveries of funds while settling the account explaining retention of funds?</b>	Yes/No		Yes/No		Audit Period
u	<b>Whether trading member has sent statement of accounts for securities containing an extract from the register of securities displaying all receipts/deliveries of securities while settling the account explaining retention of securities &amp; pledge (if any)?</b>	Yes/No		Yes/No		Audit Period
v	<b>Whether trading member has not done any inter-client adjustment for the purpose of settlement?</b>	Yes/No		Yes/No		Audit Period
w	<b>Whether any of the following statutory levies/fee/charges are collected from clients in excess of actual? Such as – i) Securities Transaction Tax. ii) Service Tax. iii) SEBI turnover fees.</b>	Yes/No		Yes/No		Audit Period

	<i>iv) Exchange Transaction charges if yes, please give complete details.</i>					
x	<i>Whether the running account authorization is taken by trading member from client(s), whether it contains a clause which explicitly allows a client to revoke the said running account authorization at any time?</i>	Yes/No		Yes/No		25 clients or 100% which ever is lower
y	<i>Whether running account authorization taken by trading member from client is signed by client only and not by PoA holder?</i>	Yes/No		Yes/No		25 clients or 100% which ever is lower
z	<i>Whether the trading member has mentioned the clause in the periodical statement of accounts sent to the clients that, the running account authorization would continue until it is revoked by clients?(Applicable for statements sent after May 13,2011)</i>	Yes/No		Yes/No		25 clients or 100% which ever is lower
5	<b>Banking and Demat account operations</b>					
a	Whether member maintains separate bank account for client funds and own funds? Also whether member maintains separate beneficiary account for clients securities and own securities?	Yes/No		Yes/No		Audit Period
b	Whether clients funds and securities are segregated from own funds and securities?	Yes/No		Yes/No		Audit Period
c	Whether constituent beneficiary account or client bank account are used for authorized purposes only? In case of any irregularity observed, mention the instances in detail.	Yes/No		Yes/No		Audit Period
6	<b>Terminal operations and systems</b>					

<b>a</b>	Whether terminals are provided by the member in its head office, branch office or the office of sub broker only?	<b>Yes/No</b>		<b>Yes/No</b>		<b>100%</b>
<b>b</b>	Whether no terminal is allotted for unauthorized purposes?	<b>Yes/No</b>		<b>Yes/No</b>		<b>100%</b>
<b>c</b>	Whether periodic audit of systems and software including internet trading is conducted by certified system auditor (wherever applicable) and submitted the system audit report to the Exchange within prescribed time limit?	<b>Yes/No</b>		<b>Yes/No</b>		<b>Latest system audit report</b>
<b>d</b>	Whether terminals are operated by approved persons/approved users with valid NCFM/BCSM/NISM certification?	<b>Yes/No</b>		<b>Yes/No</b>		<b>100%</b>
<b>e</b>	Whether correct User name, terminal location are reported to the Exchange?	<b>Yes/No</b>		<b>Yes/No</b>		<b>100%</b>
<b>f</b>	Whether internal controls are in place to ensure that the certification of approved users has not expired?	<b>Yes/No</b>		<b>Yes/No</b>		<b>100%</b>
<b>g</b>	Whether prior permission is obtained by member for providing IML? Whether member has complied with applicable provision of IML?	<b>Yes/No</b>		<b>Yes/No</b>		<b>Check the approval letter</b>
<b>h</b>	Whether back up facilities are in place and followed?	<b>Yes/No</b>		<b>Yes/No</b>		<b>Audit Period</b>
<b>i</b>	Whether sufficient system for data security is in place?	<b>Yes/No</b>		<b>Yes/No</b>		<b>Audit Period</b>
<b>7</b>	<b>Management of branches / sub brokers and internal control</b>					
<b>a</b>	Whether survey is conducted by the member for opening / closing of branches?	<b>Yes/No</b>		<b>Yes/No</b>		<b>Audit Period</b>
<b>b</b>	In case of closure of branch, whether advance notice of the same is sent to clients?	<b>Yes/No</b>		<b>Yes/No</b>		<b>All branches closed during the period</b>
<b>c</b>	Whether there is monitoring mechanism to identify sudden increase / decrease in client level turnover from any specific branch?	<b>Yes/No</b>		<b>Yes/No</b>		<b>Audit period</b>

<b>d</b>	Whether periodic inspection of branch / sub broker is conducted and reports are maintained? What is the follow-up mechanism?	<b>Yes/No</b>		<b>Yes/No</b>		<b>Audit period</b>
<b>e</b>	Whether trading member has not dealt with unregistered intermediaries for transactions on the Exchange?	<b>Yes/No</b>		<b>Yes/No</b>		<b>Audit period</b>
<b>f</b>	Whether the member has not shared commission/brokerage with entities with whom trading members are forbidden to do business / another trading member / employee in the employment of another trading member?	<b>Yes/No</b>		<b>Yes/No</b>		<b>Audit period</b>
<b>g</b>	Whether Stock broker indemnity policy with standard cover/clauses has been taken?	<b>Yes/No</b>		<b>Yes/No</b>		<b>Latest insurance policy</b>
<b>8</b>	<b>Investor grievance handling</b>					
<b>a</b>	Number and value of investor complaints pending at the beginning of half year					<b>Audit Period</b>
<b>b</b>	Number and value of investor complaints received during half year					<b>Audit Period</b>
<b>c</b>	Number and value of investor complaints resolved during half year					<b>Audit Period</b>
<b>d</b>	Number & value of investor complaints pending as on the last day of half year					<b>Audit Period</b>
<b>e</b>	Give breakup of the pending investor complaints from branch/Head office/sub broker					<b>Audit Period</b>
<b>f</b>	Comment on investor grievance handling mechanism of the member.					<b>Audit Period</b>
<b>g</b>	Summary on nature of complaints received and action taken by the member					<b>Audit Period</b>
<b>h</b>	What is the duration of the longest pending investor complaint?					<b>Audit Period</b>
<b>i</b>	Whether specific action plan is framed by the member in respect of long pending complaints?	<b>Yes/No</b>		<b>Yes/No</b>		<b>Audit Period</b>
<b>j</b>	Whether designated email id for investor grievance is created and informed to the investors?	<b>Yes/No</b>		<b>Yes/No</b>		<b>Audit Period</b>

<b>k</b>	Whether complaints received on the designated email ID are being looked into to address the same?	<b>Yes/No</b>		<b>Yes/No</b>		<b>Audit Period</b>
<b>l</b>	Whether the Stock broker and Sub broker has taken adequate steps for redressal of grievances within one month from the date of receipt of complaint?	<b>Yes/No</b>		<b>Yes/No</b>		<b>For complaints pending as on August 25,2011 &amp; received between August 26,2011 to September 30,2011</b>
<b>m</b>	Whether the member has informed the Stock Exchange/Investor about the action taken thereon for the grievances?	<b>Yes/No</b>		<b>Yes/No</b>		<b>For complaints pending as on August 25,2011 &amp; received between August 26,2011 to September 30,2011</b>
<b>9</b>	<b>Maintenance of Books of Accounts</b>					
<b>a</b>	Whether prescribed books of accounts, registers and records are maintained with the required details and for the stipulated period as per regulatory requirement?	<b>Yes/No</b>		<b>Yes/No</b>		<b>Audit period</b>
<b>b</b>	Whether register of securities is maintained client wise-scrip wise?	<b>Yes/No</b>		<b>Yes/No</b>		<b>Audit period</b>
<b>c</b>	Whether exchange wise separate books of accounts are maintained?	<b>Yes/No</b>		<b>Yes/No</b>		<b>Audit period</b>
<b>d</b>	Whether trading member has not dealt with suspended/defaulter/expelled members and entities prohibited from accessing market?	<b>Yes/No</b>		<b>Yes/No</b>		<b>Audit period</b>
<b>e</b>	<b><i>Confirm that Trading member has adequate systems and checks in place to ensure that SEBI debarred entities are unable to trade ?</i></b>	<b>Yes/No</b>		<b>Yes/No</b>		<b>Audit Period</b>

<b>f</b>	Whether prior approval has been obtained by member for change in shareholding/directors/constitution?	<b>Yes/No</b>		<b>Yes/No</b>		<b>Audit period</b>
<b>g</b>	Whether prior approval has been obtained in case the member has dealt with another member of the Exchange?	<b>Yes/No</b>		<b>Yes/No</b>		<b>Audit period</b>
<b>h</b>	Whether member has intimated the Exchange in case of they have dealt with member of another stock exchange?	<b>Yes/No</b>		<b>Yes/No</b>		<b>Audit period</b>
<b>i</b>	Whether advertisements are issued after prior permission of the Exchange?	<b>Yes/No</b>		<b>Yes/No</b>		<b>Audit period</b>
<b>j</b>	Whether member maintains and update client master in its back office?	<b>Yes/No</b>		<b>Yes/No</b>		<b>Audit period</b>
<b>k</b>	Whether Notice board of the Trading Member was displayed at the location of audit?	<b>Yes/No</b>		<b>Yes/No</b>		<b>Audit Period</b>
<b>l</b>	Whether SEBI registration certificate of the Trading Member was displayed at location of audit?	<b>Yes/No</b>		<b>Yes/No</b>		<b>Audit Period</b>
<b>m</b>	<b><i>Whether Trading Member maintains all records which relate to the terms and conditions with respect to the opening and maintenance of such account after the closing of any constituents account?</i></b>	<b>Yes/No</b>		<b>Yes/No</b>		
<b>n</b>	<b><i>Whether Member has made arrangements for an internal review, atleast annually, of the business designed to detect and prevent violations of and to achieve compliance of, the Byelaws, Rules and Regulations of the Exchange?</i></b>	<b>Yes/No</b>		<b>Yes/No</b>		<b>Audit Period</b>
<b>o</b>	Comments of the auditor on the analysis of financial reports of the member.					<b>Audit period</b>

<b>10</b>	<b>Systems &amp; Procedures pertaining to Prevention of Money Laundering Act, PMLA, 2002</b>					
<b>a</b>	Whether details of appointment of Principal Officer and change in Principal Officer, if any, is intimated to FIU-India?	<b>Yes/No</b>		<b>Yes/No</b>		<b>Audit period</b>
<b>b</b>	Whether member has adopted and implemented written guidelines prescribed under PMLA, 2002?	<b>Yes/No</b>		<b>Yes/No</b>		<b>Audit period</b>
<b>c</b>	Whether Member has adequate system in place that allows continuous monitoring of transactions and generate alerts based on set parameters for suspicious transactions?	<b>Yes/No</b>		<b>Yes/No</b>		<b>Audit period</b>
<b>d</b>	Whether Member has adequate systems & procedures in place to ensure screening of employees while hiring?	<b>Yes/No</b>		<b>Yes/No</b>		<b>Audit period</b>
<b>e</b>	Whether member has adequate systems in place to scrutinize the alerts and arrive at suspicious transactions?	<b>Yes/No</b>		<b>Yes/No</b>		<b>Check for any one day to see alerts have been generated in accordance with written policy of the member and check the disposal of the same</b>
<b>f</b>	Whether member has appropriate procedures for reporting of suspicious transactions to FIU	<b>Yes/No</b>		<b>Yes/No</b>		<b>Audit period</b>
<b>g</b>	Total no. of alerts generated during the half year					<b>Audit period</b>
<b>h</b>	No. of STRs filed by the member during half year.					<b>Audit period</b>
<b>i</b>	As per provisions of Prevention of Money Laundering Act, 2002 whether record of transactions, it's nature and it's value are maintained and preserved as prescribed under	<b>Yes/No</b>		<b>Yes/No</b>		<b>Audit period</b>

	Rule 3 of PMLA?					
<b>j</b>	Whether Member has ongoing training program for employees so that members of the staff are adequately trained in AML and CFT (Combatting Financing of Terrorism) procedure?	<b>Yes/No</b>		<b>Yes/No</b>		<b>Audit period</b>
<b>11</b>	<b>Transfer of trades</b>					
<b>a</b>	Whether trades were executed in respective clients account and are not transferred from one client code to another client code or from client code to pro or vice-versa in the back office of the member.  In case of such transfers, if any specific pattern is observed instances to be provided	<b>Yes/No</b>		<b>Yes/No</b>		<b>10 days</b>
<b>b</b>	Whether modifications of client code of Non-Institutional trades on the Exchange platform, if any are done only to rectify genuine errors or objective criteria in entry of client code at the time of placing/modifying the related order?	<b>Yes/No</b>		<b>Yes/No</b>		<b>Audit period</b>
<b>c</b>	Whether any pattern is not observed on analysis of client code modification carried out on the exchange platform? If any pattern is observed, please give details	<b>Yes/No</b>		<b>Yes/No</b>		<b>Audit period</b>
<b>d</b>	Whether system is put in place to monitor/prevent the use of client code modification facility for purposes other than correcting mistakes arising out of client code order entry? Please give details of such preventive system.	<b>Yes/No</b>		<b>Yes/No</b>		<b>Audit period</b>

e	Whether the trades modified by the member to the "ERROR" code has been settled in ERROR account? If no, please provide the details.	Yes/No		Yes/No		From August 26,2011 to September 30,2011
f	Whether the trading member has a well documented error policy to handle client code modification, approved by their board or Management?	Yes/No		Yes/No		
g	Whether the member has modified trades only for the reasons he has given to the Exchange through BEFS?	Yes/No		Yes/No		Audit Report
12	<b>Margin Trading</b>					
a	Whether member has obtained specific approval from the exchange, in case he is providing margin trading facility to his clients?	Yes/No		Yes/No		Audit period
b	Whether member has complied with regulatory requirements related to margin trading?	Yes/No		Yes/No		Audit period
13	<b>Proprietary Trading</b>					
a	If member is doing pro trading, whether member has disclosed this information to his clients?	Yes/No		Yes/No		Audit period
b	If member is doing pro trading from multiple locations, whether member has obtained prior approval from the Exchange in this regard?	Yes/No		Yes/No		Audit period
14	<b>Internet Trading</b>					
a	Whether member has obtained specific approval from the exchange, in case he is providing internet trading facility to his clients?	Yes/No		Yes/No		Audit period
b	Whether member has complied with regulatory requirements related to internet trading?	Yes/No		Yes/No		Audit period
15	<b>Execution of Power of Attorney (POA)</b>					
a	If trading member obtains POA from any of their clients, mention no. of clients from whom the member has obtained POA					

<b>b</b>	Whether the POA is in the name of the member and it is not in the name of any of its employees or representatives or sub-brokers?	<b>Yes/No</b>		<b>Yes/No</b>		<b>Audit period</b>
<b>c</b>	Whether Power of Attorney executed in favour of trading member is only limited to the following purposes allowed as per regulatory provisions?					
<b>(i)</b>	<b><i>Transferring securities held in beneficial owner account(s) of client (s) towards stock exchange related margin/delivery obligations arising out of trades executed by the client(s) through the same trading member.</i></b>	<b>Yes/No</b>		<b>Yes/No</b>		<b>Audit period</b>
<b>(ii)</b>	<b><i>Pledging the securities in favor of trading member for the limited purpose of meeting the margin obligation on account of trades executed by the client on the stock exchange through the same trading member</i></b>	<b>Yes/No</b>		<b>Yes/No</b>		<b>Audit period</b>
<b>(iii)</b>	<b><i>To apply for various products like mutual funds, public issues, rights, offer of shares , tendering shares in open offer etc pursuant to specific instructions of the client(s)</i></b>	<b>Yes/No</b>		<b>Yes/No</b>		<b>Audit period</b>
<b>(iv)</b>	<b><i>Transferring funds from bank account(s) of the client for meeting the settlement/margin obligation of the client(s) in connection with trades executed by the clients on the stock exchange through the same trading member</i></b>	<b>Yes/No</b>		<b>Yes/No</b>		<b>Audit period</b>
<b>(v)</b>	<b><i>For recovering any outstanding amount from client(s) bank account which is due from the client(s) on account of client(s) trading activities</i></b>	<b>Yes/No</b>		<b>Yes/No</b>		<b>Audit period</b>
<b>(vi)</b>	<b><i>For recovering any other obligation from client bank account(s) arising out on account of client (s) subscribing to other products/services availed through trading member such as mutual funds, public issues, rights, offer of shares etc</i></b>	<b>Yes/No</b>		<b>Yes/No</b>		<b>Audit period</b>

(vii)	<i>For recovering fees/charges from client bank account(s) which is due to trading member on account of various products/services availed through the trading member.</i>	Yes/No		Yes/No		Audit period
d	<i>Whether PoA executed consists of details of beneficial owner account(s) and bank account (s) of the client that trading member is entitled to operate?</i>	Yes/No		Yes/No		Audit period
e	<i>Whether PoA executed comprises of list of clients &amp; trading members bank account where securities and funds can be moved?</i>	Yes/No		Yes/No		Audit period
f	<i>Whether PoA is adequately stamped as per law prevailing in the place where the PoA is executed?</i>	Yes/No		Yes/No		Audit period
g	<i>Whether PoA executed is revocable any time without notice?</i>	Yes/No		Yes/No		Audit period
h	<i>Whether PoA executed does not allow off market transactions, transfer of funds from the bank account(s) of the clients for trades executed by clients through another stock broker, opening of trading account, execution of trades without client's consent, merging of dues under various accounts, opening of e-mail account on behalf of client(s) and renouncing of liability for any losses arising due to blocking of funds on account of erroneous instruction of trading member to the designated bank?</i>	Yes/No		Yes/No		Audit period
i	<i>Whether PoA executed does not prohibit operation of trading account by client(s)?</i>	Yes/No		Yes/No		Audit period
j	<i>Whether Duplicate copy of PoA is provided to client(s) after execution?</i>	Yes/No		Yes/No		Audit period
k	<i>What are the internal controls adopted by the member to ensure that PoA is not misutilized?</i>					Audit period

	<i>that POA is not misutilised?</i>					
<b>16</b>	<b>Operations of Professional Clearing member/ Members clearing trades of other trading members</b>					
<b>a</b>	Whether all the mandatory clauses have been included in CM - TM agreement (wherever applicable)?	<b>Yes/No</b>		<b>Yes/No</b>		<b>25 members or 100% whichever is lower</b>
<b>b</b>	Whether Clearing member custodial participant agreements are executed in prescribed formats (wherever applicable)?	<b>Yes/No</b>		<b>Yes/No</b>		<b>25 members or 100% whichever is lower</b>
<b>c</b>	Whether statement of accounts has been sent to trading member/custodial participants/?	<b>Yes/No</b>		<b>Yes/No</b>		<b>5 days</b>
<b>d</b>	Whether clearing members had collected appropriate and adequate margins in prescribed forms from respective trading members?	<b>Yes/No</b>		<b>Yes/No</b>		<b>5 days</b>
<b>e</b>	Whether Margin collection reported to Exchange is in accordance with margins actually collected from trading member?	<b>Yes/No</b>		<b>Yes/No</b>		<b>5 days</b>
<b>f</b>	Whether exposure allowed to trading members were based on requisite margins available with the clearing member?	<b>Yes/No</b>		<b>Yes/No</b>		<b>5 days</b>
<b>g</b>	If interest is charged to the trading member, what is the basis of interest with complete details like percentage of interest, periodicity of interest charged					<b>5 days</b>
<b>17</b>	<b>Securities Lending &amp; Borrowing Scheme</b>					
<b>a</b>	Whether member has obtained specific approval from the exchange for offering SLBS?	<b>Yes/No</b>		<b>Yes/No</b>		<b>Audit Period</b>
<b>b</b>	Whether member has complied with regulatory requirements related to SLBS?	<b>Yes/No</b>		<b>Yes/No</b>		<b>Audit Period</b>
<b>18</b>	<b>Compliance status of last inspection carried out by SEBI/Exchanges/Internal Auditor</b>					

<b>a</b>	Whether member has complied with the qualifications/violations made in last SEBI inspection report?	<b>Yes/No</b>		<b>Yes/No</b>		
<b>b</b>	Whether member has complied with the qualifications/violations made in last Exchange inspection report?	<b>Yes/No</b>		<b>Yes/No</b>		
<b>c</b>	Whether member has complied with the qualifications/violations made in latest half yearly Internal Audit report?	<b>Yes/No</b>		<b>Yes/No</b>		
<b>d</b>	Give status of compliance against each qualifications/violations observed in last inspection report of SEBI/Exchange/Internal Auditor					
<b>19</b>	<b>Comments of the auditor on any other area (Give details of the comments)</b>					

Signature of the Auditor: \_\_\_\_\_

Name of the Auditor : \_\_\_\_\_

Membership No : \_\_\_\_\_

Stamp of the Audit Firm : \_\_\_\_\_

**Points to be noted:**

The guidelines prescribed hereunder do not limit the scope of the internal audit. The points mentioned are only indicative in nature and not exhaustive. It however, does not limit the scope of the internal audit. This has been prepared based on the regulatory requirement (as per relevant acts, rules, regulations and circulars) which keep on developing from time

to time. The auditors should peruse them and update the scope of the audit. The auditors should clearly indicate 'Yes' indicating compliance, 'No' indicating Non compliance and 'NA' wherever 'Not Applicable'

The report shall also include the following.

**1. Management comments**

- a) In case of any non compliances/findings/observations/qualifications by the auditor the management responses should be given to the Exchange against each point. Further para wise comments are required to be given by the management as given in the format above.**
  - b) The trading member to mention the date on which the report has been presented to the Board/Management/Audit Committee/Proprietor for their approval and indicate corrective and preventive actions taken by the management for addressing the deficiencies along with the timeliness of when the agreed suggestions would be implemented .**
  - c) In case of receipt of internal audit reports without management comments / only certificate and no report, the same shall be treated as non submissions.**
2. Improvements brought about in the operations between the last audit and the current audit.
  3. A statement by the auditor that the provisions of SCRA 1956, SEBI Act 1992, SEBI (Stock Brokers and Sub-brokers) Regulations 1992, SCRR 1957, Rules, Bye laws, Regulations, circulars of SEBI, agreements, Bye laws of Exchange/Clearing Corporation, data security and insurance have been covered in the audit.
  4. Auditor shall specifically declare about direct / indirect interest in or relationship with the member or its share holders / directors / partners / proprietors / management if any and also confirm that they do not perceive any conflict of interest in such relationship / interest while conducting internal audit of the said member.
  5. Membership number allotted by the affiliated professional body should be quoted at the bottom of the report as provided in the format .Each page of the report shall be signed and stamped by the auditor.
  - 6. In case any violations/qualifications/observations are observed by the auditor the same shall be submitted as annexure with complete details and should be quantified specifying the no of instances, value etc. and the evidences should be enclosed with the Internal Audit Report.**

7. **Sample size indicated in the format above is minimum sample size. The auditor may increase the sample size as it may deem fit. It is desirable that the sample selected is representative sample of the population.**
8. **The internal audit report should be submitted to the Exchange as per the report format specified above.**
9. **In case where internal audit report submitted is incomplete and not as per the guidelines like sample size not given, only certificate submitted without report, same would be treated as non submission of internal audit report. Exchange reserves the right to advise a Member to change it's auditor if quality of the report is not satisfactory or the audit is not carried out as per guidelines.**
10. **If in the opinion of the auditors, any observation related to any area also possess a risk relating to Anti Money Laundering (AML) or Combating Financing of Terrorism (CFT) then such observation should be highlighted clearly specifying the risk relating to it.**

### **Indicative Processes/guidance for verification of respective areas:**

#### **1. Client registration and documentation:**

Checks and balances in place for Execution of Know Your Client (KYC), Member Constituent Agreement (MCA)/Tripartite Agreement (TPA) and Risk Disclosure Document (RDD) .

Systems and procedures put in place by member for verification of PAN before opening account  
Procedure followed by the member for informing UCC to the clients & uploading to the Exchange  
Mechanism to ensure financial details of clients  
Procedure adopted for in person verification of clients  
Procedure adopted by relationship managers, if any, for procuring new clients  
Storage of client registration documents and retrieval mechanism  
Procedure adopted for obtaining clients' consent for electronic contract notes  
Periodic review of client related information and updation of the same in system  
Acquaintance procedure for new clients

## **2. Order management and risk management systems**

Procedure adopted for receipt of orders from clients  
Mechanism for order management and execution  
Procedure adopted for setting Limits at client level / Terminal level/Dealer level  
Policy on Margin collection mechanism and the modes of margin money  
Procedure adopted for reporting of client margin collection to clearing corporation  
Review of process adopted for monitoring/recovery of long outstanding debit balances  
Procedure adopted for calculation and reporting client funding  
Procedure for monitoring institutional trades not routed through custodians  
Procedure adopted for providing Direct Market Access (DMA) facility

## **3. Contract notes, Client margin details and Statement of accounts**

Procedure adopted for issuance of contract notes  
Adherence to electronic contract note norms, if applicable  
Procedure adopted for sending statement of accounts  
Procedure adopted for sending margin details to clients

Procedure for maintaining acknowledgement/proof of delivery of contract notes/statement of accounts/margin details to the clients

#### **4. Dealing with clients' funds and securities**

Verification of internal controls adopted by the member while accepting banker's cheque / demand draft from clients

Procedure for ensuring that receipts and payment of funds/securities are from/to respective client only

Verification of following books of accounts/records

- Register of Securities
- Bank Statements
- Depository accounts maintained by member
- Client ledgers
- Cash Book
- Bank Book
- Details of records of client securities pledged, if any.
- Underlying for any overdraft/loan account.

#### **5. Banking and Demat account operations**

Procedure for segregation of own and clients' funds and securities (in separate accounts)

Internal controls for use of client bank and client beneficiary accounts only for authorized purposes.

#### **6. Terminal operations and systems**

Procedure and policy adopted by member before allotment of trading terminals

Due diligence adopted for password security

Procedure in place for audit of systems and software

Periodic updating of version and back up mechanism

System adopted for data storage, security and access

#### **7. Management of branches / sub brokers and internal control**

System and Policy followed for opening / closing of branch

Procedure adopted to inform the same to clients

Periodicity and procedure adopted for inspection of branches / sub brokers

Reporting mechanism and mode of informing the inspection observations to branches / sub brokers and Follow up action plan

Policy of fixing of roles and responsibilities of officials in head office, branches and sub-brokers office

Process laid out so as to prevent unregistered intermediation

Documentation of Internal controls and Comments on Internal controls in place

Verification of Stock broker indemnity insurance policy

Sharing of commission/brokerage

### **8. Investor grievance handling**

Mechanism to monitor complaints lodged with branches/Sub brokers

Maintenance of complaints register

Redressal mechanism for complaints registered against the member

Verification of investor grievance registers and email id

Internal control for verification of complaints received through the designated email –id

### **9. Maintenance of Books of Accounts**

Prescribed books of accounts, registers and records are maintained Exchange wise, with the required details and for the stipulated period as per regulatory requirement

Internal controls on the process for taking approval of the Exchange

Analysis of financial reports

### **10. Systems & Procedures pertaining to Prevention of Money Laundering Act, PMLA, 2002**

Customer acceptance policy and customer due diligence measures

System in place that allows continuous monitoring of transactions

Process of generation and monitoring alerts

Process for identifying STR (Suspicious Transaction Report) and reporting the same to FIU-India

Processes for verification of alerts with KYC details

### **11. Transfer of trades**

Procedure and system adopted for transfer of trades in the back office

Internal controls for transfer of trades

## **12. Margin Trading**

Procedure and systems in place as per regulatory requirements with respect to execution of agreements and sources of funds for the Member.

## **13. Internet Trading**

Procedure followed for allotting of user id and password, change of password etc.

Internal controls for internet trading

## **14. Execution of Power of Attorney (POA )**

Process adopted for execution of POA

Internal control adopted by the member to ensure that POA is not misutilised.