

The terms and conditions of your appointment for conducting Performance Audit/Inspection of books of accounts and records of the Exchange Member are as under:

1. The professional fee mentioned in the assignment letter is all-inclusive (including service tax and all out of pocket expenses, if any).
2. **The bill (revenue stamp fixed), in triplicate, is to be submitted for payment with an advance receipt** for Professional fee and the same may be submitted along with the Audit Report. However payment shall be made only if the report is submitted as per the terms and conditions mentioned herein below and in the assignment letter.
3. The audit team shall consist of two or more persons-one member necessarily being a partner of your firm.
4. In case you are associated with the member to be inspected, in any capacity or having any common interests, you are requested to inform us immediately to enable us to take a view on the matter.
5. The inspection methodology may be seen in the Appendix-1.
6. The Format given in Annexure II and Guidance Manual given in Appendix-2 for Presentation of Findings are not exhaustive but they are only illustrative. You should furnish details of other observations which are relevant to the purpose of audit.
7. The Report may be presented in the same seriatim as mentioned in Part I & Part II of Annexure II.
8. After completion of the Audit, you should submit the reports in Hard Copy and in soft copy as well (Compact disc) as stated herein below.
9. The Report shall be in two parts. Part I is meant for Introduction and Member's Profile. It should be spiral bound separately. It should be given continuous page number starting from page No.1.
10. Part II is for presentation of the findings in respect of trade done on each Exchange. Therefore it shall be made separately for each Exchange. Part II should bear continuous serial number starting from page No. 1 till the end of the report including Annexures. No separate serial number or Annexure

Number should be given to copies of documents enclosed as Annexures. Any reference to the Annexure/documents made in the findings or else where should be by indicating its respective page number.

11. Part II of the audit report i.e. Presentation of findings should be submitted Exchange wise and in two copies and spiral bound. For example, if the Exchange Member has Membership with MCX, NCDEX & NMCE the Audit Report shall be made as indicated below.
 - a) Part -I – Common for all Exchanges & Spiral bound
 - b) Part-II - with Annexures - pertaining to MCX – Two copies
 - c) Part-II - with Annexures -pertaining to NCDEX – Two copies
 - d) Part-II - with Annexures –pertaining to NMCE – Two copies.

All 7 copies shall be separately spiral bound

12. A copy of the Pre-Audit Information furnished by the Member should be attached to the Audit report.
13. The audit Report not submitted in accordance with the terms and conditions shall not be accepted by the Commission.

Inspection Methodology and Extent of Checking:

Visiting the regulatory framework for Commodity Exchange Members.

Review of the organization structure and allocation of responsibilities within.

Scrutiny of annual financial statements.

Site visits of branches other than the main office.

Verification of genuineness of the clients registered with the Member.

Seeking clarifications from the Designated Officer of the Exchange concerned..

Special emphasis to be given on period under inspection based on the volatility in the rates of highly traded commodity during the period of audit. Transactions of selected dates to be reviewed and checked.

Selection of sample of top 20 clients on the basis of their turnover during the period of audit and 20% of total account opened for KYC checking.

Ascertaining the procedure adopted for recording and addressing the verbal grievances received from the clients and the system of maintaining a Grievance Register and redressal of grievances received from clients in writing.

Review of internal audit report, if any, conducted on the accounts of the Member

AUDIT REPORT
PART- I

INTRODUCTION AND MEMBERS PROFILE

1. Introduction

- a. Name of the exchange-member with full postal Address, Telephone, Fax & E-mail
- b. Type of the Member (Individual/Company/Partnership etc.)
- c. Date(s) of visit to the Member's office for inspection
- d. Period of inspection covered in the audit.
- e. Name of the compliance officer/Member's representative
- f. Date of submission of inspection report to the Commission

2. Member' profile

Details of Change in the name of the members, if any, and whether the change is done in accordance with the rules and whether the relevant documents were submitted in support of the change.

Particulars	Date/ Month
Change of name at ROC	
Confirmation received from the exchange for change in name	
Application sent to CDSL for change of name	
Application sent to NSDL for change of name	
Application sent to banks for change of name	
Change of name on Contract Notes printed	

2.1 Details of Directors in the following pattern.

Names of Designated Directors	Designation	Details of Directorship / Partnership in other companies / Membership of other exchange

2.2 Shareholding Pattern

Name	No. of Shares	% of Total

2.3 Operations at Branches

Details of branches of the member/client and the activity of the same to be indicated. Details of branches with addresses and persons in charge in the following pattern:

Sr. No.	Address of the Branch/Dealing Offices	Branch In-charge
1		
2		
3		
4		

2.4 Details of Associates having membership of other Exchanges

Company Name	Exchange	SEBI Regn. No.	Membership -Clg. No.

3. Member's trade profile

- a. **Name of the Commodity Exchange whose Membership the company took first with date of Membership.**
- b. **Name of other Exchanges whose Membership the company took subsequently with date of Membership with each Exchange.**
- c. **Number of branch offices and their address**
- d. **Details of direct terminals / CTCL with locations & persons in charge**
- e. **Number of clients registered with the Member**
- f. **Total number of active clients**
- g. **Total number of inactive clients**
 - i) **No. of Clients traded after a gap of 6 months**
 - ii) **Whether written request for re-starting trading is obtained from the clients or not.(Enclose copy of written request)**
 - iii) **Value of trade done by such clients.**
- h. **Total value of trade for the financial year under audit**
- i. **Share of proprietary trade in the total trade value**

- j. Share of clients trade in the total trade value**
- k. Name of clients and their respective trade value covering at least**
 - 25 Top trading clients if the total clientele is less than 100**
 - 75 Top trading clients if the total clientele is more than 100**
 - 125 Top trading clients if the total clientele is more than 500**
- l. Major commodities and their respective trade value covering at least 75% of the total trade value**
- m. Number of franchisees, if any, with name and address**
- n. Number of persons employed for commodity trade**
- o. Profit / loss of the Member for the Financial Year under audit. (Copy of the P&L and Balance sheet to be enclosed)**

PART- II
PRESENTATION OF FINDINGS PERTAINING TO _____ (TO BE
REPORTED EXCHANGEWISE - SEPERATELY FOR EACH EXCHANGE)

INDEX OF FINDINGS

Part	Particulars	Para No.	Page No.*
I	Background (Based on information provided by the member) with date of Membership, Member code & FMC Unique Number		
II	Summary of significant observations		
III	Books of accounts		
	List of books of accounts and records maintained		
	Violations observed in the maintenance of books of accounts and records.		
IV	KYC Norms		
	Execution of Member-Client Agreement – Format, its completion, maintenance etc.		
	Risk Disclosure Document- Format, its completion, maintenance etc		
	KYC Forms – Completion, its maintenance etc		
	Violation observed in MCA, RDD & KYC		
V	Trade Related		
	Manner of trade execution, modification, confirmation voice recording system etc		
	Violation observed in trade execution		
	Contract Note – Issue, maintenance of duplicate copies		
	Violation observed in Contract Notes		
	Franking done after MCA		
	Details of Margin collection		
	Violation observed in Margin collection		
VI	Clients related		
	Segregation of clients money		
	Violation observed in utilization of clients’ funds		
	Pay in-Payout of Funds		
	Violation observed in Pay-in & pay out of funds		
	Pay in-Payout of Commodities		
	Violation observed in pay-in & pay out of commodities		
	Details of direct terminals / CTCL with locations & persons in charge		
	Open Interest Limit		
	Violation in open interest limit		
	Advertisement by the Member		
	Violation of advertisement norms		
	Net-worth Compliance		

Part	Particulars	Para No.	Page No.*
	Violation in net-worth compliance		
	Details of Members of other exchanges as clients		
	Insurance		
VII	Margins and brokerage		
	Details of initial margin and daily margin collected from clients		
	Violation in margin collection		
	Details of brokerage collected from clients		
	Violation in brokerage collection		
VIII	Market related		
	client code changes with its impact on margin collection		
	Confirmation of clients		
	Report on Top 20 clients along with details of trade volume, commodities traded, margin payments etc		
	Relationship of top clients and compliance of position limit		
	Blanket confirmation/undertaking taken from the clients		
	Violation in such blanket confirmation		
	Comparison of various formats		
	Violation in formats used		
	Back office system		
IX	Volume & value of trade		
	Details of volume and value of trade on MCX in proprietary account		
	Details of volume and value of trade on MCX in clients account		
	No. of clients traded		
	Details of Deliveries Received / Tendered Contract wise for self		
	Details of Deliveries Received / Tendered Contract wise for clients		
X	Annexure to the Findings		
	FMC Unique code		
	Exchange Member code		
	KYC/Member Client Agreement Form		
	Risk Disclosure Document		
	Sample Trade confirmation slip		
	Sample Contract Notes		
	Entire year account of 2-3 clients along with copies of ledgers containing trade details		
	List of sample clients checked along with name and address		
	Copy of penalty, if any, imposed by Exchange in the past for violations		

* The Part-II which enclosed Annexure should have continuous page number. Only page numbers to be indicated. Separate Annexure Number or Exhibit Number is not acceptable.

GUIDANCE MANUAL**A. SUMMARY OF SIGNIFICANT OBSERVATIONS**

The observations may be furnished with regards to the following points:-

1.	Discrepancies pertaining to KYC <ul style="list-style-type: none"> ➤ Incomplete details ➤ Incomplete documentation ➤ Difference in format of member-client agreement
2.	Trade done before clients' account opened
3.	Whether Member of other Commodity Exchange was registered as client and his account was subsequently closed.
4.	Contract notes
5..	Copy of contract note not found
6.	Initial margin and daily margin partially collected from clients
7.	Initial margin and daily margin not collected from clients
8.	Open Interest Violation & disablement of Terminals

B. MAINTENANCE OF BOOKS OF ACCOUNT AND RECORDS

The maintenance of accounts and records as per Rules, byelaws and Business Rules may be verified and the report should invariably cover the following among other details.

1.	Records of transaction of all purchases and sales of commodities / contracts
2.	Record in respect of premium / discount
3.	Records in respect of brokerage.
4.	Client Ledger
5.	General Ledger
6.	Journals
7.	Cash Book
8.	Bank Book / Bank pass Book
9.	Written consent of client in respect of contracts entered
10.	Margin Deposit Book
11.	Trade confirmation slips
12.	Record of all statements received from the appropriate agencies and records of all correspondence with them
13.	Order Book
14.	Reports like trade log / order log
15.	Copies of all instructions obtained in writing from constituents including participants for order placement, order modification, order cancellation trade cancellation

16.	Contract note
17.	Records in respect of premium/ discount on final settlement amount including taxes and charges on commodities of constituent
18.	Record of Deliveries Received / Tendered Contract wise
19.	Complete logbook of Trade as well as Order details

C. DISCREPANCIES PERTAINING TO KYC

Execution of MCA & KYC forms may be verified thoroughly and the report should contain, inter alia, the following details..

1.	Address proof of authorized signatories not found
2.	Agreement franked 6 months prior to agreement date
3.	Agreement not franked
4.	Agreement not signed by authorized signatories of the member or client
5.	Annexure A (Directors details) incomplete
6.	Annual Report not found
7.	Broker-Client agreement franked subsequent to agreement date
8.	Certain clauses of agreement were cancelled, not authenticated by either of the party
9.	Client signature found only on last page of broker-client agreement
10.	Date on terms & condition, part of agreement not found
11.	Mismatch of address proof of directors
12.	No documents (other than AOF& agreement) found
13.	No signature across photograph of authorized signatories found
14.	PAN not found
15.	PAN proof not found
16.	PAN proof of Directors not found
17.	PAN wrongly mapped in System
18.	Proof of Address not found
19.	Proof of Bank a/c not found
20.	Proof of ID not found
21.	Signature across the photograph not found
22.	Signature of the Witness not found in the agreement

D. Trade done before account opened

Cases come across where member has traded on behalf of client prior to member-client agreement is documented. The details for the same

Client ID/Client Name	Trade No.	Date of Trading	Date of A/c Opened, Agreement Done	Commodity	Units

E. Details of Blanket Confirmation, if any, taken from Clients

Along with agreement, Whether the Member has taken blanket confirmations from the clients regarding:

- Having running accounts with the member broker.
- Authorization of Inter-Company ledger A/c balance transfer.
- Authorization of Inter-family/Group ledger A/c balance transfer.

Specimen copy of the above mentioned blanket authority

F. Confirmation of Existence of Client

Cross - confirmation of the existence of clients through personal visit at client place or telephonically on random basis.

G. CONTRACT NOTE

- i. Format Comparison prescribed by the exchange Business Rules and contract notes issued to clients during the period of audit.
- ii. Cross Deals-: Comparison of contract note and trade file between two clients of Company and the observation of the trade done between two clients.
- iii. Maintenance of original copy of Modified / Cancelled Contract note
- iv. Physical Verification of Contract Note
- v. Un-authorized Contract Notes:

Date	Contract Note No.	Client ID	Buy/ Sell	Contract Amount Rs.

- vi. PAN not printed on Contract Note
- vii. Duplicate Copies of Contract Notes preserved
(Whether any duplicate copies are maintained and if so the details for the same may be mentioned as below):

Date	Contract Note No.	Client Code	Commodity traded	Units

- viii. Consolidated Contract Notes
- ix. Numbering of the contract notes
- x. Dispatch of Contract Notes to Clients
- xi. Brokerage charged

H. VOICE RECORDING SYSTEM

Voice recording system implemented or not in the dealing room with that of the dealer's phone to record the conversations during the trade time.

I. MARGIN

Base Minimum Capital plus Additional capital as per the notice received from Exchange are as given below:

Form of Capital	Rupees	Percentage %
Base Capital		
Cash (A)		
Cash		
FDs		
BG		
Total (A)		
Cash Collateral (B)		
FDs		
Total (B)		
Total (A+B)		

J Margin Recovery:- Margin collection from clients on test check received and other observation based on the following .

K Initial Margin

Initial margin from client at the time of executing the first trade on behalf of client collected, or not.

L Daily Margin

Daily margin is collected or not from clients as per margin obligation file received from Exchange. Separate funds received on account of margin or not.

M. CLIENTS

1. Details of top 20 clients by turnover

Names and client ID of top 20 clients by turnover in descending order for the period under inspection to be furnished based on the information provided by member.

S. No.	Name	ID No.	Address	Top Commodities	Trade value in (Rs. Cr.)

2. Statement of Accounts of its client

3. SEGREGATION OF CLIENTS' MONEY

N. Details of bank Account

Member has opened separate bank account for client money and own expenses. The details of the same to be furnished as below:

Bank	Type	Account No.

Bank Review

- The settlement-wise or periodic transfer of accrued brokerage income from Client bank a/c to own a/c.
- Transfer or receipt of Funds from other exchange's client bank account.
- On account payment made / received from clients.
- Entries pertaining to bank charges etc.

O. Misutilisation of Client Funds

1. Details of Calculation to find 'Misutilisation of Clients funds, if any, to be furnished.

2. Income generated from Clients' Fund

P. PAY IN-PAY OUT OF FUNDS

Review of client ledgers account to find out that the client accounts are running accounts and on account payments are made. To verify whether payments are made within 48 hours as per the rules mentioned in the relevant circular of Exchanges.

Q. PAY-IN AND PAY-OUT OF COMMODITIES

1. Checking of deliveries taken and the whether they are in order.
2. Segregation of Client Commodities

R. DETAILS OF DIRECT TERMINALS / CTCL WITH LOCATIONS AND PERSONS IN CHARGE

1. The summary of available terminals :

Particulars	Annexure	No. of Terminals
CTCL –Local Terminal		
Direct Terminal		
CTCL-VPN		

2. Physical Verification of Terminals of the direct terminals and CTCL terminals available at Head office.

S. OPEN INTEREST LIMIT

Review of Risk-To ensure that open interest limit at Member level and client level respectively is not violated as per Exchange circulars.

T. NETWORTH COMPLIANCE

Verification of Net-worth Certificate submitted by the member to the exchange.

U. INSURANCE

Insurance Policy for its broking operation.
