CDSL/AUDIT/DP/1956 **April 09, 2010**

DUE DILIGENCE IN DEPOSITORY OPERATIONS

DPs are required to maintain adequate internal controls and a mechanism to review, monitor and evaluate such controls and systems. Further, in addition to internal audit of DP operations, DPs are required to conduct the concurrent audit of certain risk prone areas of their CDSL operations by an independent firm of qualified Chartered Accountant(s) or Company Secretary(ies). The adequacy of such mechanism is assessed during inspection of the DPs on sample basis.

Some common violations observed during the inspection 2009-10 are listed below. DPs are hereby instructed to take appropriate steps to implement proper internal control mechanisms to avoid such non-compliances. Further, DPs should also bring the said list to the notice of their internal and concurrent auditors.

Account opening:

1. Stamp of “In-Person verification” or “Verified with original” not affixed on the Account Opening Form / photocopy of proof of identity / address collected from the BOs.
2. BO signatures are not appropriately scanned in CDAS.
3. In case of change in address of the BO, confirmation letter is not sent to BO at old as well as new addresses.
4. Proper proof for bank account details is not obtained.

Dematerialisation:

1. The certificates along with rejection letters are not returned to the concerned BO within 7 days of receipt of the same from the RTA.
2. Proper records of dispatch details such as DRN, dispatch ref no., dispatch date, name of courier / signature of BO are not kept.

Delivery Instruction Slip:

1. Requisition slip does not have preprinted instruction slip serial number range of the booklet of which it forms a part.
2. If instruction slip booklet is not issued on the basis of requisition slip, the procedure prescribed under operating instruction no. 6.5.1.12 is not followed.
3. DIS does not contain information on "consideration" and “Reason/Purpose" in cases of off-market transactions – (BO to BO transfer).

Other transactions:

1. Transaction statements are not sent at intervals as prescribed by CDSL by the Main DP to all BOs including BOs of all its branches.
2. A proper policy framework is not prepared as per the guidelines of PMLA and a copy is not sent to FIU-IND.
3. The register, as prescribed by CDSL, regarding the alerts being provided to facilitate compliance under PMLA guidelines is not maintained properly and actions taken are not recorded as per communiqué no. **CDSL/OPS/DP/762**.

DPs are advised to note that the revised penalty structure as communicated vide communiqué no. **CDSL/OPS/DP/1558** dated April 24, 2009 is applicable for non-compliances observed on or after May 1, 2009.

Queries regarding this communiqué may be addressed to **CDSL – Audit** on telephone nos. (022) 2272-8631, 2272-8687, 2272-8564, 2272-8679, 2272-8164, 2272-5096, 2272-5097 or 2272-5095.

sd/-

Nayana Ovalekar
Vice President – Audit, Inspection & Compliance

REMINDER TO DPs

- **Deadline date of April 30, 2010 – Submission of Tariff/Charges Structure to CDSL**
  Reference: Communiqué no. **CDSL/OPS/DP/1951** dated April 06, 2010. DPs are advised to ensure that their tariff/charges structure is uploaded to CDSL's website through their DP log-in and, simultaneously, a hard copy of the same should be sent to CDSL for approval.

- **Deadline date of May 15, 2010 – Submission of Internal Audit Reports to CDSL for the period October 01, 2009 to March 31, 2010**
  Reference: Communiqué no. **CDSL/OPS/DP/1930** dated March 22, 2010 regarding submission of the Internal Audit Report [IAR] and Concurrent Audit Report [CAR] in the **revised** format.