Annexure II

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

<table>
<tr><td>1. Client registration and documentation</td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td>Particulars</td><td>Comments</td><td>Remarks of internal auditor</td><td>Minimum Sample Size to be checked & in case of observations specify the no of instances with amount</td></tr>
<tr><td>Execution of Know Your Client(KYC), Member Constituent Agreement(MCA)/Tripartite Agreement(TPA) and Risk Disclosure Document (RDD) – checks and balances in place</td><td rowspan="8">Whether KYC, MCA/TPA, RDD are executed in the prescribed formats and the same is executed before execution of trades for the client ?

Whether UCC is allotted to the client & the same is uploaded to the Exchange with PAN?

Whether all fields in KYC including client's financial details are filled in properly?

Whether proper proof of identity, PAN and proof of address are taken with KYC form?

Whether any contravening clauses are included in MCA/TPA?

Whether in person verification of clients is done by the employees of the trading member only?

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?

Whether copies of all the documents executed by client are given to the respective clients?</td><td>Yes No</td><td></td><td>25 clients or 100% whichever is lower</td></tr>
<tr><td>Verification of formats of KYC, MCA/TPA and RDD and attachments including proof of identity and address, as prescribed by NSE/ SEBI</td><td>Yes No

Yes No</td><td></td><td>25 clients or 100% whichever is lower</td></tr>
<tr><td>Verification that Contradictory clauses are not mentioned in KYC, MCA,TPA and RDD</td><td>Yes No</td><td></td><td>25 clients or 100% whichever is lower</td></tr>
<tr><td>Systems and procedures put in place by member for verification of PAN before opening account</td><td>Yes No</td><td></td><td>25 clients or 100% whichever is lower</td></tr>
<tr><td>Procedure followed by the member for informing UCC to the clients & uploading to the Exchange</td><td>Yes No</td><td></td><td>25 clients or 100% whichever is lower</td></tr>
<tr><td>Mechanism to ensure financial details of clients</td><td>Yes No</td><td></td><td>25 clients or 100% whichever is lower</td></tr>
<tr><td>Procedure adopted for in person verification of clients</td><td>Yes No</td><td></td><td>25 clients or 100% whichever is lower</td></tr>
<tr><td></td><td></td><td></td><td></td></tr>
</table>

Procedure adopted by relationship managers, if any, for procuring new clients	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? Whether client details including financial details are reviewed periodically and updated?	**Yes No**		**25 clients or 100% whichever is lower**
Delivery of copies of client registration documents to the clients		**Yes No**		**25 clients or 100% whichever is lower**
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				
Verification of RDD/KYC/MCA/TPA of different types of clients				
Acquaintance procedure for new clients				
Exchange regulatory references Circulars- Download no. NSE/INSP/11324 dated 18-Sep-08, Download no. NSE/INVG/7236 dated 3-Mar-06 *SEBI references* ➢ *SEBI/MIRSD/DPS-1/Cir-31/2004, dated August 26, 2004 & Regulation 7 D* ➢ *MIRSD/DPS III / 130466 / 2008 dated July 02, 2008* ➢ *MRD/DoP/Cir- 05/2007 dated April 27, 2007* ➢ *SMDRP/Policy/Cir-39/2001 dated July 18, 2001.* ➢ *MRD/DoP/SE/Cir- 35/2004 dated October 26, 2004*				
2. Order management and risk management systems				
Procedure adopted for receipt of orders from clients	Whether checks are in place to ensure that no unauthorized orders are executed from any of the terminals? 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**		**Audit Period**
Mechanism for order management and execution		**Yes No**		**5 days**
Procedure adopted for setting Limits at client level / Terminal level/Dealer level				
Policy on Margin collection mechanism and the modes of		**Yes No**		

margin money				
Procedure adopted for reporting of client margin collection to clearing corporation	In case of dormant accounts, are there any checks in place to ensure that incase the account is reactivated whether it is operated by the respective client only?	**Yes No**		**5 days**
Review of process adopted for monitoring/recovery of long outstanding debit balances	Whether initial and other margins are collected from respective clients in the prescribed form of funds, fixed deposit receipts, bank guarantees and approved securities with appropriate haircut?	**Yes No**		
Procedure adopted for calculation and reporting client funding	Whether the member has a proper system for reporting the correct client margin collection to NSCCL, in Derivatives segment?	**Yes No**		
Procedure for monitoring institutional trades not routed through custodians	Verify whether the margin reported by the member to the Exchange in Derivates 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.	**Yes No**		**5 days**
Procedure adopted for providing Direct Market Access (DMA) facility				
	Whether Risk Management System (RMS) includes policy on margin collection from clients/trading member and the RMS is documented?	**Yes No**		**Audit Period**
	Whether proper systems are in place to ensure timely collection for pay-in from the respective client as per settlement schedule?	**Yes No**		**One day**
	Whether proper monitoring mechanism is in place to review long outstanding debit balances in clients' account and recovery of the same? **Give agewise analysis of debts outstanding for more than 30 days and the recovery pattern for the same**	**Yes No**		**Audit period**
	Whether member has reported details of client funding, if any, to the exchange within prescribed time limit?	**Yes No**		**Upload files**
	What are the sources of funds in			

	case client funding is observed? Whether all institutional trades are routed through custodians by following Straight Through Processing ? What are the reasons for institutional trades not being routed through custodians? Whether any specific pattern is observed for the same? Whether member has obtained prior approval from the exchange before providing terminal to the clients under DMA facility? Whether member has complied with regulatory requirements related to. DMA?	 **Yes No** **Yes No** **Yes No**		 **Logs of five dates for which trades have been verified** **Check the approval letter** **2 cases**
Exchange's regulatory references Circulars- Download no. NSE/INVG/7236 dated 3-Mar-06, Download no. NSE/MEMB/261 dated 27-May-97, Download no. NSE/INSP/11324 dated 18-Sep-08, Download no. NSE/CMPT/6610 dated 06-Sep-05, NSE/CMPT/6653 dated 16-Sep-05, Download NSE/CMTR/10537 dated 3-Apr-08, Download no. NSE/CMTR/6732 dated 04-Oct-05, Download no. NSE/CMTR/6963 dated 19-Dec-05, Download no. NSE/CMPT/11276 dated 10-Sep-08 *SEBI references* ➢ *MRD/DoP/SE/Cir-07/2005 dated February 23, 2005* ➢ *MRD/DoP/SE/Cir- 17/2005 dated September 02, 2005*				
3. Contract notes, Client margin details and Statement of accounts				
Procedure adopted for issuance of contract notes	Whether contract note are sent within 24 hours of execution of trades	**Yes No**		**5 days**
Verification of format of contract notes issued	Margin details are sent daily to respective clients	**Yes No**		**5 days**
Verification of copy of contract note with Proof of dispatch/register of desptach/logs maintained	Proof of delivery / dispatch is maintained? **Whether contract notes bear running serial no: initiated at the**	**Yes No** **Yes No**		**5 days** **First contract note of the year Apr – Mar 10**

Adherence to electronic contract note norms, if applicable	**beginning of each financial year ?** Whether all prescribed details including name and signature of authorised signatory, dealing office details and brokerage are contained in contract note?	**Yes No**		**One day**
Procedure adopted for sending statement of accounts				
Contents & periodicity of statement of accounts of funds and securities	In case contract notes and margin details are sent in electronic form, whether log is maintained?	**Yes No**		**5 days**
Procedure adopted for sending margin details to clients	Whether trail of bounced mails is maintained and physical delivery is ensured in case of bounce mails?	**Yes No**		**5 days**
Procedure for maintaining acknowledgement/proof of delivery of contract notes/statement of accounts/margin details to the clients	Whether member has complied with regulatory requirements related to. Electronic contract notes (ECN)?	**Yes No**		**5 days**
	Whether complete statement of accounts for funds and securities are issued on a quarterly basis to clients, with error reporting clause? Whether proof of sending the same is maintained?	**Yes No**		***Quarterly statement for the quarter ended June 30, 2009***
Exchange's regulatory references Circular Download no. NSE/INSP/11324 dated 18-Sep-08 *SEBI references* ➢ *Clause B(2) of Code of conduct for Stock Brokers specified under Regulation 7* ➢ *SMD-1/23341 dated November 18, 1993* ➢ *SMD (B)/104/22775/93 dated October 29, 1993* ➢ *SMD/MDP/CIR/043/96 dated August 5, 1996* ➢ *MRD/DoP/SE/Cir-20/2005 dated September 08, 2005* ➢ *SEBI/DNPD/143542 /Cir-43/08 dated November 06, 2008*				
4. Dealing with clients' funds and securities				
Verification of details of cash receipts from / payments to clients, if any, observed during the audit period are to be given (mentioning any specific branch involved).	Whether cash dealings with clients are done by branches / sub brokers? Whether banker's cheque / demand draft are accompanied with written request from the respective client?	**Yes No** **Yes No**		**5 days** **5 days**
Verification of internal controls adopted by the	Whether pay-in or pay-out is			

member while accepting banker's cheque / demand draft from clients	received from or delivered to respective clients only?	**Yes**	**No**		**5 days**
Procedure for ensuring that receipts and payment of funds/securities are from/to respective client only	Whether client's funds / securities are transferred to respective clients within one working day of payout from Exchange ?	**Yes**	**No**		**5 days**
Periodic Reconciliation of books of accounts	Whether any instance of misutilisation of clients' funds or securities is observed? If yes, give complete details of such instances	**Yes**	**No**		**5 days**
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.	Whether any instances were observed wherein pay-in / pay out was received from / made to account other than the respective client account? Whether there are any systems in place to ensure compliance in this regard by the member?	**Yes**	**No**		**5 days**
	Whether collaterals of clients were pledged with banks / other entities for raising funds? If yes, details of such instances observed are to be given.	**Yes**	**No**		**Audit period**
	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?	**Yes**	**No**		**Highest day of overdraft availed during the audit period**
	Whether bank book and register of securities are in alignment with bank statements and transaction statements provided by banks and depositories?	**Yes**	**No**		**Bank reconciliation and beneficiary reconciliation as on end of audit period i.e 30-Sep-2009**
	Whether dividend and other corporate benefits received on behalf of clients is paid/credited/passed on to the respective clients account ?	**Yes**	**No**		**Audit period**
Exchange's regulatory Circular Download no. NSE/INSP/11324 dated 18-Sep-08 and CM and F&O regulations. *SEBI references* ➢ *SEBI Circular No. SEBI/MRD/SE/Cir- 33/2003/27/08 dated August 27, 2003*					

➢ SMD/POLICY/Cir -06 /03 dated February 12, 2003 *➢ Code of conduct for Stock Brokers specified under Regulation 7 of SEBI (Stock Brokers and Sub brokers) Regulations, 1992.* *➢ MRD/DoP/SE/Cir- 11/2008 dated April 17, 2008*					
5. Banking and Demat account operations					
Procedure for segregation of own and clients' funds and securities (in separate accounts)	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**		**Audit Period**	
Internal controls for use of client bank and client beneficiary accounts only for authorized purposes.					
Verification of client's bank account and constituent beneficiary accounts	Whether clients funds and securities are segregated from own funds and securities? Are there any instances of use of constituent beneficiary account or client bank account for other than authorized purposes ? In case of any irregularity observed, mention the instances in detail.	**Yes No** **Yes No**		**Audit Period** **Audit Period**	
Exchange's regulatory references Circular Download no. NSE/INSP/11324 dated 18-Sep-08 and CM and F&O regulations. *SEBI reference* *➢ SEBI Circular No. SMD-1/23341 dated November 18, 1993.*					
6. Terminal operations and systems					
Procedure and policy adopted by member before allotment of trading terminals	Whether terminals are provided by the member in its head office, branch office or the office of sub broker?	**Yes No**		**100%**	
Verification of terminals and its users, at the audit place.	Whether any unauthorized terminal is observed to be allotted? If yes, give complete details.	**Yes No**		**100%**	
Verification of certification of the approved users.	Whether periodic audit of systems and software is conducted by certified system auditor?	**Yes No**		**Latest system audit report**	
Due diligence adopted for password security					

Procedure in place for audit of systems and software	Whether terminals are operated by approved persons/approved users with valid NCFM certification?	**Yes No**		**100%**
Periodic updating of version and back up mechanism	Whether correct User name, login id, terminal location are reported to the Exchange?	**Yes No**		**100%**
System adopted for data storage, security and access	Whether internal controls are in place to ensure that the certification of approved users has not expired?	**Yes No**		**100%**
	Whether prior permission is obtained by member for providing CTCL? Whether member has complied with applicable provision of CTCL?	**Yes No**		**Check the approval letter**
	Whether updated version of software is used?	**Yes No**		
	Whether back up facilities are in place and followed?	**Yes No**		
	Whether broker has got his system audit done & submitted the system audit report to the Exchange within prescribed time limit?	**Yes No**		**Latest system audit report**
	Whether sufficient system for data security is in place?	**Yes No**		
Exchange's regulatory references –Download no. NSE/CMTR/6552 dated 24-Aug-05, download no. NSE/FAOP/6553 dated 24-Aug-05, download no. NSE/MEMB/3574 dated 29-Aug-02, NSE/MEMB/3635 dated 25-Sep-02, download no NSE/MEM/3740 dated 13-Nov-02 and NSE/MEM/7992 dated 10-Oct-06, download no. NSE/CMTR/7634 dated 28-Jun-06, download no. NSE/CMTR/6128 dated 10-May-05, download no. NSE/CMTR/8089 dated 10-Nov—06 *SEBI references* ➢ *SMDRP/Policy/Cir-49/2001 dated October 22, 2001* ➢ *SEBI/MRD/SE/15958/2003August 22, 2003*				
7. Management of branches / sub brokers and internal control				
System and Policy followed for opening /	Whether survey is conducted by the member for opening / closing of	**Yes No**		**Audit Period**

closing of branch	branches?			
Procedure adopted to inform the same to clients	In case of closure, whether advance notice of the same is sent to clients? Proof of the same.	**Yes No**		**All branches closed during the period**
Periodicity and procedure adopted for inspection of branches / sub brokers	Whether there is monitoring mechanism to identify sudden increase / decrease in client level turnover from any specific branch?	**Yes No**		**Audit period**
Reporting mechanism and mode of informing the inspection observations to branches / sub brokers	Whether periodic inspection of branch / sub broker is conducted and reports are maintained? What is the follow-up mechanism?	**Yes No**		**Audit period**
Follow up action plan				
Policy of fixing of roles and responsibilities of officials in head office, branches and sub-brokers office	Whether unregistered intermediation is observed? Whether the member has 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?	**Yes No** **Yes No**		**Audit period** **Audit period**
Process laid out so as to prevent unregistered intermediation				
Documentation of Internal controls and Comments on Internal controls in place	Whether internal controls exists and are sufficient to cover the risks at the members end?	**Yes No**		**Audit period**
Verification of Stock broker indemnity insurance policy	Whether Stock broker indemnity policy with standard cover/clauses has been taken ?	**Yes No**		**Latest insurance policy**
Sharing of commission/brokerage				
Exchange's regulatory references – Circular no. NSE/INSP/11324 dated 18-Sep-08 and CM and FO Rules and Byelaws of the Exchange *SEBI references* ➢ *Section 12 of SEBI Act* ➢ *SEBI Circular No. SMD/Policy/CIR-3/98 dated January 16, 1998* ➢ *Circular No. Sub-Brok/Cir/02/2001 dated January 15, 2001* ➢ *Regulation 18 B of SEBI (Stock Brokers and Sub-Brokers) Rules, 1992* ➢ *SMD/POLICY/CIRCULAR/3- 97 dated March 31, 1997.*				
8. Investor grievance handling				

Mechanism to monitor complaints lodged with branches/Sub brokers	**No. and value of investor complaints**			**Audit Period**
Maintenance of complaints register	**Received during the half year**			**Audit Period**
Redressal mechanism for complaints registered against the member	**Resolved during the half year** **Pending as on September 30, 2009.**			**Audit Period**
Comment on complaints pending for long period	**Give breakup of the pending investor complaints from branch/Headoffice/sub broker**			**Audit Period**
Verification of investor grievance register and email id	**Comment on investor grievance handling mechanism of the member.**			**Audit Period**
Internal control for verification of complaints received through the designated email –id	**Summary on nature of complaints received and action taken by the member** **What is the duration of the longest pending investor complaint ?** Whether specific action plan is framed by the member in respect of long pending complaints? Whether designated email id for investor grievance is created and informed to the investors?	 **Yes No** **Yes No**		**Audit Period** **Audit Period** **Audit Period** **Audit Period**
Exchange's regulatory references - Circular NSE/MEMB/8352 dated 9-Jan-07, Circular no. NSE/INSP/5387 dated 30-Aug-04 *SEBI references* ➢ *Clause 1(d) of Regulation 12A* ➢ *MRD/DoP/Dep/SE/Cir-22/06 dated December 18, 2006*				

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	Whether prescribed books of accounts, registers and records are maintained Exchange wise, with the required details and for the stipulated period as per regulatory requirement? Whether register of securities is maintained client wise-scrip wise? Whether exchange wise separate books of accounts are maintained? Whether member has dealt with suspended//defaulter/expelled members and entities prohibited from accessing market ? Whether prior approval has been obtained by member for change in shareholding/directors/constitution?	**Yes No** **Yes No** **Yes No** **Yes No** **Yes No**		**Audit period** **Audit period** **Audit period** **Audit period** **Audit period**
Verification of books of accounts and other records	Whether prior approval has been obtained in case the member has dealt with another member of the Exchange?	**Yes No**		**Audit period**
Ledger Scrutiny				
Internal controls on the process for taking approval of the Exchange Analysis of financial reports	Whether member has intimated the Exchange in case of they have dealt with member of another stock exchange? Whether advertisements are issued after prior permission of the Exchange? Whether member maintains and update client master in its back office? Whether financial reports of the member has been analysed? Comments on the same.	**Yes No** **Yes No**		**Audit period**

Exchange's regulatory references download circular no. NSE/INSP/11324 dated 18-Sep-08 and CM and F&O regulations. *SEBI references* ➢ *Rule 15 of Securities Contract Regulation (Rule)1957* ➢ *Regulation 17(1) of SEBI (Stock Brokers and Sub brokers) Regulations, 1992* ➢ *SEBI/MRD/SE/Cir-15/2005 dated August 4, 2005* ➢ *SEBI/MIRSD/Cir-06/2004 dated January 13, 2004* ➢ *Rule 4 (c) of SEBI (Stock Brokers and Sub Brokers) Rules, 1992* ➢ *MIRSD-DR 1/SRP/Cir- 43/28408 /04 dated December 15, 2004* ➢ *MIRSD/MSS/Cir- 30/ 13289/03 dated July 09, 2003* ➢ *Clause C(4) & C (5) of Regulation 7* ➢ *Circular No. SMDRP/Policy/Cir-49/2001 dated October 22, 2001*	

10. Systems & Procedures pertaining to Prevention of Money Laundering Act, PMLA, 2002				
Refer to provisions of PMLA Act 2002 , for checking whether all the important provisions are included and implemented	Whether sufficient information is obtained in order to identify persons who beneficially own or control securities account ?	Yes No		Audit period
Customer acceptance policy and customer due diligence measures	What is the process adopted by member to verify the identity of the customer and/or the person on whose behalf a transaction is being conducted ?			Audit period
	Whether risk profiling of the clients has been done as per the written down policy of the trading member?	Yes No		Audit period
	What is the enhanced due diligence process adopted by the member for High risk clients ?			Audit period
	Whether ongoing due diligence and scrutiny is being conducted for the clients ?	Yes No		Audit period
	Whether it has been ensured that an accounts is not opened where the member is unable to apply appropriate clients due diligence measures/KYC Policies ?	Yes No		Audit period
	Whether details of appointment of Principal Officer and change in Principal officer, if any, is intimated to FIU-India?	Yes No		Audit period
	Whether member has adopted and implemented written guidelines prescribed under PMLA, 2002 and intimated the same to FIU?	Yes No		Audit period

	Whether member has adequate system to generate alerts for suspicious transactions?	Yes No		Audit period
	Whether member has adequate systems in place to scrutinize the alerts and arrive at suspicious transactions?	Yes No		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
	Whether member has appropriate procedures for reporting of suspicious transactions to FIU	Yes No		Audit period
	Total no of alerts generated during the half year			
	No of STR filed by the member			
	As per provisions of Prevention of Money Laundering Act, 2002 whether record of transactions, it's nature and it's value are maintained?	Yes No		Audit period
	Whether members of the staff are adequately trained in AML and CFT(Combatting Financing of Terrorism) procedures ?	Yes No		Audit period

Walk through of the process				
Process of generation and monitoring alerts				
System in place that allows continuous monitoring of transactions				
Process for identifying STR (Suspicious Transaction Report) and reporting the same to FIU-India				
Processes for verification of alerts with KYC details				
Exchange's regulatory references Circular download no. NSE/INVG/7102 dated 25-Jan-06 and NSE/INVG/7307 dated 24-Mar-06 and NSE/INVG/11798 dated 22-Dec-08 and NSE/INVG/11928 dated 22-Jan-09) *SEBI references* ➢ *ISD/AML/CIR-1/2008 dated December 19, 2008*				
11. Transfer of trades				
Procedure and system adopted for transfer of trades in the back office	Whether any trades were 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?	**Yes No**		**10 days**
Verification of trade files downloaded by the Exchange with sauda register/back-office file of member (based on which contract notes are	Whether any pattern was	**Yes No**		**10 days**

generated)	observed in case transfer of trades carried out at member's back office?				
Internal controls for transfer of trades					
Exchange's regulatory references – CM and F&O regulations *SEBI references* ➢ *SEBI/MRD/SE/Cir- 32/2003/27/08 dated August 27, 2003*					
12. Margin Trading	Whether member has obtained specific approval from the exchange, in case he is providing margin trading facility to his clients? Whether member has complied with regulatory requirements related to margin trading?	**Yes No**		**Audit period**	
Verification of agreements					
Records of funding		**Yes No**		**Audit period**	
Exchange's regulatory references Circular download NSE/MEM/4972 Dated 7-Apr-04 *SEBI references* ➢ *SEBI/MRD/SE/SU/Cir-15/04 dated March 19, 2004*					
13. Proprietary Trading	If member is doing pro trading, whether member has disclosed this information to his clients? If member is doing pro trading from multiple locations, whether member has obtained prior approval from the Exchange in this regard?	**Yes No**		**Audit period**	
Verification of ids enabled for pro					
Process for approval of Exchange		**Yes No**		**Audit period**	
Exchange's regulatory references - Circular NSE/CMTR/4540 Dated 6-Nov-03 and Exchange Circular NSE/CMTR/4460 Dated 3-Oct-03 *SEBI references* ➢ *SEBI/MRD/SE/Cir- 32/2003/27/08 dated August 27, 2003* ➢ *SEBI/MRD/SE/Cir- 42 /2003 dated November 19, 2003*					
14. Internet Trading					
Process of approval from Exchange	Whether member has obtained	**Yes No**		**Audit period**	

	specific approval from the exchange, in case he is providing internet trading facility to his clients?			
Verification of internet agreements				
Procedure followed for user id and password	Whether member has complied with regulatory requirements related to internet trading?	**Yes No**		**Audit period**
Internal controls for internet trading	Whether broker has got his system audit done & submitted the system audit report to the Exchange within prescribed time limit?	**Yes No**		**Audit period**
Exchange's regulatory references Circular download no. NSE/CMTR/1532 dated 16-Mar-00 *SEBI references* ➢ *SMDRP/POLICY/Cir-06/2000 dated January 31, 2000*				
15. Execution of Power of Attorney (POA)				
Process adopted for execution of POA	**Whether the trading member obtains POA from any of their clients**	**Yes No**		
	If Yes mention no of clients from whom the member has obtained POA			
Internal control adopted by the member to ensure that POA is misutilised.	**Whether the POA executed with the client is exclusive and does not allow the client to operate the bank and DP accounts ?**			
	Whether POA is given for the limited purpose of movement of funds & securities for meeting payin obligations/ margin obligations of the respective client?			
	Whether the POA is in the name of the member or is it in the name of any of its employees or representatives or sub-brokers?			
	What are the internal controls adopted by the member to ensure that POA is not misutilised.?			

Regulatory references : Exchange Circular - Exchange Circular No NSE/INSP/7657 dated July 05, 2006					
16. Operations of Professional Clearing member/ Members clearing trades of other trading members					
Verification of execution of trading -clearing member (TM-CM) agreements/Custodial Participant agreements	Whether TM-CM agreements are executed in prescribed formats with trading member?	**Yes No**		**25 members or 100% whichever is lower**	
Verification of issuance of statement of accounts to trading members/custodial participants	Whether Clearing member custodial participant agreements are executed in prescribed formats ?	**Yes No**		**25 members or 100% whichever is lower**	
	Whether statement of accounts has been sent to trading member/custodial participants/?	**Yes No**		**5 days**	
	Whether clearing members had collected appropriate and adequate margins in prescribed forms from respective trading members?	**Yes No**		**5 days**	
	Whether Margin collection reported to Exchange is in accordance with margins actually collected from trading member ?	**Yes No**		**5 days**	
	Whether exposure allowed to trading members were based on requisite margins available with the clearing member?	**Yes No**		**5 days**	
	Whether interest is charged to the trading member? If yes, what is the basis of interest with complete details like percentage of interest, periodicity of interest charged	**Yes No**		**5 days**	
Exchange's regulatory references - Circular no. NSE/CMPT/11276 dated 10-Sep-08					
17. Securities Lending & Borrowing Scheme					
Process of approval from Exchange	Whether member has obtained specific approval from the exchange?	**Yes No**		**Audit Period**	
Verification of SLBS agreement	Whether member has complied with regulatory requirements related to SLBS ?	**Yes No**		**Audit Period**	
Exchange's regulatory references - Circular no NSE/CMPT/10146 dated 28-Jan-08, NSE/CMPT/10593 dated 17-Apr-08 and NSE/CMPT/11757 dated 12-Dec-					

08, NSE/CMPT/10146 dated 30-Jan-08 *SEBI references* ➢ *MRD/DoP/SE/Cir- 31 /2008 dated October 31, 2008*				
18. Compliance status of last inspection carried out by SEBI/Exchanges/Internal Auditor **Whether member has complied with the qualifications/violations made in last SEBI inspection report** **Whether member has complied with the qualifications/violations made in last Exchange inspection report** **Whether member has complied with the qualifications/violations made in last Internal Audit report** **Give status of compliance against each qualifications/violations observed in last inspection report of SEBI/Exchange/Internal Auditor**	 **Yes No** **Yes No** **Yes No**			
19. Whether comments on any other area? (Give details of the comments) (Give comments if any)	**Yes No**			

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 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.

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 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. If any major significant deviations and deviations of recurring nature are observed, the same should be reported separately in the covering page of the audit report. If auditors observations are in the nature of a deviation or a recommendation, the member’s response should be sought and recorded in the report.

3. Comments by auditor on the status of compliance in respect of deviations reported in the last audit report,
4. Improvements brought about in the operations between the last audit and the current audit.
5. In case the member has been inspected in the relevant half year by the Exchange / SEBI, comments by the auditor on whether the member has complied with the observations made in Exchange / SEBI inspection report are to be included in the audit report.
6. 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, date security and insurance have been covered in the audit.
7. 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.
8. Membership number allotted by the affiliated professional body should be quoted at the bottom of the report as provided in the format.
9. **In case any violations/qualifications/observations are observed by the auditor the same shall be submitted as annexure and should be quantified specifying the no of instances, value etc. and the evidences should be enclosed with the Internal Audit Report.**
10. **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.**
11. **The internal audit report should be submitted to the Exchange as per the report format specified above.**
12. **In case where internal audit report submitted is incomplete like only certificate submitted without report, same would be treated as non submission of internal audit report.**