Check List for Audit of Stock Exchange

The following checklist has been formulated keeping in the mind various aspects of functioning of major stock exchanges and its impact on accounting and auditing activities relating to members of stock exchanges. However, other statutory requirements in general and various pronouncements issued by ICAI also require to be followed.

- ***BOOKS OF ACCOUNTS TO BE MAINTAINED AS PER SECURITIES & EXCHANGE BOARD OF INDIA (SEBI) STOCK BROKERS & SUB-BROKERS RULE 1992***
- ***A) REGULATION – 17***
  - *Every stock-broker shall keep and maintain the following books of accounts, records and documents namely: -*
  - *Register of transactions (Sauda Book);*
  - *Clients ledger;*
  - *General ledger;*
  - *Journals;*
  - *Cash book;*
  - *Bank pass book;*
  - *Documents register should include particulars of shares and securities received and delivered;*
  - *Members' contract books showing details of all contracts entered into by him with other members of the same exchange of counterfoils or duplicates of memos of confirmation issued to such other member;*
  - *Counterfoils or duplicates of contract notes issued to clients;*
  - *Written consent of clients in respect of contracts entered into as principals;*
  - *Margin deposit book;*
  - *Registers of accounts of sub-brokers;*
  - *An agreement with a sub-broker specifying the scope of authority and responsibilities of the Stock-Broker and such sub-broker.*

- *Every stock-broker shall intimate to the Board the place where the books of accounts, records and documents are maintained.*

- *Without prejudice to sub-regulation (1), every stock-broker shall, after the close of each accounting period furnish to the Board if so required as soon as possible but not later than six months from the close of the said period a copy of the audited balance sheet and profit and loss account, as at the end of the said accounting period:*

- ***Provided that, if it is not possible to furnish the above documents within the time specified, the stock-broker shall keep the Board informed of the same together with the reasons for the delay and the period of time by which such documents would be furnished.***

- ***Maintenance of books of accounts and records***
- *Every stock-broker shall preserve the books of account and other records maintained under regulation 17 for a minimum period of five years.*
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- ***BOOKS OF ACCOUNTS AND OTHER DOCUMENTS TO BE MAINTAINED AND PRESERVED BY EVERY MEMBER OF A RECOGNISED STOCK EXCHANGE AS PER REGULATION - 15 OF SECURITIES CONTRACTS (REGULATION) RULES, 1957***
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- *Every member of a recognised stock exchange shall maintain and preserve the following books of account and documents for a period of five years :*
  - *Register of transactions (Sauda book).*
  - *Client's ledger.*
  - *General ledger.*
  - *Journals*
  - *Cash book.*
  - *Bank pass-book.*
  - *Documents register showing full particulars of shares and securities received and delivered.*

- *Every member of a recognised stock exchange shall maintain and preserve the following documents for a period of two years:*
  - *Member's contract books showing details of all contracts entered into by him with other members of the same exchange or counter-foils or duplicates of memos of confirmation issued to such other members.*
  - *Counter-foils or duplicates of contract notes issued to clients.*
  - *Written consent of clients in respect of contracts entered into as principals.*

- **THE AUDIT REPORT TO BE SUBMITTED BY THE MEMBERS SHOULD BE IN THE FOLLOWING FORMAT, REQUIRED AS PER SECURITIES CONTRACTS (REGULATION) ACT.**
- "We have audited the attached Balance Sheet of M/s ________________________________ as at _________________________ and the Profit & Loss Account for the year ended on that date annexed thereto and reported that :
- 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.
- In our opinion, proper books of account and records as specified in Rule 15 of the Securities Contracts (Regulation) Rules, 1957 have been kept so far as appears from our examination of such books.
- The stockbroker has complied with the requirements of the stock exchange, so far as they relate to maintenance of accounts and was regular in submitting the required accounting information to the stock exchange.
- The Balance Sheet and the Profit & Loss Account referred to in this report are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the said Balance Sheet and the Profit & Loss A/c read together with the notes thereon give a true and fair view insofar as it relates to the Balance Sheet, of the state of affairs of M/s ____, and insofar as it relates to the profit and loss account, of the profit of M/s _________________________________ for the year ended on that date."

- **IMPORTANT AREAS TO BE VERIFIED**
- **Client Ledger**
- Exchange-wise client Ledger has to be kept separately
- Even in each exchange segment wise Ledgers to be maintained
- Loan transaction should not form part of such accounts
- Payment should be within prescribed time limit.
- Marked to Market Margin is properly reflected or not (in case of Derivative Segment).

- **General Ledger**

Settlement vallan (control) Account Self contra Account for each vallan Normally entries are made directly through system Verification with Money Statement / Final obligation statement To Cross tally with clearing house account Margin and other adjustments.

Brokerage A/c.

Brokerage charged as per prescribed limit Vallan-wise brokerage Equity/Debt/Derivative segment brokerage shown separately Service Tax reconciliation Brokerage Accounting on completed settlement system or otherwise

Margin A/c.

Settlement (Variation) Margin Client wise Initial Margin Volatility Margin, etc. Margin Deposit at the end of the year MTM Margin: Margins Statements downloaded from the exchange.

Clearing House A/c. To reconcile with clearing house statement Check the contra entries with vallan control account or Margin account, etc. Exchange dues (if any) Account with Clearing Member in case of Derivative Segment.

Bank A/cs. Settlement Bank account Client Bank account Other Bank account Own Trading A/cs. Valuation of Closing Stock Verification of Demat Holding Statement Speculation /Arbitrage / Delivery Profit or Loss on trading

POINTS FOR COMPLIANCE AUDIT

Checklist

- Proper books of accounts, records & documents as required by SCRA & SEBI have been maintained
- Whether Order book maintained
- Trade done file (downloaded from system of the exchange)
- Sauda book (Register of transaction)
- Contract Notes
  - Format of Contract Notes
  - Numbering of Contract Notes
  - Signatories to Contract Notes
  - Duplicate of Contract Notes
  - Acknowledgement of Client on Contract Note
  - Contract Notes complete in all respect
  - Name & Code of Client
  - Brokerage shown separately or not (to be within prescribed limit)
  - P.A. No. of Client in case of Contract Value above Rs. 1 Lac.
- Settlementwise Client Bills
- Records relating to Margin Received / Refund
- Margins Statements downloaded from the exchange
- Margins balance confirmations.
- Quarterly Margin Certificate.
- Verification of Unique Client Code
- Inward / outward (Document) Register / Securities Register
- Verification of Demat Account
  - Name of the Depository Participants
  - Nature of Account etc.
  - Verification of Pay-In and Pay-Out of shares with Demat Accounts
  - Own Stock in Trade also to be verified with holding Statement of DP
  - Payout is within prescribed time limit

- Bank Accounts
  - Own Account (Segregation of Own Money and Client Money)
  - Settlement / Clearing Account
  - Client Account
- [Nature of money Paid / Received in such Accounts]
  - Others
    - Any business done on underwriting
    - Client Ledger
    - No. of Trading terminals / Branch
    - Name, Addresses & Registration no. of Sub-Brokers / Remisiers
    - Client Member agreement entered into for all clients.
    - Investors / Client Complaints pending (if any)
    - Arbitration case pending if any
    - Networth Certificates & other Certificates issued to Exchange/SEBI
    - Whether Member is not involved in any Fund Lending Borrowing activity
    - Last Year Balance Sheet & or Half Yearly Balance Sheet
- Code of Conduct adhered to.