

Technical Guide on Internal Audit of Mutual Fund



The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)
New Delhi

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Internal Audit Standards Board
The Institute of Chartered Accountants of India
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Foreword

The Indian mutual fund industry has witnessed significant growth in the past few years driven by several favourable economic and demographic factors. It has also seen a number of regulatory developments. These regulatory changes have been made keeping in mind the best interests of the investors. However, these changes will take time to be adapted by industry, intermediaries and the investing public at large.

In this environment, it is necessary for the management to establish operating or program objectives and goals, develop and implement control procedures and accomplish desired results. Internal audit ascertains whether such objectives and goals conform to management plans and are being met.

I am pleased to note that the Internal Audit Standards Board of the Institute is issuing this Technical Guide on Internal Audit of Mutual Funds. This Guide would help not only the members engaged as internal auditors in gaining profound knowledge about the internal audit of mutual fund industry, but also to the others engaged in other capacities to develop an understanding in this area thereby assisting them in carrying out their assignments efficiently.

I wish to place my appreciation to CA. Rajkumar S. Adukia, Chairman, Internal Audit Standards Board and other members of the Board for bringing out this Guide on Internal Audit of Mutual Funds. I am pleased to note that the scope and structure of the Technical Guide is well suited to cater to the professional needs of the members.

I am sure this guide would prove useful to the members, in practice and in industry, as well as others in gaining essential knowledge of various critical aspects related to mutual funds.

November 14, 2011
New Delhi

CA. G. Ramaswamy
President, ICAI

Preface

Internal audit has not remained untouched by the business and economic environment. It faces myriad challenges, which range from meeting the additional expectations emanating from the ever changing global, business, regulatory and economic scenario to finding the best resources to meet those challenges. Stakeholders expect the internal audit to have a larger and strategic role in governance and risk management. Internal audit will increasingly play a more meaningful role in the broader value delivery agenda of organizations. For this, the internal auditor must possess knowledge of the technical, commercial and other aspects of the operations of the enterprise concerned.

The Indian mutual fund industry is one of the fastest growing sectors in the Indian capital and financial markets. With the reforms of economy, reforms of industrial policy, reforms of public sector and reforms of financial sector, the economy has been opened up and many developments have been taking place in the Indian money market and capital market. In order to help the small investors, mutual fund industry has come to occupy an important place. In view of the complexity, volume, growth of the mutual funds industry, internal auditors have a dynamic role to play to support the management in helping fostering this growth. In view of the above, the Internal Audit Standards Board has decided to come up with Technical Guide on Internal Audit of Mutual Funds. The Guide has been divided into various chapters dealing with the fundamental concepts in mutual fund industry. These chapters deal with introduction, technical aspects, regulatory framework of the mutual funds. These chapters also cover need and objectives of the internal audit, professional opportunities for internal audit, framework for internal audit and focus areas for internal audit. The guide contains the internal audit checklists of functional areas and a glossary of terms used in the mutual fund industry to provide valuable guidance to the readers.

At this juncture, I am grateful to CA. Manoj Aggarwal and his study group members for sharing his experience and knowledge with us and preparing the draft of the Guide.

I also wish to thank CA. G. Ramaswamy, President and CA. Jaydeep N. Shah, Vice President for their continuous support and encouragement to the initiatives of the Board. I must also thank my colleagues from the Council at the Internal Audit Standards Board, *viz.*, CA. P. Rajendra Kumar, Vice Chairman, CA. Amarjit Chopra, CA. Shiwaji B. Zaware, CA. Ravi Holani, CA. Anuj Goyal, CA. Nilesh S. Vikamsey, CA. Vijay K. Garg, CA. Atul C.

Bheda, CA. J. Venkateswarlu, CA. Abhijit Bandyopadhyay, Shri Prithvi Haldea, Smt. Usha Narayanan, Smt. Usha Sankar, Shri Manoj Kumar and Shri Sidharth Birla for their vision and support. I also wish to place on record my gratitude for the co-opted members on the Board, viz., CA. Madhu Sudan Goyal, CA. Rohit Choksi, CA. Ketan Vikamsey, and CA. Pankaj Kumar Adukia as also special invitees on the Board, viz., CA. Anil Kumar Jain, CA. Ajay Minocha, CA. Sumit Behl and CA. R. Subramaniam for their invaluable guidance as also their dedication and support to the various initiatives of the Board. I also wish to express my appreciation for the support of CA. Jyoti Singh, Secretary, Internal Audit Standards Board and her team of officers in finalization of the publication.

I firmly believe that this Guide would serve as a basic guide for the members and other readers interested in the subject.

November 14, 2011
Mumbai

CA. Rajkumar S. Adukia
Chairman
Internal Audit Standards Board

Abbreviations

AMC	Asset Management Company
AMFI	Association of Mutual Funds in India
ARMFA	AMFI Registered Mutual Fund Advisor
AUM	Assets Under Management
ECS	Electronic Clearing Service
FMP	Fixed Maturity Plan
HUF	Hindu Undivided Family
ISC	Investor Service Centre
KIM	Key Information Memorandum
KYC	Know Your Customer
KYD	Know Your Distributor
NAV	Net Asset Value
NFO	New Fund Offer
NISM	National Institute of Securities Market
PAN	Permanent Account Number
PDC	Post-dated Cheques
PMLA	Prevention of Money Laundering Act
POA	Power of Attorney / Points of Acceptance
RTA	Registrars and Transfer Agents
SAI	Statement of Additional Information
SEBI	Securities and Exchange Board of India
SID	Scheme Information Document
SIP	Systematic Investment Plan
SLA	Service Level Agreement
STP	Systematic Transfer Plan
SWIFT	Society for Worldwide Interbank Financial Telecommunication
SWP	Systematic Withdrawal Plan

Glossary

Net Asset Value (NAV)	Net Asset Value is the market value of the assets of the scheme minus its liabilities. The per unit NAV is the net asset value of the scheme divided by the number of units outstanding on the Valuation Date.
Qualified Foreign Investor (QFI)	A person resident in a country that is compliant with Financial Action Task Force (FATF) standards and that is a signatory to International Organization of Securities Commission's (IOSCO's) Multilateral Memorandum of Understanding.
Redemption Price	It is the price at which close-ended schemes redeem their units on maturity. Such prices are NAV related.
Repurchase/ Exit Load	It is a charge collected by a scheme when it buys back the units from the unitholders. Also called 'Back- end' or 'Exit' load.
Repurchase Price	It is the price at which units under open-ended schemes are repurchased by the Mutual Fund. Such prices are NAV related.
Sales/ Entry Load	It is a charge collected by a scheme when it sells the units. Also called, 'Front-end' or 'Entry' load. Schemes that do not charge a load are called 'No Load' schemes.
Sale Price	It is the price you pay when you invest in a scheme. Also called Offer Price. It may include a sales/entry load.

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Chapter 1

Introduction

1.1 India has a strong and a rapidly growing mutual fund industry over the recent years. Since the 1990s when the mutual fund sector was opened up to the private sector, the industry has traversed a long path, adapting itself continuously to the regulatory changes and investor preferences. The industry has grown from a single entity in 1963 to over 40 mutual funds in 2011 with the average total asset under management (AUM) reaching ₹ 5960 billion in 2011, thus growing at over 33% from 2005 to 2011. The growth in mutual fund industry in the last few years is a result of a growing economy, new product introductions (tax saving schemes, fund of fund schemes, gold funds, international funds, systematic investment plans, systematic withdrawal plans, systematic transfer plans), tax exemptions for dividend and capital gains for certain classes of funds and a wider distribution of fund shares. The rising disposal income amongst retail investors and higher corporate earnings seem to have contributed to the overall growth of the Indian economy in recent years though the Industry penetration levels are still low.

1.2 The trend of rising personal income has been witnessed not only amongst the young population, but also amongst the high net worth individual (HNI) segment, which have sizeable sums to invest. India has a strong middle class of 250-300 million, which is expected to double over the next two decades. This has attracted global fund houses and asset management businesses to focus attention on India in the segment of household savings and investments. In today's volatile market environment, mutual funds are looked upon as a transparent and low cost investment vehicle, which attracts a fair share of investor attention helping spur the growth of the industry. Over time, inclusive growth across the financial sector seems to have taken centre-stage, re-designing all business strategies around this sole objective. The mutual fund industry being no exception, various measures are being taken by fund houses and distributors to spread access and reach to the semi-urban and rural segments.

1.3 The Indian mutual fund industry has high ownership from the corporate and institutions comprising over 55% of the total AUM and the number of retail investor accounts pegged at 46.32 millions and offers opportunities for

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higher penetrations. The unit holding pattern of mutual fund industry as at March 2011 is as under:

Unit Holding Pattern of Mutual Funds Industry (as on March 31, 2011)				
Category	No of Investors Accounts	% to Total Investors	Net Assets (₹ Crores)	% to Total Net Assets
Retail	46,051,758	97%	162,225.48	27%
High Networth Individuals*	779,226	2%	141,808.54	24%
FII's	130	0%	2,969.81	0%
Corporates	391,836	1%	263,773.38	44%
Banks/FIs	11,883	0%	26,199.59	4%
TOTAL	47,234,833	100.00%	596,976.80	100.00%

* Note: Defined as individuals investing ₹ 5 lakhs and above.

Source: AMFI

The Scheme wise AUM as at March 31, 2011 is as under:

Types of Schemes	AUM (₹ Cr)	No of Folios
Liquid/Money Market	74699.86	193422
Gilt	3507.29	29178
Debt Oriented	294217	4305777
Equity Oriented	197563	39278085
Balanced	17552	2790050
Gold ETF	4400	319679
ETFs(other than Gold)	2516	103122
Fund of Funds investing Overseas	2520	215520
	596977	47234833

Source: AMFI

1.4 The landscape of the financial sector in India is continuously evolving, accredited to regulatory changes being undertaken, which makes leading market participants like, the Asset Management Companies (AMCs) and distributors to restructure their strategies and adopt business models, which will yield sustainable benefits. The road ahead for the mutual fund industry will be paved by the performance of the capital markets. It is in the backdrop

of some of these encouraging statistics that the Indian mutual fund industry has fostered itself.

Regulatory Framework

Securities and Exchange Board of India (SEBI)

1.5 The regulatory authority, namely, the Security Exchange Board of India (SEBI) was formed in 1992, regulates and supervises the mutual fund industry in India for establishment of sound and stable financial system, protection of mutual fund unit holders, market efficiency, privatization and opening of markets, etc. All AMC have to be approved by SEBI for managing the investments. The Securities and Exchange Board of India (Mutual Fund) Regulations, 1996 ('MF regulations') govern, *inter-alia*, the establishment and operation of mutual funds in India. The provisions of the MF Regulations are administered by the SEBI. Mutual funds in India are constituted in the form of a trust under the Indian Trusts Act, 1882.

1.6 In February 2011, SEBI has issued a draft structure of the proposed XBRL (Extensible Business Reporting Language) system for all the regulatory filings to be made by mutual funds. XBRL technology enables the computers to read and divide the information provided in the filings under various heads and thus makes it easy to find any relevant details and to identify any irregularities.

Association of Mutual Funds in India (AMFI)

1.7 The AMFI is dedicated to developing the Indian mutual fund industry on professional, healthy and ethical lines and to enhance and maintain standards in all areas with a view to protecting and promoting the interests of mutual funds and their unit holders. AMFI's objectives are as follows:

- To define and maintain high professional and ethical standards in all areas of operation of mutual fund industry.
- To recommend and promote best business practices and code of conduct to be followed by members and others engaged in the activities of mutual fund and asset management including agencies connected or involved in the field of capital markets and financial services.
- To interact with SEBI and to represent to SEBI on all matters concerning the mutual fund industry.
- To represent to the Government, Reserve Bank of India and other bodies on all matters relating to the mutual fund industry.

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- To develop a cadre of well-trained agent distributors and to implement a programme of training and certification for all intermediaries and other engaged in the industry.
- To undertake nationwide investor awareness programme to promote proper understanding of the concept and working of mutual funds.
- To disseminate information on mutual fund industry and to undertake studies and research directly and/or in association with other bodies.

1.8 In the Union Budget 2011-12, the honorable Finance Minister of India has announced that foreign investors can participate in Equity Mutual Fund Schemes in India. This development is likely to attract larger foreign investors to the mutual fund industry in India.

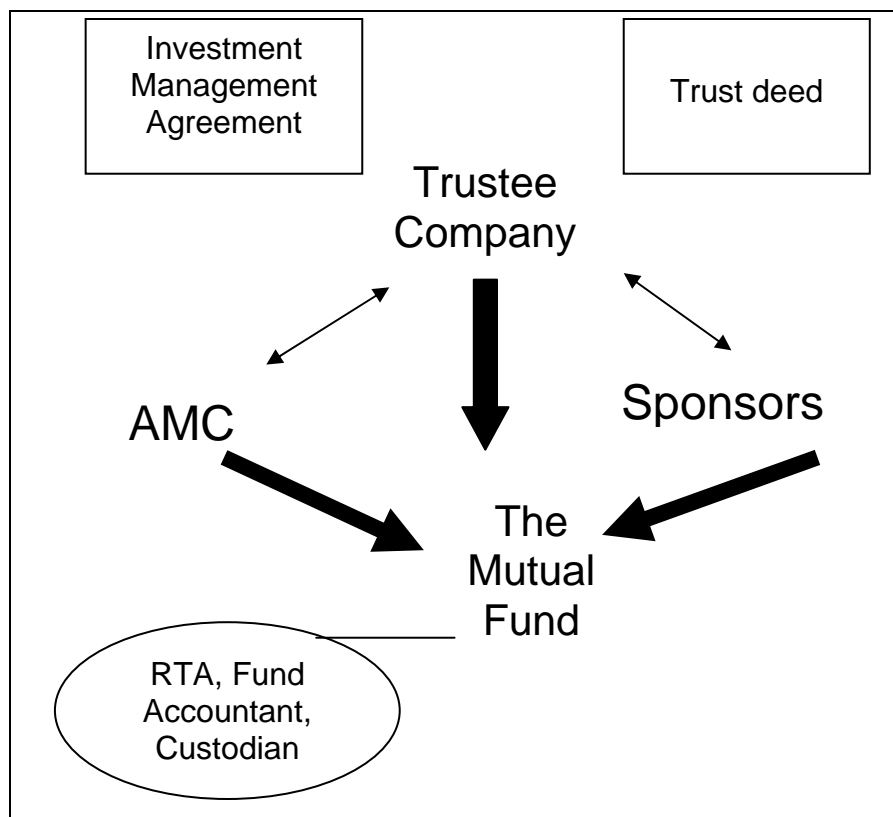
1.9 As the industry grows, with multiple products being launched across asset classes, it becomes imperative that the mutual fund sector in India, introduces robust systems and processes that should not only address the problems related to internal control, financial transparency and equity but also bring effective governance so as to serve the interests of the management, unit holders, consumers and the society, at large. This technical guide is an attempt to disseminate knowledge on the subject of internal audit of mutual funds and provides relevant guidance on related issues. Internal audit is an independent examination of processes and transactions, to provide assurance on the reliability of internal controls. Expectations from internal auditors are expanding. As a result, the traditional role of internal auditor is transforming to include activities that go beyond verification of compliance with policy norms and operating procedures to taking primary responsibility in assessing the effectiveness of the risk management processes in a business.

1.10 The emerging role of the internal auditor requires that there is proactive participation by internal audit team in the process of improving an organization's operations through a combination of assurance and consulting work. The real value derived from the efforts of the internal auditor can only be measured when the audit efforts are aligned to the strategic direction of the organization and operate at a level that improves organizational performance and ultimately delivers better returns to shareholders. This is possible when the internal auditor develops skills and competencies that are sector specific.

Constitution of a Mutual Fund

Structure of a Mutual Fund

2.1 Typically, a mutual fund is a trust that pools the savings of a number of investors who share a common financial goal. The money collected is invested in capital market instruments such as, shares, debentures and other securities and money market instruments. The income earned through these investments and the capital appreciation realized is shared by its unit holders in proportion to the number of units owned by them. A mutual fund offers an opportunity to invest in a diversified, professionally managed basket of securities at a relatively low cost.



Typical Structure of a Mutual Fund

Sponsor

2.2 The Sponsor(s) are those who establish the Mutual Fund Trust and the Asset Management Company (AMC). They constitute the shareholders of the AMC.

Board of Trustees or Trustee Company

2.3 The trustees of a Mutual Fund could be constituted as a 'Board of Trustees' or could be incorporated as a 'Trustee Company' ['Trustee Company']. Where a Trustee Company is appointed, the duties of the trustee would be discharged through its directors. The Regulation 18 of MF Regulations has laid down the rights and obligations of the trustees. The Trustee Company is entitled to receive trusteeship fees for their services. The Sponsor appoints the trustees for the mutual fund. The trusteeship fee is paid by the mutual fund schemes and forms part of the overall expense ratio approved. The mutual fund's assets belong to the investors and are held in fiduciary capacity for them by trustees. The Trustee Company is the epitome of corporate governance in mutual funds and the trustees are regarded essentially as the front-line regulator. The Trustee Company is entrusted with the responsibility of holding the property of the MF in trust for the benefit of the unit-holders.

Asset Management Company (AMC)

2.4 The AMC is a corporate entity, which floats, markets and manages a mutual fund scheme and in return receives a management fee paid from the fund corpus. The AMC is accountable to the Trust for its actions. Regulation 25 of MF Regulations has laid down the AMC's obligations. In India, the Sponsor or the Trustee appoints the AMC through Investment Management Agreement (IMA). The contents of IMA are given in the Fourth Schedule to the MF Regulations. In terms of Regulation 24 of MF Regulations, no AMC can manage assets of more than one Mutual Fund and in case AMC decides to undertake any other activity then it has to satisfy SEBI that key personnel and infrastructure have been segregated activity-wise.

Fund Accountant (generally outsourced)

2.5 Fund Accountant is an entity handling the back office operations of the mutual fund for and on behalf of the AMC, *viz.*, services related to fund accounting, purchase processing, corporate actions accounting, valuation and Net Asset Value (NAV) calculation, reporting and other incidental services in respect of the Mutual Fund. An AMC, generally, enters into

service level agreement with Fund Accountant, if outsourced, which will clearly bring out the expectations from the third party service providers. Periodically, these would be reviewed to reflect at all times the business requirements currently in practice.

Custodian

2.6 Custodian is an entity appointed to perform custodial service for the assets under management of its present and future schemes managed by AMC who is not affiliated to the sponsor and/or its associates. The custodian is responsible for settlement of trades and ensuring custodial services for the fund. AMC enters into service level agreement with custodian, which will clearly bring out the service delivery expectations from the custodian. Periodically, these would be reviewed to reflect at all times the business requirements currently in practice. The entity engaged for custodial services should be registered as custodian under the SEBI (Custodian of Securities) Regulation, 1996.

Registrar and Transfer Agent (RTA)

2.7 An entity appointed by the mutual fund to render services to its investors / unit holders *v/z.*, receipt and processing of financial transactions (subscription, redemption, switch) from investors, dividend processing and payout, brokerage processing for distributors. Processing of non-financial transactions like, bank mandate, nominee, pledge, change of address, change of email address, transmission of units related request, name correction, etc. Additionally, the RTA also provides customer care support services through its wide-network of Investor Service Centers (ISCs), its call center and its web portal such as, requests for latest NAVs, requests for balances/ account statements, requests for fund literature. The RTA also manages the dividend distribution process and commission processing for the MF. An AMC, generally, enters into service level agreement (SLA) with RTA, which will clearly bring out the expectations from the third party service providers. Periodically, the SLA is reviewed and revisited in line with regulatory and business requirements currently in practice.

Distributors

2.8 Individuals, firms and corporate entities are engaged by the AMC for the purpose of distributing, marketing and procuring subscriptions of the Schemes of the mutual fund. All distributors appointed by the AMC are AMFI/NISM (Refer SEBI Circular dated June 24, 2010) Registered Mutual Fund Distributors (ARMFA).

Types of Mutual Fund Schemes

2.9 The following are various types of mutual fund schemes:

By Structure	By Investment Objective	Other Schemes Illustrated
<ul style="list-style-type: none">• Open Ended• Close Ended• Interval	<ul style="list-style-type: none">• Growth• Income• Balanced• Money Market• GILT	<ul style="list-style-type: none">• Exchange Traded• Tax Saving• Capital Protection• Fund of Funds• Index Funds

- (a) Open Ended Schemes - It is a fund which is available for subscription and redemptions all throughout the year. These do not have a fixed maturity. Investors can purchase and redeem units at prevalent Net Asset Value. The key feature is the liquidity factor.
- (b) Close Ended Schemes - These schemes have pre-specified maturity periods. The funds offer exit options after the initial closing as per the offer documents. As mentioned in the scheme offer documents, these could be in form of repurchase at a certain pre-specified dates fixed by the mutual fund at prevalent NAV. Some close-ended funds are listed on the stock exchanges and provide an exit option.
- (c) Interval Funds - These Schemes have the features of both open-ended and close-ended schemes. The units may be traded on the stock exchange or may be open for sale or redemption during pre-determined exit windows at intervals defined in the offer documents at the prevalent NAV.
- (d) Growth Schemes – The objective is to provide long-term capital appreciations and invests predominantly in equity and equity related instruments.
- (e) Income Schemes – The objective is to provide regular income. These schemes normally invest in fixed income securities, thus, providing a stable income.
- (f) Balanced Schemes – The aim is to combine the benefits of both growth and income funds by investing in a mix of equity and debt securities thereby diversifying risks.
- (g) Money Market Fund - Investment objectives are to provide a highly liquid portfolio of money market instruments to provide reasonable

returns and high liquidity to the unit holders. These schemes invest in money market instruments with, normally, short durations as treasury bills, certificates of deposit, commercial paper and inter-bank call money.

- (h) Gilt Funds – Investments are predominantly in securities issued by the Government, thus, having very low risks.
- (i) Exchange traded funds – An Investment fund traded on the stock exchange. ETF's hold asset such as stock, commodities, bonds, etc. and trade close to its NAV over the course of the trading day. Most ETF track an Index e.g., Nifty 50 or the price of the commodity e.g., gold and the NAV is close to these benchmarks subject to tracking errors.
- (j) Tax Saving Funds (Equity Linked Saving Schemes) – It is an open ended fund with lock in periods and offers rebates to investors under section 80 C of the Income tax Act. It aims to invest predominantly in equity and equity related instruments across sectors. The tax laws are based on the contributions made to any (ELSS).
- (k) Capital Protection Funds – Normally, they are close close-ended scheme with 3 to 5 years maturity and aim at endeavoring by investing in fixed income securities as primary objective and generate capital appreciations by investing in equity and equity related instruments. The protection of capital is not guaranteed.
- (l) Fund of Funds – It a fund, which invests in other mutual funds. This allows investors to achieve a broad diversification and an appropriate asset allocation with investments in a variety of fund categories that are all part of one fund. Return is dependent on the return of the underlying funds.
- (m) Index Funds - They are mutual funds that intend to track the returns of a market index. Index funds hold securities almost in the same proportion as its respective index. The returns from such schemes would be equivalent to those of the index, subject to tracking errors.

Departments within an AMC

2.10 Various departments within an AMC are as follows:

- (a) **Sales and Marketing** - The department is headed by Chief Marketing Officer (CMO) who floats the schemes and pools together the savings of the investors. The supportive functions are rendered by Registrar and Transfer Agents and Distributors.

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- (b) **Investment Department** - The department is headed by Chief Investment Officer (CIO) who invests the money collected in capital market instruments such as, shares, debentures and other securities and money market instruments. The supportive functions are rendered by the brokers and custodians
- (c) **Fund Accounting** - The department is headed by the Chief Finance Officer (CFO) who maintains scheme-wise accounting resources raised, amount invested, payment of dividend, redemption, etc. The supportive functions are rendered by banks for maintaining scheme-wise bank account, Registrar & Transfer Agent and Fund Accountant
- (d) **Risk and Compliance** - The department is headed by Compliance Officer (CO) who is responsible for monitoring of the risk management and compliance related functions within the AMC including those outsourced. The Chief Executive officer (CEO) in terms of regulation 24 (6A) shall ensure that the MF complies with all the SEBI MF regulations and that investments made by the Fund Manager are in interest of unit holders. The CEO shall be responsible for the overall risk management function of the mutual fund.
- (e) **Investor Services** - The department deals with operational matters and the investor grievances and resolution thereof along with the Registrar & Transfer Agent. Certain business processes are outsourced by mutual funds to third parties with a view to have lean organization structure and in turn be cost effective.

Chapter 3

Need and Objectives of Internal Audit of Mutual Fund

3.1 Internal audit is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. It is an independent appraisal function established by the management of an organization for the review of the internal control system as a service to the organization. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic and effective use of resources of the organization.

3.2 A dedicated, independent and effective internal audit activity assists both the management and the oversight body (e.g., the board, audit committee) in fulfilling their responsibilities by bringing a systematic disciplined approach to assessing the effectiveness of the design and execution of the system of internal controls and risk management processes. The objective assessment of internal controls and risk management processes by the internal audit activity provides management, the oversight body, and external stakeholders with an independent assurance that the organization's risks have been appropriately managed. Internal auditors are experts in understanding organizational risks and internal controls available to mitigate these risks; thereby they assist management in understanding the subject matter and provide recommendations for improvements.

3.3 A well functioning, adequately resourced internal audit activity that works collaboratively with the management and the board is a key resource in identifying risks and recommending improvements to an organization's governance, risk management, internal controls, and operations. Internal auditors' unique perspective of independence and objectivity, knowledge of the organization, and understanding and application of sound consulting and audit principles by virtue of their exposure to other organizations makes them ideal for this role.

3.4 A primary lesson to be learnt from the financial failure and collapse of numerous organizations is that good governance, risk management and

internal controls are essential to corporate success and sustainability. It is because of its unique and objective perspective, in-depth organizational knowledge, and application of sound audit and consulting principles, that a well functioning, fully resourced and independent internal audit activity is well positioned to provide valuable support and assurance to an organization and its oversight bodies.

3.5 Expectations from internal auditors are expanding. As a result, the traditional role of internal auditor is transforming to include activities that go beyond verification of compliance with policy norms and operating procedures to taking primary responsibility in assessing the effectiveness of the risk management processes in a business. The emerging role of the internal auditor requires that there is clear participation by the internal audit team in the process of improving an organization's operations through a combination of assurance and consulting work.

3.6 The real value derived from the efforts of the internal auditor can only be measured when the internal audit efforts are aligned to the strategic direction of the organization and operate at a level that improves organizational performance and ultimately delivers better returns to shareholders. This is possible when the internal auditor develops skills and competencies that are sector specific. This technical guide is an attempt to disseminate knowledge on the subject of internal audit of mutual funds and provides relevant guidance on developing mutual fund sector specific knowledge to internal audit professionals.

Auditor - Mutual Fund

Statutory Auditor

3.7. The statutory auditor of the mutual fund is a chartered accountant Firm appointed by the Trustee. These auditors are independent of the auditors appointed by the AMC to verify its own books of accounts. The scope of the statutory auditor is verification of the reports on the accuracy of accounting records maintained for the Fund, the AMC and the Trustee Company/ board of trustees. SEBI vide circular SEBI/IMD/CIR No. 8/132968/2008 dated July 24, 2008, prescribes new format of Abridged Scheme wise Accounting Disclosures, which are certified by statutory auditors. Under the SEBI Mutual Fund regulations, the statutory auditors of the AMC and Mutual fund schemes are to be different entities.

Internal Auditor

3.8 Internal auditor is an audit firm appointed by the Trustee Company, to enable them discharge their responsibilities effectively. The scope of the internal auditors broadly envisages periodic verification of control framework for the operations of the AMC and the service providers' vis-à-vis the provisions of the MF Regulations/ Trust Deed and the Guidelines issued by the SEBI from time to time.

Concurrent Auditor

3.9 It is an audit firm appointed by the Trustee Company, to enable them discharge their responsibilities effectively. The scope of the concurrent auditors broadly covers day-to-day key operations of AMC service providers, such as, deals entered into with the brokers, calculation of daily NAV, money market operations, etc.

Information System Auditor

3.10 SEBI has mandated system audit for mutual funds once in two years by SEBI/ IMD/ CIR No. 9/176988/2009 dated September 16, 2009. Under the circular, an independent CISA/CISM/DISA qualified or equivalent auditor is appointed for audit of systems and processes inter alia related to examination of integration of front office system with the back office system, fund accounting system for calculation of net asset values, financial accounting and reporting system for the AMC, unit-holder administration and servicing systems for customer service, funds flow process, system processes for meeting regulatory requirements, prudential investment limits and access rights to systems interface.

Chapter 4

Professional Opportunities - Mutual Fund

4.1 The current asset management business and the regulatory environment substantially require AMCs to develop a more systematic approach to their governance practices. As they do so, the role of internal audit is also changing with requirements for a strategic participation in its goals. AMCs are expanding the role of internal auditors, which include the following functions:

(i) **Concurrent Audit** - Review and verify NAV and various regulatory and internal limits on day-to-day operations and report to management on T + zero basis.

(ii) **Risk Based Internal Audit** - Review the mutual fund operations, SOPs, controls systems, role of outsourced agencies, etc., based on the level and nature of risk. Identify and report high-risk areas relating to key process gaps and/ or lapses, control failures and suggest mitigating measures to the management and its oversight bodies.

(iii) **Third Party Compliance** - With the increased outsourcing of activities and reliance on third party processes, AMCs require internal auditors to examine the controls that business partners deploy. This covers internal/ concurrent audit for:

- **RTA Audit** - To review and verify the critical R&T operations such as, processing of financial/ non-financial transactions on T+1 basis and report to the management.
- **Fund Accountant** - To review the accounting processes and systems, NAV calculation systems, assessing correctness of various MIS reports, daily cash flow statements, etc.
- **Custodian Audit** - Periodic review of controls, processes and practices put in place at custodian for safe custody of the securities.
- **SAS 70** - To review controls, processes and practices for outsourced/ shared operations.
- **New Business Initiatives** – Review at the time of product launch and business expansions, which include audit of adherence to disclosures

Professional Opportunities - Mutual Fund

made in Statement of Additional Information (SAI) and Scheme Information Document (SID), process setups at time of scheme launches, etc.

- **SEBI Mandated System Audits** – Every mutual fund and its service providers are required to conduct systems audit at least once in two years by an independent CISA/ CISM qualified or equivalent auditor. (SEBI/IMD/CIR No. 8/176988/2009 dated September 16, 2009)
- **Certifications** – Issue of various certificates to AMCs/ Trustees based on specific requirements raised by SEBI/ AMFI from time to time.
- **Branch Audits** – Review of the processes of collection of customer applications and other investor servicing methodologies.
- **Corporate Governance Audits** – Review various governance practices including those that are specified in SEBI under clause 49 as followed by the AMC and include board constitution, related party transactions, risk management practices and integration of various activities.
- **Statutory Audit** - Review the operations, controls systems within the organizations and at outsourced entities, verify accounts and accuracy of record maintained in line with regulatory requirements, certify the financial statements of various schemes of mutual fund prepared in the format prescribed by SEBI, and present the same to the Board of AMC and Trustee Company.

Chapter 5

Business Risk Factors in Mutual Fund Operations

Strategic Risks

5.1 The following are types of strategic risks involved in mutual fund operations:

- (i) **Credit Risk** - This is the risk associated with the issuer of a debenture/ bond or a money market instrument defaulting on coupon payments or in paying back the principal amount on maturity. Even when there is no default, the price of a security may change with expected changes in the credit rating of the issuer.
- (ii) **Liquidity Risk** – These are market events that cause excessive strain on the treasury of the fund house resulting in mismatch of cash flow. They lead to unexpected high value redemptions causing liquidity crunch.

Operational Risks

5.2 The following are various types of operational risks involved in mutual fund operations:

- (i) **Front Office Risks** - Front Running by dealer may result into reputational risk and financial loss to AMC. It may also include leakage of sensitive information to insiders or breach of investment restrictions/ norms.
- (ii) **Market Risk** - As the share prices, valuations and/ or interest rates of securities in which the scheme invests fluctuate, the value of investments in the scheme may appreciate/ depreciate.
- (iii) **Third Party Failure** - The impact of failure of a third party to adequately perform the activity on the financial, reputational and operational performance of the AMCs and on the customers and their counterparts. Data protection, security and other risks may be adversely affected by the geographical location of the third party.
- (iv) **Settlement Risk** - Fixed income securities run the risk of settlement, which can adversely affect the ability of the fund house to swiftly execute trading strategies, which can lead to adverse movements in NAV.

Business Risk Factors in Mutual Fund Operations

- (v) **Third Party Agent** - Misuse of investor information resulting in sharing investor information with competitors, disruption to operations and financial loss to AMC.
- (vi) **IT Risks** - Unauthorized access, absence of DRP/ BCP, limited audit trails, etc are various types of IT risks involved.
- (vii) **Other Risks** – Computation of incorrect NAV, management override, employee frauds including collusion and conflicting functions, insider trading, fraudulent financial reporting, misfeasance by brokers, etc.

Reporting Risk

5.3 It may include publishing of wrong NAV by mutual fund.

Compliance Risk

5.4 It includes non-adherences with regulatory requirements leading to a loss of reputation and loss of investor confidence.

Chapter 6

Framework of Internal Audit for Mutual Fund

6.1 Internal audit is an independent management function, which involves a continuous and critical appraisal of the functioning of an entity with a view to suggest improvements thereto and add value to and strengthen the overall governance mechanism of the entity, including the entity's strategic risk management and internal control system. In addition to the classical aspects to be covered in an internal audit, the internal auditor of a mutual fund has to include various circulars, regulatory requirements and directives issued by the SEBI.

6.2 SEBI (Mutual Funds) Regulations, 1996 states that the Board may appoint one or more persons as inspecting officer to undertake the inspection of the books of account, records, documents and infrastructure, systems and procedures or to investigate the affairs of a mutual fund, the trustees and AMC for any of the following purposes, namely:

- (a) to ensure that the books of account are being maintained by the mutual fund, the trustees and AMC in the manner specified in these regulations;
- (b) to ascertain whether the provisions of the Act and these regulations are being complied with by the mutual fund, the trustees and AMC;
- (c) to ascertain whether the systems, procedures and safeguards followed by the mutual fund are adequate ;
- (d) to ascertain whether the provisions of the Act or any rules or regulations made there under have been violated ;
- (e) to investigate into the complaints received from the investors or any other person on any matter having a bearing on the activities of the mutual funds, trustees and AMC;
- (f) to suo motu ensure that the affairs of the mutual fund, trustees or AMC are being conducted in a manner, which is in the interest of the investors or the securities market.

The Board or the Chairman shall after consideration of inspection or investigation report take such action as the Board or Chairman may deem fit and appropriate including action under the Securities and Exchange Board of

India (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002. The Board shall have the power to appoint an auditor to inspect or investigate, as the case may be, into the books of account or the affairs of the mutual fund, trustee or AMC, provided that the auditor so appointed shall have the same powers of the inspecting officer as stated in regulation.

6.3 The Board of Trustees appoints independent internal audit firm to conduct internal audit of AMC/ mutual fund operations. The internal audit delivery model in India is largely a fully outsourced model; however, at some place co-sourcing model is also prevalent. The prime reason for a fully outsourced model is on account of the lean organization structure of the AMCs in India and more so to improve independence of the internal audit function. (AMCs follow an outsourcing model for several business processes such as, Fund accounting, Custody and Registrar and Transfer operations.) The Internal Audit reports to the Audit Committee of the Asset Management Company at quarterly intervals and to the Board of Trustees at bi-monthly intervals.

Risk Management Guidelines Implementations

6.4 SEBI vide circular No MFD/CIR/15/19133/2002 dated 30th September 2002 has also advised the Mutual Funds to implement the Risk Management System, progress of which is to be reviewed by the Board of AMC and Trustees. Further, the review of Risk Management Systems shall be a part of internal audit and a report on which shall be placed before the Board of AMC and Trustees who shall make comments on the adequacy of systems in the quarterly and half-yearly compliance reports filed with SEBI.

Chapter 7

Major Focus Areas of Internal Audit of Mutual Fund

7.1 Major focus areas of internal audit of mutual fund shall include the following:

- (a) Dealing Operations and Fund Management
- (b) Net Asset Value (NAV) Calculations
- (c) Fund Accounting and Treasury
- (d) Custodian Operations
- (e) Compliances and Risk Management
- (f) Registrar and Transfer Agent and Investor Services
- (g) AMC Branch Operations
- (h) Distribution
- (i) Information Technology
- (j) Role of Trustees

Dealing Operations and Fund Management

7.2 Internal audit of dealing room and fund management activities includes the following:

- (i) Process flow of dealing room and fund management activities with regards to internal policies, guidelines, and MF regulations.
- (ii) Reporting structure of the dealing and fund management team in accordance with SEBI "Operating Manual for Risk Management for Indian Mutual Funds" for segregation.
(SEBI Cir – MFD/CIR/15/19133/ 2002 dated September 30, 2002).
- (iii) Dealing room activities, i.e., ordering systems that includes order placement IT systems, deal slips, order books, counter party confirmation, price verification and documentation, authorization and its compliance with prescribed procedures and MF Regulations.

Major Focus Areas of Internal Audit of Mutual Fund

- (iv) Recording of investment reasons by fund manager in compliance with MF regulations, internal policy, etc.
- (v) Voice recording of the telephone lines connected to dealing room and restriction on usage of mobile phones for dealings in accordance with SEBI directives.
- (vi) Compliance to investment activities with regard to internal policies and investment restrictions as imposed by SEBI MF Regulations.
- (vii) Adherence to overseas investment norms and limits and appropriate disclosures in offer documents.
- (viii) Delegation of power for investment in primary/ secondary markets- equity and debt.
- (ix) Primary market transactions with laid down procedures including, authorization and allocation between schemes.
- (x) Inter-scheme transfer of securities - Compliance with internal policy, clause 3 of the Seventh Schedule of the MF Regulations and its documentation for approval of compliance, Risk Management and respective fund managers.
- (xi) Investment limits monitoring for schemes/ Fund, position monitoring for derivative transactions as per MF Regulations/ SEBI circulars.
- (xii) Underwriting transactions entered into as per MF regulations.
- (xiii) Investments conducted as per Scheme objectives as mentioned in the SID.
- (xiv) Investment in Unrated papers to be pre-approved in accordance with MF Regulations.
- (xv) Norms for empanelment of brokers as specified by the AMC [Reg. 18(4)(g)].
- (xvi) Compliance by the AMC of the restrictions on transactions done through brokers other than those specified under regulations 25(7)(a) [Reg. 25(7)(b)].
- (xvii) Distribution of business to empanelled brokers to avoid undue concentration of business with any broker [Reg. 18(5)].
- (xviii) Identifications and recovery of Non Performing Assets.
- (xix) Review of scheme/ fund performance with benchmarks stated in the scheme related documents, if any or with comparative benchmarks.
- (xx) Documentation of debt/ equity primary market transactions.

Net Asset Value (NAV) Calculations

7.3 Various steps in internal audit of Net Asset Value Calculations are as follows:

- (i) Valuation of Securities includes verification of valuation policy and its adherence. Compliance of valuation policies of the Fund vis-a-vis SEBI regulations and various circulars issued from time to time. Checking of valuation process for all types of securities including, equity shares, debts securities, money market instruments, unlisted and thinly traded securities, etc. (Valuation policies of the Fund are in line with the Eight Schedule to MF Regulations read with SEBI circular no. CIR/ IMD/ DF/ 4/ 2010 dated 21st June 2010.)
- (ii) Valuation of gold, units of other mutual funds and other assets need to be in compliance with SEBI regulations.
- (iii) Monitoring and updating of credit ratings of debt securities.
- (iv) Review of recurring expenses charged by the AMC. [Reg. 52(4)] its authorization and supporting, recording and segregation. Expenses accrued needs to be within the limits specified under MF Regulation and approved by the trustees.
- (v) Verification of the investment management and other fees charged by the AMC and regulatory limits.
- (vi) Allocation of common expenses among participating schemes in accordance with the internal guidelines.
- (vii) Timely tracking/ timely accounting/ accrual of corporate benefits on securities held in scheme.
- (viii) Review of Unit Capital/ Switch Reconciliation.
- (ix) Funding and accounting of dividend declarations within scheme.
- (x) Review of accounting of exit load and reversal of excess over 1% in accordance with MF regulations.
- (xi) Verification of timely upload of NAV on AMFI website by 9 p.m. of the same day for all schemes and 10 a.m. of the following business day in case of fund schemes.
- (xii) Verification of timely upload of NAV to press.
- (xiii) Applying correct NAV at time of switch/ repurchase, etc.

Major Focus Areas of Internal Audit of Mutual Fund

- (xiv) Review of trial balance and balances of various accounts to identify discrepancies, if any, and suggest necessary corrections. This should include ledger scrutiny at periodic intervals.
- (xv) Verification of dividend declared by the schemes.

Calculations of NAV

7.4 Based on the NAV declared, investors subscribe to the units in the schemes at the 'bid rate' or redeem units already held of the schemes at the 'ask rate'. Below is an illustrative table showing the calculation of NAV and NAV per unit:

No.	Particulars	Amount	Amount
A	<u>Unit Capital</u>		
	Opening	xxxx	
	Net Sold	(xxxx)	
	Net Purchased	xxxx	
	Closing		xxxx
B	<u>Reserve</u>		
	Opening	xxxx	
	On units Sold	(xxxx)	
	On units Purchased	xxxx	
	Closing		xxxx
C	Appreciation / Depreciation in Value of Securities		xxxx
D	<u>Income</u>		
	Dividend Income	xxxx	
	Interest Income	xxxx	
	Profit & Loss on sale of Equity / Debt/ G-Secs	xxxx	
	Other Income	xxxx	
	Total Income	Xxxx	Xxxx
E	<u>Recurring Expenses</u>		
	Opening recurring expenses	xxxx	
	Management fees	xxxx	
	Other scheme expenses	xxxx	
	Closing Expenses		Xxxx
F	Total	(A+B+C +D-E)	Xxxx

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G	Income Distribution considering applicable taxes thereon, if any			(Xxxx)
H	Total NAV	(F - G)		Xxxx
I	Total outstanding units as on the day end			Xxxx
J	NAV per Unit	(H ÷ I)		Xx

Fund Accounting and Treasury

7.5 It includes review of following:

- (i) Proper books and records are maintained by each scheme in terms of Regulation 50 and preserved for a period of eight years.
- (ii) Process for updating Security masters in Fund Accounting application and Crisil Bond Valuer.
- (iii) Contract notes with DIP/ DIS statements, STP, Broker's transaction file and custodians confirmation.
- (iv) Primary market transaction with deal slips and DIP/ DIS statement and custodian's confirmation.
- (v) Method followed for computing distributable surplus and its adherence to SEBI Circular No. SEBI/IMD/CIR No.18/198647/2010 dated 15th March 2010.
- (vi) Accounting of Income Equalization Reserve and, particularly, dividend equalization reserve and accounting of dividend distributed by the schemes.
- (vii) Investible surplus calculation reporting and utilization.
- (viii) Load balance/ payable – receivable from AMC confirmation (spill over of expenses) every quarter.
- (ix) Investment made by Gold Exchange Traded Fund in accordance with Sub Regulation 5 of Regulation 44.
- (x) Corporate actions - dividend, interest, bonus, rights, etc. Process and control mechanism at Fund's end with regard to accounting of corporate actual benefits and monitoring of receipt thereof.
- (xi) Daily settlement obligation, MTM and matching of the same with custodian.
- (xii) Charges levied by Custodian and Registrar with regard to SLA.

Major Focus Areas of Internal Audit of Mutual Fund

- (xiii) Timely payments of all statutory dues, such as, STT, TDS, etc and filing of returns.
- (xiv) Closure of scheme books for schemes matured including appropriation of left over provisions.
- (xv) Identification and provisioning for Non-Performing Assets.
- (xvi) Reconciliations which includes review of:
 - (a) Subscription and redemption reconciliation and to ensure that proper action is taken on the items identified in the reconciliation. Verifying correctness of following:
 - Reconciliation of bank accounts. (collections, redemption, dividend, brokerage, etc.)
 - Corpus Reconciliation
 - SGL Reconciliation
 - Other Bank accounts like, NFO accounts, Operation Account, etc.
 - (b) Collection process from origination of transaction till final utilization of funds with regard to Daily Reporting of High Value and inter-bank transfer cheques/ non-high value cheques and deposition of the same by AMC Branches and R & T branches.
 - (c) Identify and report errors or weakness in system emerged out of reconciliations and suggest corrective actions.
 - (d) Various reports from R & T end, branches co-ordination with the R & T Agent and the Head Office of the AMC regarding collection and redemption/ switch process.

Custodian Operations

- 7.6 Internal audit of custodian operations includes the following:
- (i) Review of agreement with custodian.
 - (ii) Review of processes and controls at the custodian.
 - (iii) Verification of certificate to operate as custodian of securities.
 - (iv) Review of disaster recovery plan, contingency plan and safe keeping arrangement of documents at custodian with regard to fund's activities.
 - (v) Review of purchases and sales, DIP/DIS and settlement of trades.

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- (vi) Review of holding reconciliation as per Fund house, Custody and NSDL records.
- (vii) Review and reconciliation of logical and actual holding tallying with the physical and electronic balances.
- (viii) Review storage facility for physical holdings and verification, procedures and controls.
- (ix) Physical verification of securities lying with the custodian.
- (x) Review Income booking process, Income received vs. receivable (Interest on debt securities, Dividend income etc.).
- (xi) Review process of Corporate Actions booking and settlement.
- (xii) Review accuracy, timeliness, adequacy and periodicity of reports sent by the custodian to the Fund.
- (xiii) Review compliance with service standards prescribed for Custodial Services.
- (xiv) Review Insurance cover obtained in accordance with SEBI directives.

Compliances and Risk Management

7.7 Following are steps involved in internal audit of compliances and risk management of mutual fund:

- (i) Adherences to MF Regulations, circulars, AMFI guidelines and internal norms.
- (ii) Monitoring of employee dealing guidelines; reporting to trustees any deviations as per MF Regulation 25 (9).
- (iii) Adherence to Compliance and Risk Manuals and SOP's; Review of Service level agreement terms with various service providers.
- (iv) Adherences to accounting policies prescribed in Eleventh Schedule of MF regulations.
- (v) Review of Investment restrictions (Seventh Schedule of MF Regulations), decision-making, and recording of decisions.
- (vi) Day to day fees and expenses charged to schemes as per the MF Regulations.
- (vii) KYC Norms and applicability of Prevention of Anti Money Laundering Act 2002; submission of Cash Transaction Report (CTR) and Suspected Transaction Report (STR).

Major Focus Areas of Internal Audit of Mutual Fund

- (viii) Approval of Manuals and Policies by appropriate authorities:
 - Compliance Manual, Operation Manual, Advertisement Manual, IT System Manual, Customer Service Manual, Risk Management Manual, Investment Policy, Valuation Policy, Employee Dealing Policy, etc. should be approved by the appropriate authorities.
 - Conduct yearly updates of SOPs and should be approved/ noted by appropriate authorities.
- (ix) Investment Committee
 - Members and Constitution
 - Number of Meetings
 - Recording of Minutes
 - Recommendations.
- (x) Delegation of authority to be approved by the Board of AMC.
- (xi) Amendments, if any, as approved by Board or noted by Board or in any manner as authorized by the Board/ Audit Committee.
- (xii) Front Office and Back Office segregation of duties (including deployment of requisite skilled manpower, investment system and infrastructure to Back Office commensurate with Front Office).
- (xiii) Adherences to the Advertisement Code; AMC and all intermediaries of the fund abide by the Code of Conduct.
- (xiv) Employees engaged in marketing and distribution have obtained appropriate certification from AMFI as required by SEBI.
- (xv) Risk Management System as per SEBI circular MFD/CIR/ 15/ 19133/ 2002 dated 30th Sept 2002. It includes risk policy approvals by the AMC and Trustee Board e.g., risk procedures for investment, operational and business risks assessments, DR/BCP set ups; risk/ investment committee set ups and meetings; reporting to Board/ Audit committee; other compliance with risk management circular of SEBI and ongoing updations.
- (xvi) Verifying whether the company is carrying out appropriate and adequate investor profiling.
- (xvii) Verifying the maintenance and adequacy of data security system.
- (xviii) Verifying whether source codes for software are maintained and updated.
- (xix) Verifying whether the company has with itself data lying with RTA and Custodian.

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- (xx) Whether outstanding observations of previous audit reports are followed up and implemented.
- (xxi) Empanelment of brokers (by back office)
- Procedures/ criteria (as stipulated in Investment Policy) for Broker appointment by Back Office, Dealing with Front Office and Review/ monitoring by Mid-Office.
 - Business-wise spreads, ceiling per broker (as stipulated in MF Regulations).
 - Executing of Legal Agreement with Brokers for empanelment covering terms and conditions of brokerage business (in a standard format).
 - Suspension of brokers based on action taken by regulator and exchanges.
- (xxii) Inter- scheme transfers:
- Recording Rates and Times of Inter-scheme transactions
 - Approval and Authorization
 - Reporting to Trustees.
- (xxiii) Verification of periodic reports for accuracy, content, format and timeliness before submission to Trustees and Regulators.
- (xxiv) Submission of information and reports sought by regulators from time to time which includes:

No.	Particulars	Reporting Frequency
1	MCR Report	Monthly
2	Bi-Monthly CTR	Bi- Monthly
3	SGL Reconciliation	Quarterly
4	Bi-Monthly AMC Investment Report	Bi-Monthly
5	Un-audited Half Yearly Portfolio	Half Yearly
6	Un-audited Half Yearly Financials	Half Yearly
7	Bi-Monthly AMC to Trustee Report	Bi-Monthly
8	Half Yearly AMC to Trustee Report	Half Yearly
9	Half Yearly Trustee Report to SEBI	Half Yearly
10	Portfolio of All Close Ended Schemes	Monthly
11	Total Resource Deployment	Monthly
12	Associate Report	Monthly

Major Focus Areas of Internal Audit of Mutual Fund

13	New Scheme Report	As & When
14	Quarterly Average AUM Report to AMFI	Quarterly
15	Investor Service Statistics	Annually
16	Annual Information Return (u/s 285 BA of Income-tax Act); Dividend Distribution tax return and Securities Transaction Tax returns under Income Tax Act	Annually

Registrar and Transfer Agent and Investor Services

7.8 Internal audit of Registrar and Transfer Agent and Investor Services includes the following:

- (i) Verification of Certificate to Operate as Registrar under SEBI regulation.
- (ii) Review of checkpoints for control on R & T activities, like, various reports sent by them, monthly exception report, status report, etc.
- (iii) Verify adherence to time stamping norms for the application received from various sources, such as, AMC FO, channel feeds, web based transactions and so on.
- (iv) Review of procedure and control for handling of subscription/ redemption application request received at AMC branches and R&T branches and its compliance with SEBI circular SEBI/ IMD/ CIRNo.11/ 78450/ 06 dated October 11, 2006 on "Uniform cut-off timings for applicability of Net Asset Value (NAV) of Mutual Fund scheme(s) plan(s)" and CIR/ IMD/ DF/ 19/ 2010 dated November 26, 2010 on "Allocation of Government debt and corporate debt investment limits to FII's". Reference may also be made to SEBI/ IMD/ CIR No. 13/150975/09 dated January 19, 2009.
- (v) Review of process for handling investor complaints, tracking of complaints and follow up mechanism. Investor complaints will include investor complaints receipt/ resolving framework, escalated complaints resolution framework, complaints received from SEBI, court/ consumer forum/ such other cases and their resolution; adequacy of Compliant Resolution Mechanism system; Board/ Audit Committee review of complaints and resolution; annual publication of MIS on investor complaints as per SEBI guidelines.
- (vi) Reviewing the accuracy of classifying the customer complaints in light of SEBI circular on the same issued in May, 2010.

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- (vii) Brokerage processing review comprising of setting up of brokerage rate in R& TA system, computation of brokerage payable, payment controls, factoring KYD norms and KYC norms for channel partners.
- (viii) Process controls with respect to effecting the change of broker.
- (ix) Accuracy of special incentive working and tax calculations involved.
- (x) Process for setting of masters for loads, brokerage structure and dividend declared.
- (xi) Review of procedure and controls for brokerage processing by R & T Agent. Checking of brokerage processed with reference to brokerage rates, timely and accurate updation, special rate/ incentives calculation, service tax deduction and payment, etc.
- (xii) Procedure and control for collection and handling of mandatory documents including, Self Declaration and Know Your Distributor code.
- (xiii) Compliance with KYC norms, Prevention of Money Laundering Act, bank details and PAN related documents as mandated by regulators from time to time.
- (xiv) Verification of adequacy of controls for payout files generated for redemptions, brokerage and dividend payouts.
- (xv) Verification of working for special incentives to the distributors, if any, handled by R&TA.
- (xvi) Procedure towards registering systematic transactions and coordination with banks and service providers for PDCs, ECS mandates and standing instructions towards Systematic purchase transactions.
- (xvii) Review of procedures for delay in dispatch of redemption and dividend warrants including, computation and payment of compensation for redemption in accordance with SEBI directives.
- (xviii) Review process for withholding taxes for remittance outside India of redemption proceeds
- (xix) Review of procedure for treatment of undelivered account statements/ redemptions/ dividends and correspondences.
- (xx) Verification of recovery made/ to be made from R & T Agents for various mistakes which caused financial losses to Fund/ AMC/ Investors.

Major Focus Areas of Internal Audit of Mutual Fund

- (xxi) Verify adherence to TAT for processing the request vis-a-vis the time stamped request.
- (xxii) Verify adherence to AMFI guidelines, AMC instructions on the documents to be obtained before processing the application.
- (xxiii) Dispatch of communication and account statement confirming the status of transactions.
- (xxiv) Disclosure of investor complaints received from all sources on the MF's website and on the AMFI website as well as in annual reports as required in terms of SEBI circular IMD/DF/2/2010 dated 13th May 2010.

AMC Branch Operations

7.9 Following are aspects to be covered in AMC branch operations:

- (i) Time stamping of application (subscription, redemption, switch, etc.)
- (ii) Display of NAV of various schemes.
- (iii) Timelines for investor servicing.
- (iv) Banking of instruments.
- (v) Reporting to Head office.
- (vi) Request and complaints handling.

Distribution

7.10 Internal audit of distribution should cover following aspects:

- (i) Empanelment of distributors, activation and review.
- (ii) Commercials and service agreements.
- (iii) NFO and product promotion.
- (iv) Marketing collaterals.
- (v) Sales management.
- (vi) Subscriptions and redemptions.
- (vii) Distributor contact program.

Information Technology

7.11 Internal audit of information technology aspects in mutual fund should broadly cover the following areas:

- (i) Data Security.

- (ii) Risk Management System.
- (iii) Business Continuity Planning.
- (iv) Disaster Recovery Plan.
- (v) Access Controls.
- (vi) Information Security.

Role of Trustees

7.12 Internal audit of role of trustees should cover following areas:

- (i) Number of meetings held of trustees.
- (ii) Quality of supervision provided by trustees.

Chapter 8

Mutual Fund - Internal Audit Checklist

8.1 Details of key areas along with the detailed activities for internal audit of mutual fund are tabulated hereunder. It may be mentioned that the list given is illustrative in nature.

No.	Particulars	Observation, Associated Risk & Recommend ation	Management Comments
1.	APPROVAL OF MANUALS, SCHEME OFFER DOCUMENTS		
	1.1. Whether manuals like Compliance Manual, Operation Manual, Advertisement Manual, IT System Manual, Sales/ Customer Service Manual, Risk Management Manual, Investment Policy, Valuation Policy, Employee Dealing policy etc, including delegation of authority is in place and are approved by the Board of AMC and Trustee, and whether the same is periodically (preferably annually) updated/ approved by authority.		
	1.2. Verify that Scheme Information Document (SID), Statement of Additional Information (SAI) and Key Information Memorandum (KIM) are available on fund website as per SEBI circular dated 29 th September, 2009 and same are in the prescribed formats.		

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No.	Particulars	Observation, Associated Risk & Recommend ation	Management Comments
	1.3. Whether soft copy of SID uploaded on AMFI website two working days prior to launch of the scheme.		
	1.4. Whether in case of any changes in fundamental attributes of the scheme, the SID/ KIM has been revised and updated immediately after completion of duration of the exit option.		
	1.5. Whether in case of any other changes in the scheme, the AMC display it on its website the addendum and issued the same to all distributor and Investor Service Centre.		
	1.6. Where a public notice given in respect of such changes in one english daily newspaper having nationwide circulation as well as in a newspaper published in the language of region where the Head Office of the Mutual Fund is situated.		
	1.7. Whether copy of all changes made to the scheme are filed with SEBI within 7 days of the change.		
2.	APPROVAL AND DELEGATION OF AUTHORITY		
	2.1 Verify the delegation of authority as prescribed by various manuals of the Board of AMC/ Trustees and its implementation.		

Mutual Fund - Internal Audit Checklist

No.	Particulars	Observation, Associated Risk & Recommendation	Management Comments
	2.2 Verify the transactions executed to ensure that the same is approved by the appropriate authority and that they are within the limits of authorization.		
	2.3 Verify that limit-wise authorization matrix has been defined in the system.		
	2.4 Verify that all such approvals are logged in the system and reviewed.		
	2.5 Verify the amendments, if any, to the delegations and whether the same are approved by the Board of AMC.		
3.	SEGREGATION OF DUTIES – FRONT OFFICE/ MID OFFICE/ BACK OFFICE		
	3.1. Understanding of segregation of duties between the Front Office (FO)/ Mid-Office (MO)/ Back Office (BO) in Mutual Fund and authorization matrix for the same.		
	3.2. Verify whether the structure of FO/ MO/ BO represents the actual workflow or is designed just for regulatory compliance.		
	3.3. Verify whether the Fund have job rotation policy.		
4.	FUND ACCOUNTING AND BACK OFFICE FUNCTION		
	4.1. Audit Trail and Records (i) Is there a record of all deals that have been done?		

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No.	Particulars	Observation, Associated Risk & Recommendation	Management Comments
	(ii) Are all deal slips serially numbered and available? (iii) Is there a record of approvals and investment justifications for each deal? (iv) What is the frequency of backups?		
	<p>4.2. Investment Deal Testing</p> (i) Verify that each deal has a deal slip with appropriate details viz., security name, quantity, amount, broker name, etc. (Ideally system should have all requisite fields as mandatory fields without which deal slip should not be generated). (ii) Verify whether intimation for the trades sent to custodian is with proper documentation (such as, amount, quantity, value, description, etc.). (iii) Verify whether investments made by fund manager are backed by research report and research report format is approved by the board. (iv) Verify whether deals entered by the front office are backed by a broker note or entry into STP dump. (v) Verify, if there are any error trades, whether deals are authorized and matched with the underlying documents		

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No.	Particulars	Observation, Associated Risk & Recommendation	Management Comments
	<p>such as counter-party confirmation, etc.</p> <p>(vi) Verify whether calculation of profit/ loss is happening on trade upon deal entry.</p> <p>(vii) Verify that there is adequate segregation of duties between people booking, confirming and accounting the trade (system should not allow a single person to complete a transaction).</p> <p>(viii) Verify whether the deals placed can be traced in the Voice Recording Machine.</p> <p>(ix) Verify the guidelines for schemes making overseas investments which inter alia include permissible limits, securities, dedicated fund manager, disclosures in SID, etc.</p> <p>(x) Verify whether in case of overseas investments, the disclosures in Half Yearly portfolios has been made in the prescribed format under a separate heading "Foreign Securities and/or overseas ETF(s)". In addition, whether scheme-wise percentage of investments made in such securities is disclosed while publishing Half Yearly Results in prescribed formats.</p>		

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No.	Particulars	Observation, Associated Risk & Recommendation	Management Comments
	(xi) Verify whether offer document limits (if any) are complied with.		
	<p>4.3. Accounting and Settlement of Deals</p> <p>(i) Obtain the procedure for accounting and settlement of deals from Manuals/ Policies and verify that the same is being adhered to.</p> <p>(ii) Verify whether all investment are accounted on trade date.</p> <p>(iii) Verify whether the settlement date is tracked properly.</p> <p>(iv) Verify whether robust cash management process is in place.</p> <p>(v) Verify that the funds are transferred as per the settlement date and trace the same in the bank statement.</p> <p>(vi) Verify entry into demat statement received on a test check basis from the custodian.</p> <p>(vii) Verify that investment bank reconciliation statement is prepared on a daily basis and is signed by the maker and reviewer.</p> <p>(viii) Verify that custodian reconciliation is prepared on a daily weekly and is signed by the maker and reviewer.</p> <p>(ix) Verify custodian reconciling</p>		

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No.	Particulars	Observation, Associated Risk & Recommendation	Management Comments
	<p>items and whether they are followed up on a timely basis.</p> <p>(x) Verify that there is a four-eye principle (maker checker concept) for the process. For example, person settling the trade and person preparing reconciliation are different people.</p> <p>(xi) Verify whether the amount received/ paid against security sold/ purchased is properly recorded. Verify with the logs for any modification of deals exception note that has been generated and approved by the Dealer and Fund Manager.</p> <p>(xii) Verify whether investments are made as per objectives defined in the offer documents.</p>		
	<p>4.4 NAV Process</p> <p>(i) Verify on test check basis whether NAV computed either by in-house or outsourced fund accounting is correct considering all aspect including, valuation of investments, Income and expense accrual, corporate actions, dealing room activities (buying and selling), primary market transactions and inter-scheme transfer, Registrar's controls with regarding to purchase, sale,</p>		

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No.	Particulars	Observation, Associated Risk & Recommendation	Management Comments
	<p>rejection of unit transactions.</p> <p>(ii) Verify whether MF has provided an option to the investors to receive allotment of Mutual Fund units in their demat account while subscribing to any scheme (open ended/ close ended/ Interval).</p> <p>(iii) Verify whether security master is created as per the term sheet and deal slip.</p> <p>(iv) Verify whether there is a four-eye principle of maker-checker for security master creation and updation.</p> <p>(v) Verify whether all dividend and interest income been accounted on accrual basis,</p> <p>(vi) Verify whether valuation of Debt instruments, Money Market Instruments, Mutual Fund Investments, Equity Investments, Derivatives Investments and gold investments are valued as per MF Regulations and Valuation Policy.</p> <p>(vii) Verify whether realized and unrealized incomes are correctly accounted at the time of generation of NAV.</p> <p>(viii) Verify whether corporate actions are accounted and recorded on ex-date.</p>		

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No.	Particulars	Observation, Associated Risk & Recommendation	Management Comments
	<p>(ix) Verify investment valuation of various securities and check whether it is in accordance with MF regulations? (Investment criteria should be set-up in the system and the same should be reconciled with independent valuation).</p> <p>(x) Verify whether expenses are correctly charged to various schemes and are within the maximum permissible limit as per MF Regulations.</p> <p>(xi) Check whether the company uses appropriate sources for deriving market value/ fair value of the investment.</p> <p>(xii) Verify whether there is an internal process, existing to ensure that units are daily reconciled as per the NAV Report and Report of Registrar and Transfer Agent Report.</p> <p>(xiii) Verify whether the units created or redeemed bring in or take out correct money of the fund to ensure the interests of all the policyholders are protected. If there is any difference, the same shall be compensated.</p> <p>(xiv) Verify whether investments are allocated to the different portfolios at the inception.</p> <p>(xv) Verify whether inter scheme transfers are done as per</p>		

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No.	Particulars	Observation, Associated Risk & Recommendation	Management Comments
	<p>norms and approved framework.</p> <p>(xvi) Whether the investments of the schemes strictly follow the pattern of investment and the limits mentioned in the product feature? (Norms and limits should be setup in the scheme master).</p> <p>(xvii) Whether the NAVs declared are correct and tally with the system.</p> <p>(xviii) Whether NAV are timely uploaded on AMFI website.</p> <p>(xix) If there is change in NAV more than 1% due to the error, the same shall be compensated to the unit holders as per the MF Regulations.</p> <p>(xx) Whether reasons for error impacting NAV less than 1%, have been documented with action plan to restrict re-occurrence in future.</p> <p>(xxi) Whether statutory dues like, STT, TDS and Service Tax, etc are correctly deducted and timely deposited to central governments.</p> <p>(xxii) Whether statutory returns are timely submitted to appropriate authority.</p> <p>(xxiii) Verify whether mark up and down are signed by CEO.</p>		

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No.	Particulars	Observation, Associated Risk & Recommendation	Management Comments
	<p>(xxiv) Verify whether expenses are correctly allocated to the schemes. Verify whether the appropriate authority authorizes the same.</p> <p>(xxv) Whether the usage of load account is in terms of SEBI circular dated 9th March 2011.</p>		
	<p>4.5 Reconciliations</p> <p>(i) Verify whether following reconciliations are carried out on a day to day basis and the same is signed by maker and checker:</p> <ul style="list-style-type: none"> • Scheme-wise Collection Bank Reconciliation • Scheme-wise Redemption Bank Reconciliation • Scheme-wise Investment Bank Reconciliation • Switch Reconciliation • Dividend Reconciliation • Brokerage Reconciliation • RBI-SGL Reconciliation. <p>(ii) Verify whether there is any long outstanding items appearing in the reconciliation.</p> <p>(iii) Verify whether management follow-up to identify and rectify old balances appearing in reconciliation.</p> <p>(iv) Verify whether RBI-SGL reconciliation is timely submitted to RBI.</p>		

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No.	Particulars	Observation, Associated Risk & Recommendation	Management Comments
	(v) Whether Disaster Recovery Plan (DRP) and Business Continuity Plan are in place and have been tested.		
	(vi) Whether unclaimed redemption and dividend amount are invested into short-term deposits in accordance with the SEBI Regulations.		
	<p>4.6 Investible Surplus</p> <p>(i) Verify determination of the investible surplus.</p> <p>(ii) Verify the control are in place for accuracy and completeness.</p> <p>(iii) If there is idle cash, inquire into reasons for the same.</p> <p>(iv) Whether distributable surplus are correctly calculated as per SEBI circular dated 15th March, 2010 and correct dividend are distributed and paid to unit holder.</p> <p>(v) Whether appropriate public notice of dividend declared is communicated as per regulations (applicable to unlisted schemes other than liquid/ debt schemes with frequent dividend distribution and listed schemes which notice shall be as per listing agreements guidelines).</p> <p>(vi) Verify whether there has been any modification in dividend liability impacting the total</p>		

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No.	Particulars	Observation, Associated Risk & Recommend ation	Management Comments
	outflow based on back dated processing by R&T.		
5.	CUSTODIAN ACTIVITY		
	<p>5.1. Custodian Appointment and Controls</p> <p>(i) Check the appointment of custodian, its approvals and whether the agreement is effective/ live.</p> <p>(ii) Review the custodian agreement to ensure that the custodian:</p> <p>a) Maintains confidentiality and protects data from intentional or inadvertent disclosure to unauthorized persons.</p> <p>b) Has a comprehensive and effective system for disaster recovery and periodic testing of backup facilities?</p> <p>c) Has an adequate system to address all operational risks arising out of technology, errors and frauds which have been put in place?</p> <p>d) Provides full access to all records and other material to SEBI or its authorized representatives to the same extent as if it were a department of the company.</p>		

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No.	Particulars	Observation, Associated Risk & Recommendation	Management Comments
	<p>(iii) The outsourcing agreement with custodian shall contain an exit clause providing for smooth transfer of records and functions to the company or its nominated contractor in the event of the outsourcing agreement being terminated, without imposing onerous penalties for termination.</p> <p>(iv) Check if there is a periodic audit of the custodian to ascertain that adequate process and systemic controls are in place.</p>		
	<p>5.2. Controls Over Physical Instruments</p> <p>(i) If any instruments are dealt with in physical form, check for controls with regard to name of scheme on physical certificate, storage and accounting of such instruments.</p> <p>(ii) Verify whether Reconciliation of holdings as per custodian books and fund accounting books are carried out on a weekly basis and maker and checker sign the same.</p> <p>(iii) Verify whether salable quantities are correctly reflecting in custodian holding statement.</p>		

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No.	Particulars	Observation, Associated Risk & Recommendation	Management Comments
	(iv) Whether NSDL account of all matured schemes are closed. (v) Whether custodian is regularly following up with the issuer in case of non-receipt of any security in scheme books. (vi) Whether physical securities are properly kept in the safe deposit vault. (vii) Whether the authorized person signs Delivery Instruction for Purchase (DIP) and Delivery Instruction for Sale (DIS). (viii) Verify custodian is timely and correctly intimate all corporate actions to fund. (ix) Whether Business Continuity Plan (BCP) is in place and tested at regular interval? (x) Whether all the reports as agreed in SLA are sent by the Custodian.		
6.	COMPLIANCE FUNCTION		
	6.1. Verify whether all investments are within maximum permissible limits under Seventh Schedule of MF Regulations.		
	6.2. Verify whether all investment limits are set in the Front End System. If no, how the limits are monitored by compliance.		

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No.	Particulars	Observation, Associated Risk & Recommendation	Management Comments
	<p>6.3. Broker Appointment and Control</p> <p>(i) Whether brokers are empanelled as per the norms approved by Investment committee.</p> <p>(ii) Verify that transactions with Associated and Non-Associated Broker are within permissible limits as per MF Regulations. Further, in case of Non-Associate Broker if turnover exceeds permissible limits, justification for the same is available and given to the Board of AMC and Trustee.</p> <p>(iii) Is brokerage paid to brokers are correct and are in line with rate agreed?</p> <p>(iv) Verify whether that all dealing activities are done through recorded lines. Is there a designated person to review the same on regular interval (preferably quarterly) and whether the same is reported to Board of AMC and Trustees.</p> <p>(v) Whether back up of recording line is maintained and the same is retrievable and tested on regular (preferably quarterly) interval.</p>		

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No.	Particulars	Observation, Associated Risk & Recommendation	Management Comments
	<p>6.4. Employee Dealing Guidelines</p> <p>(i) Whether employee dealing policy, code of conduct, do's and don'ts are in place and approved by the Board of AMC and Trustee.</p> <p>(ii) Verify that employee dealing policy is adhered.</p> <p>(iii) Whether compliance maintaining records of all deals is done by employees.</p> <p>(iv) Whether deals are done through only designated broker appointed by AMC.</p> <p>(v) Whether there is any penalty imposed on employees during the period in case of insider trading.</p> <p>(vi) Verify that all reports like, Compliance Test Report, New Scheme Report HY and Quarterly Trustee to SEBI Report, etc. submitted/ published on AMC website/ AMFI/ SEBI website/ in Newspapers/ filed with SEBI within stipulated time limits? Contain correct data and in correct format.</p> <p>(vii) Verify whether the employee dealing policy contains Chinese wall procedures.</p> <p>(viii) Match yearly declaration of</p>		

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No.	Particulars	Observation, Associated Risk & Recommendation	Management Comments
	investments by an employee has all transactions made during the year.		
	<p>6.5. Inter-Scheme Transactions</p> <p>(i) Verify whether Inter-Schemes are done as per MF regulations and approved framework.</p> <p>(ii) Verify that inter-schemes are done at spot price or previous day market price as per MF Regulations.</p> <p>(iii) Verify that inter-scheme deal slips are signed by fund manager or dealer of both the schemes.</p> <p>(iv) Whether Inter-schemes are done to enrich one portfolio at the cost of the other.</p> <p>(v) If both schemes are handled by same fund manager then whether CIO has signed the deal slip.</p> <p>(vi) Check if the transferor scheme and transferee scheme has same investment objectives.</p> <p>(vii) Verify whether inter scheme deals are approved by Compliance officer.</p> <p>(viii) Verify whether Net-Worth of AMC for Mutual Fund is more than 10 Crores? In addition, it is in addition to the net worth requirement for other business e.g., PMS. Compliance with reg 24(2).</p>		

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No.	Particulars	Observation, Associated Risk & Recommend ation	Management Comments
	<p>(ix) Asset allocation pattern of schemes:</p> <p>a) Verify whether asset allocation pattern of schemes portfolio are maintained in line with Scheme Information Documents (SID) on selective dates.</p> <p>b) Verify whether fund fact-sheets of relevant schemes certify the same.</p> <p>c) Verify whether SEBI Regulations are complied w.r.t. declaration of dividend i.e., rate of dividend, record date, trustee approval.</p>		
	<p>6.6. Borrowing</p> <p>(i) Whether Schemes have borrowed money?</p> <p>(ii) Whether money has been borrowed either for redemption or for dividend payment?</p> <p>(iii) Whether borrowings are within prescribed limits?</p> <p>(iv) Whether period of borrowing is more than 6 months?</p> <p>(v) Whether interests on such borrowings are borne by the AMC or charged to schemes?</p> <p>(vi) If interest charged to scheme (net of income earned due to</p>		

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No.	Particulars	Observation, Associated Risk & Recommendation	Management Comments
	<p>non liquidation of assets) is within limits stated under SEBI Regulations.</p> <p>(vii) Whether the scheme-wise balance sheet discloses the details of borrowings by the scheme with amount, rate of borrowings, rate of interest, source and other terms shown separately, source-wise.</p> <p>(viii) Whether mutual fund has borrowed only to meet temporary liquidity needs of the mutual funds for the purpose of repurchase, redemption of units or payment of interest or dividend to the unit-holders.</p> <p>(ix) Whether mutual fund has borrowed more than 20 per cent of the net assets of the scheme and the duration.</p> <p>(x) Whether borrowings above 10 per cent of the net assets of any scheme of the mutual fund has been disclosed in the notes to accounts.</p>		
	<p>6.7. Voting Rights</p> <p>(i) Is there a procedure for exercise of voting rights and seeking representation on board of companies?</p> <p>(ii) Are these procedures and decisions taken by the</p>		

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No.	Particulars	Observation, Associated Risk & Recommend ation	Management Comments
	company adhered to during the period under review?		
	<p>6.8. Advertisement Policy</p> <p>(i) Whether Advertisement Policy is in place and the same is approved/ noted by appropriate authority?</p> <p>(ii) Whether the Advertisement Policy is adhered to in all the cases.</p> <p>(iii) Verify whether the standards of communications are followed (i.e, same is fair and in good faith, no material fact omitted, declaring source of information when statistics published, standard risk disclosures published, no usage of unwarranted claims, etc.)</p> <p>(iv) Verify whether adequate controls exist to ensure that marketing collateral released complied with the regulatory norms.</p>		
	<p>6.9. Verify whether portfolios as on the last day of the month are uploaded on fund website on or before 3rd working day of succeeding month.</p>		
	<p>6.10. Verify that a close-ended debt scheme has invested in a security, which matures on or before the date of the maturity of the scheme.</p>		

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No.	Particulars	Observation, Associated Risk & Recommendation	Management Comments
	6.11. Verify that changes in expense ratios are updated on mutual fund website within two working days from the effective date of the change.		
	6.12. Verify whether observations of SEBI inspection report are addressed.		
	6.13. Verify the report filed with SEBI/ RBI/ Trustees/ AMFI is in correct format with correct data and files within time.		
	6.14. Verify whether composition of Board of Trustee and AMC is in compliance of SEBI Regulations.		
	6.15. Verify whether the Compliance officer of the Mutual Funds while forwarding the MCR data to SEBI confirmed that "the data forwarded is correct and does not require any revision".		
	<p>6.16. Derivative Transactions</p> <p>(i) Verify that the funds of scheme are not used to carry forward transactions subject to Derivative transactions on stock exchange and regulatory framework (Refer SEBI circular dated 18th August, 2010 for prudential limits for derivative investments by mutual funds)</p>		

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No.	Particulars	Observation, Associated Risk & Recommend ation	Management Comments
	<p>6.17. Underwriting Transactions</p> <p>(i) Verify whether mutual fund has entered into Underwriting after obtaining registration certificate from SEBI to conduct said activity.</p> <p>(ii) Verify whether underwriting obligations have not exceeded the NAV of the scheme.</p>		
7.	DEALING ROOM ACTIVITY		
	7.1 Verify whether Dealing Room policy is in place and is approved by Board of AMC and Trustees.		
	7.2 Verify whether the policy is adhered regularly.		
	7.3 Verify whether systems are in place to check on adverse dealing practices (e.g., front running, circular trading).		
	7.4 Verify that deals are done by authorized person.		
	7.5 Verify whether all deals are done through voice recorded lines and whether there exists procedure for maintaining the recorded conversation and their disposal.		
	7.6 Whether the voice recordings are reviewed on a periodic basis by Compliance/ Mid Office and whether an auditable log is maintained of the same.		

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No.	Particulars	Observation, Associated Risk & Recommend ation	Management Comments
	7.7 Verify whether adequate infrastructure is in place to avoid dissemination of information to unauthorized personnels.		
	7.8 Verify whether the dealer is not a common person for other business activities of AMC (e.g., PMS).		
8.	PREVENTION OF ANTI MONEY LAUNDERING AND KYC NORMS		
	8.1. Whether Policy for Prevention of Anti Money Laundering (PAML) and KYC Norms is in place and is approved by Board of AMC and Trustees? Is it in line with the SEBI Regulations.		
	8.2. Whether the same is adhered to.		
	8.3. Whether the company maintains a record of all the transactions as specified by PAML.		
	8.4. Whether the PAML policy issued by the company is being reviewed regularly.		
	8.5. Whether the reviewing function and framing function are carried out by two different persons.		
	8.6. Whether Customer Due Diligence (CDD) has been undertaken.		

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No.	Particulars	Observation, Associated Risk & Recommend ation	Management Comments
	<p>8.7. Whether policy framed by the company covers the following aspects:</p> <ul style="list-style-type: none"> (i) Communication of group policies relating to prevention of money laundering and terrorist financing to all management and relevant staff that handle account information, securities transactions, money and customer records, etc. whether in branches, departments or subsidiaries; (ii) Customer acceptance policy and customer due diligence measures including requirements for proper identification; (iii) Maintenance of records; (iv) Compliance with relevant statutory and regulatory requirements; (v) Co-operation with the relevant law enforcement authorities including the timely disclosure of information; (vi) Role of internal audit or compliance function to ensure compliance with policies, procedures and controls relating to prevention of money laundering and terrorist financing, including the testing of the system for detecting 		

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No.	Particulars	Observation, Associated Risk & Recommendation	Management Comments
	suspicious money laundering transactions, evaluations and checking the adequacy of exception reports generated on large and/ or irregular transactions, quality of reporting of suspicious transactions and the level of awareness of front line staff of their responsibilities in this regard.		
	8.8. Whether the Client Due Diligence Process covers the following: (i) Policy for acceptance of clients (ii) Procedure for identifying the clients.		
	8.9. Transaction monitoring and reporting especially Suspicious Transaction Reporting (STR).		
9. INVESTOR SERVICES AND RISK MANAGEMENT ACTIVITIES			
	9.1. Whether Policy for Risk Management Activities as per SEBI circular MFD/CIR/15/19133/ 2002 dated 30 th September, 2002 is in place and is approved by Board of AMC and Trustees.		
	9.2. Whether the same is adhered regularly.		
	9.3. Whether the committee or the Risk officer reviews its compliance periodically.		

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No.	Particulars	Observation, Associated Risk & Recommendation	Management Comments
	9.4. Verify that the scheme-wise Annual Report of the fund or an abridged summary thereof has been mailed to all unit holders (containing details as specified in the Eleventh Schedule) not later than four months from the date of closure of the relevant financial year. [Reg. 56(1)&(2)]		
	9.5. Verify that the mutual fund has forwarded a copy of the annual report and scheme-wise portfolio within four months from the closure of the financial year. [Reg. 57]		
	9.6. Verify that the mutual fund and the AMC have published its unaudited financial results in newspapers in the format prescribed in Twelfth Schedule of the Regulations.		
	9.7. Verify that the mutual fund has sent a complete statement of Scheme Portfolio to the unit holders before the expiry of one month from the closure of each Half Year (i.e., March 31 and September 30), if such statement is not published by way of advertisement. [Reg. 59A & SEBI Circular No.MFD/CIR No.010/024/00 dated January 17, 2000]		
	9.8. Whether the internal auditors have checked the adequacy of		

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No.	Particulars	Observation, Associated Risk & Recommendation	Management Comments
	Risk Management Systems on a continuing basis.		
	9.9. Whether the report of internal auditors are placed before the Board of the AMC and Trustee(s) who shall comment on the adequacy of systems in the CTRs and Half Yearly Reports filed with the SEBI.		
	9.10. Whether in case of Dormant Account holders, Mutual Funds have provided Statement of Accounts to those unit holders who have not transacted during the last six months prior to the date of generation of the Statement of Accounts.		
	9.11. Whether in Dormant Account holders, Statement of Accounts is issued alongwith scheme's Portfolio Statement or Annual Report and same has reflected the last closing balance and value of the units prior to the date of generation of the Statement of Accounts. If mandated by unit holder, whether a soft copy of the Statement of Accounts has been emailed to the unit holders instead of a physical statement.		
	9.12. Whether in case of realisations of NPA investments or illiquid		

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No.	Particulars	Observation, Associated Risk & Recommend ation	Management Comments
	investments within 2 years after the time of maturity/ winding up of the scheme, the amount is repaid to old investors if such amounts are substantial? The Trustees of mutual funds shall take the decision as to the determination of substantial amount.		
	9.13. Whether in case of realizations of NPA investments or illiquid investments after 2 years after the time of maturity/ winding up of the scheme, the same are transferred to the Investor Education Fund maintained by each Mutual Fund.		
10.	BOARD GOVERNANCE		
	10.1. Whether the AMC has constituted an in-house valuation committee consisting of senior executives including personnel from accounts, fund management and compliance departments.		
	10.2. Whether the Valuation committee on a regular basis reviews the systems and practices of valuation of securities.		
	10.3. Whether the Directors of the AMC have filed with the trustees on a quarterly basis their details of transactions in securities exceeding ₹ 1 lac.		

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No.	Particulars	Observation, Associated Risk & Recommendation	Management Comments
	10.4. Whether the Trustee Directors have reported to Mutual Funds the transactions in securities exceeding ₹ 1 lac in value.		
	10.5. Whether the Trustees review all transactions of the Mutual Fund with the associates on a regular basis.		
	10.6. Whether on appointment of new directors of the AMC or Trustee, their bio-data is filed with SEBI for information or approval respectively.		
	10.7. Whether the Employee dealing guidelines compliances are placed before the AMC and Trustee Board and reviewed periodically.		
	10.8. Whether the Investment Management Agreement and Trust deed entered into are in line with the contents specified in the third and fourth schedule respectively of SEBI Mutual Fund regulations.		
	10.9. Whether there are Chinese firewalls between various business activities of the AMC (viz, PMS, Asset Management, Advisory etc.).		
	10.10. Whether AMC has job rotation policy in place.		
11.	REGISTRAR & TRANSFER AGENT FUNCTION		
	11.1. Investor Service Centers (Front Office)		
	(i) Whether the procedure of		

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No.	Particulars	Observation, Associated Risk & Recommendation	Management Comments
	<p>receipt of application is carried out properly.</p> <p>(ii) Whether the data capturing aspect at the ISC is carried out properly.</p> <p>(iii) Whether KYC process is carried out by the ISC in an appropriate manner.</p> <p>(iv) Whether the process of formation of customer master and scheme master is verified.</p> <p>(v) Whether inward entry (affixing of bar code) is done on application received.</p> <p>(vi) Whether the information scrutiny of received applications is carried out.</p> <p>(vii) Whether the process of scanning of documents is understood and verified.</p> <p>(viii) Whether various reports generated are explored and verified.</p> <p>(ix) Whether reports of external auditors considered.</p> <p>(x) Whether the dispatching of applications process is understood and verified.</p> <p>(xi) Whether all the commercial transactions as subscription/ redemption/ switch/ are duly time stamped? (Time stamp field should be mandatory in the system).</p>		

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	<p>(xii) Whether time stamp affixed across the locations are correct and consistent and reviewed on periodical basis.</p> <p>(xiii) Whether the Trustees have approved policy on exception in case of breakdown of Date and Time Stamp Machine (DTSM).</p> <p>(xiv) Whether instances of break down/ servicing of the DTSM have been reported to Trustee.</p> <p>(xv) Whether a manual register has been kept in place to capture the time in case of breakdown of Date and Time Stamp Machine.</p> <p>(xvi) Whether all mandatory documents are collected at the time of accepting the subscription application? (A checklist for mandatory documents should be kept at centres collection subscription application.)</p> <p>(xvii) Whether all the applications received across AMC branches/ ISCs are scanned and uploaded into the system.</p> <p>(xviii) Whether all the original documents are dispatched to the R&T Head Office.</p> <p>(xix) Whether all the applications</p>		

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No.	Particulars	Observation, Associated Risk & Recommendation	Management Comments
	<p>reported during the day are reconciled with the number of applications scanned and sent at R&T head office.</p> <p>(xx) Whether all the investment related documents are available in physical form and tagged to the respective transactions in the system.</p> <p>(xxi) Whether distributors' self-declarations and KYD received is updated in the system before processing the brokerage for the period.</p> <p>(xxii) Whether Investor complaint/ service management system is in place.</p> <p>(xxiii) Whether all the investor complaints/ request received are received and processed through the investor complaint/ request management system and resolved correctly.</p> <p>(xxiv) Whether all the service Turn Around Time (TATs) are agreed with AMC and defined in the system.</p> <p>(xxv) Whether all the necessary documents are obtained before processing the Investor complaints/ request.</p> <p>(xxvi) Whether SIP/ STP/ SWP registered is based on the physical mandate received from the investor.</p>		

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No.	Particulars	Observation, Associated Risk & Recommendation	Management Comments
	<p>(xxvii) Whether all the new SIPs/ STPs/ SWPs reported by ISCs/ AMC branches/ channel partners/ web applications are tracked in terms of physical received/ registered/ yet to register/ rejected and reconciled with application entered in the system.</p> <p>(xxviii) Whether ECS SIP mandates are sent to third party for bank registration.</p> <p>(xxix) Whether DD SIP mandates are sent to bank for registration.</p> <p>(xxx) Whether DD SIP cancellation request is sent to bank for cancellation.</p> <p>(xxxi) Whether all SIP/ STP/ SWP debit instructions are sent as per the SIP/ STP/ SWP cycle selected by the investor.</p> <p>(xxxii) Whether all applications processed are verified, i.e., is there a maker-checker policy in place.</p> <p>(xxxiii) Are there any exception reports generated?</p> <p>(xxxiv) Does the review process include element of 'surprise'?</p>		
12.	BACK OFFICE		
	12.1. Whether NAV applied to the transactions is in line with the uniform time stamping		

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No.	Particulars	Observation, Associated Risk & Recommend ation	Management Comments
	circular and credit of the funds is reflecting in the investment account (in case of liquid schemes and debt schemes for transactions or ₹ 1 crore and above).		
12.2.	Whether AMC switch matrix is uploaded in the system and NAV applied to switch transactions are in line with the switch matrix.		
12.3.	Whether all the redemption warrants are issued within 10 working days from the date of transaction.		
12.4.	Whether all the dividend warrants have been dispatched within 30 days from the record date.		
12.5.	Whether compensation has been paid for delay in dispatch of redemption and dividend warrants.		
12.6.	Whether Account Statements are dispatched within 5 days from the closure of the NFO.		
12.7.	Whether minimum investor clause has been verified in accordance with SEBI directives.		
12.8.	Whether 20/ 25 clause on minimum investor and maximum investment by each investor is verified on quarterly interval.		

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No.	Particulars	Observation, Associated Risk & Recommendation	Management Comments
	12.9. Whether restrictions w.r.t. minimum subscription amount, minimum balance, default option, etc, are properly captured in the system.		
	12.10. Whether sample verification of the transactions has been done to understand the quality of data entry accuracy.		
	12.11. Review the Internal checks and controls put in place by the RTA.		
	12.12. Verify SAS 70 report where applicable.		
	12.13. Whether authorized brokerage master rate structure is received from AMC and the same is uploaded into the system with proper maker checker mechanism.		
	12.14. Whether brokerage is calculated as per the master rate structure and the same is cross validated before forwarding it to the AMC.		
	12.15. Whether all the updations in brokerage master rate structure are done as per the instructions from AMC and are documented appropriately.		
	12.16. Whether all the held up		

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No.	Particulars	Observation, Associated Risk & Recommend ation	Management Comments
	parameters as defined in the AMFI circulars are defined in the system and working properly.		
12.17.	Whether excess brokerage paid and to be recovered has been tracked on continuous basis.		
12.18.	Whether the rate of service tax and education/ secondary education cess is correctly updated in the system.		
12.19.	Whether the month end reporting is done to AMC with number of investor complaints/ request received, resolved and pending for the period.		
12.20.	Whether all the pending corporate documents are tracked on periodic basis.		
13.	DISTRIBUTION		
	13.1. Empanelment, Activation & Review (i) How many distributors are empanelled for distribution of products of mutual fund? (ii) What is the process for empanelment? (iii) What is the backup documentation needed for empanelment? (iv) Who approves empanelment		

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No.	Particulars	Observation, Associated Risk & Recommendation	Management Comments
	<p>on behalf of AMC?</p> <p>(v) What is the delegation of authority for empanelment?</p> <p>(vi) Is there any categorization of distributors empanelled? What are the parameters for such categorization? How often are these reviewed? Whether any upgrade/downgrade happens, on the same?</p> <p>(vii) In case of empanelment with large banks, etc, whether any due diligence documentation has been submitted.</p> <p>(viii) For the above, how has the due diligence data compilation been done. Who is responsible for the same?</p> <p>(ix) What is the involvement of compliance in the empanelment process?</p> <p>(x) Whether the AMC does any regular review of distributors empanelled? If yes, are minutes of the same maintained.</p> <p>(xi) Whether there is any weeding out of inactive distributors? How is active/ inactive defined.</p> <p>(xii) Whether any exercise is conducted to activate dormant distributors.</p> <p>(xiii) What is the chain of authority</p>		

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No.	Particulars	Observation, Associated Risk & Recommendation	Management Comments
	that participates in these review processes?		
	<p>13.2. Commercials</p> <p>(i) What is the process for negotiation of commercials with empanelled distributors?</p> <p>(ii) What are the records maintained for the same?</p> <p>(iii) Who decides on how much commercials is to be offered for each distributor? What is the process for delegation of authority and are Regional Heads offered budgets, if so details thereof?</p> <p>(iv) How are exceptions to the process carried out and are documentation kept for the same?</p> <p>(v) Record of communications have been sent out to the distributors on the same.</p> <p>(vi) How changes to the brokerages to be paid out are communicated to the R & T agent who ultimately pays it? Whether maker/ checker concept exists for the same.</p> <p>(vii) What is the process for approvals of brokerages on a regular basis?</p>		
	<p>13.3. NFO and product promotion</p> <p>(i) What is the process for launch of NFO (New Fund</p>		

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No.	Particulars	Observation, Associated Risk & Recommendation	Management Comments
	<p>Offer) or promotion of an existing product?</p> <p>(ii) Is there a product P & L and who is responsible for the same?</p> <p>(iii) Commercials for NFO/ product promotion.</p> <p>(iv) Whether any sales promotion/ contest has been launched for incentivising sales.</p> <p>(v) What is the process followed for internal approvals of contest?</p> <p>(vi) What is the chain of command for approvals/ exceptions?</p> <p>(vii) Whether contest brochures and other collateral has been pre approved by compliance?</p> <p>(viii) Whether contest costings have been approved internally and check back up papers for the same ?</p>		
	<p>13.4. Marketing Collaterals</p> <p>(i) What is the process for developing marketing collateral for products?</p> <p>(ii) Verify whether list of product presentation, one pagers, flyers, banners, posters, etc are available.</p> <p>(iii) Whether the marketing collateral is pre-cleared with compliance for adherence to</p>		

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No.	Particulars	Observation, Associated Risk & Recommend ation	Management Comments
	the SEBI Advertisement Code. (iv) What is the process for clearing the marketing material with compliance?		
	13.5. Sales Management (i) Verify distribution of sales force region-wise/ manager-wise. (ii) Whether all sales force have been AMFI certified as required by SEBI. (iii) Whether process followed to ensure compliance with the above. (iv) Whether process for roll out of annual targets and communication of annual goals has been followed. (v) Verify process for communication of annual budgets and details of delegation to Regional Heads. (vi) Verify incentives launched for internal sales force. (vii) Verify details of plan and approval process followed for the same. (viii) Verify details of MIS generated for sales numbers and the review/ monitoring mechanism for the same. (ix) Verify process for recording		

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No.	Particulars	Observation, Associated Risk & Recommendation	Management Comments
	<p>meetings - meeting tracker, call reports, usage of software like Talisma, Sales Force, etc.</p> <p>(x) What are the internal controls in place to ensure that no written or electronic communication is sent out to customers without prior approval from compliance?</p> <p>(xi) Verify frequency and quality of training of sales staff.</p> <p>(xii) How are KRAs of the sales team members, regional heads and sales head decided?</p> <p>(xiii) What is the methodology adopted for digging and prospecting of new leads/ distributors/ customers?</p> <p>(xiv) What are the internal control mechanisms for controlling mis-selling of products? Have there been any customer complaints; redressal mechanism for the same?</p>		
	<p>13.6. Subscriptions and Redemptions</p> <p>(i) How are sales and redemptions tracked?</p> <p>(ii) Is there a distributor/ customer contact program in case of large redemptions?</p> <p>(iii) What are the customer retention initiatives?</p>		

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No.	Particulars	Observation, Associated Risk & Recommendation	Management Comments
	(iv) What are the cross sell initiatives? (v) Documentation for applications/ redemptions - where does the role of sales end and that of customer service begin? Are roles and responsibilities clearly defined. (vi) Verify matrix for escalation in case of deficiency in customer documentation.		
	13.7. Distributor Contact Program (i) Is there a distributor contact program drawn up which specifics content and frequency of contact? (ii) What is the plan for joint events with distributors? (iii) Verify the details of distributor training programs carried out.		
14.	FUND		
	14.1. Fund of Funds Scheme (i) Whether Scheme Information Memorandum and all advertisements for such Schemes have been disclosed clearly that Investors will bear the recurring expenses of the scheme alongwith the expenses of other schemes in which the Fund of Funds		

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No.	Particulars	Observation, Associated Risk & Recommendation	Management Comments
	<p>Scheme makes its Investments.</p> <p>(ii) Verify that AMC has not entered into any form of revenue sharing arrangement with the underlying funds. Where any commission or brokerage is received from these underlying funds, the said amounts are to be credited into the concerned scheme's account.</p> <p>(iii) Verify whether the Fund of funds mutual fund schemes adopt either of the total expense structures laid out in Regulations, which AMC shall clearly indicate in the SIDs.</p>		
	<p>14.2. Gold Exchange Traded Funds</p> <p>(i) Verify whether Investments in Gold related instruments are done only after such instruments are specified by SEBI.</p> <p>(ii) Verify whether recurring expenses limits applicable to equity schemes are applicable to GETF Schemes.</p> <p>(iii) Whether Gold is valued based on the methodology as provided in Clause 3A of, Schedule Eight of the Mutual</p>		

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No.	Particulars	Observation, Associated Risk & Recommendation	Management Comments
	<p>Funds Regulations?</p> <p>(iv) Verify whether GETF Schemes performances are benchmarked against the price of gold.</p> <p>(v) Whether physical verification of gold underlying the Gold ETF units is carried out (by Statutory Auditors of the Scheme) and reported to the Trustees every half year?</p>		
	<p>14.3. Capital Protection Oriented Scheme</p> <p>(i) Whether the SID, KIM and advertisements pertaining to the Capital Protection Oriented Scheme disclose that scheme is "oriented towards protection of capital" and not "with guaranteed returns" and indicate that the orientation towards protection of capital originates from the portfolio structure of the scheme and not from any bank guarantee, insurance cover, etc.</p> <p>(ii) Verify that the proposed portfolio structure indicated in the SID and KIM is rated by a SEBI registered Credit Rating Agency on a quarterly basis by the Mutual Fund.</p>		
	<p>14.4. Real Estate Funds</p> <p>(i) Verify that the units of real</p>		

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No.	Particulars	Observation, Associated Risk & Recommendation	Management Comments
	<p>estate mutual fund do not confer any right on the unit holders to use the real estate held by the scheme or any provisions of trust deed.</p> <p>(ii) Whether the title deeds pertaining to real estate mutual fund are kept in safe custody with the custodian.</p> <p>(iii) Verify that the scheme has not undertaken any lending or housing finance activity.</p> <p>(iv) Verify that the real estate fund invests in permissible investments defined under regulations 49E.</p>		
15.	INFORMATION TECHNOLOGY		
	<p>15.1. Approval of Information Security Policies and Procedures</p> <p>(i) Whether organizational level Information Security policies, guidelines and procedures are in place and are approved by Board of the AMC in order to safeguard the organization's information resources such as, business applications, computer resources, network against unauthorized access, disclosure and misuse.</p> <p>(ii) Whether the same is periodically updated according to the latest security trends and are</p>		

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No.	Particulars	Observation, Associated Risk & Recommend ation	Management Comments
	approved by the competent authority of the company.		
	<p>15.2. Application Access Control</p> <p>(i) Whether the organization has implemented application access controls (especially for all the core and critical applications) in order to ensure completeness, accuracy, validity, authorization, segregation of duties to process information relating to business and to meet the business objectives.</p> <p>(ii) Whether the applications have the provision or capability to enforce maker-checker controls for critical functions such as user administration, master creation/ updation, critical transactions, etc.</p> <p>(iii) Verify whether unused user ids of the applications are disabled immediately and deleted, if not required.</p> <p>(iv) Verify whether user ids granted to the application users have correct privileges and access rights and whether user access rights are reviewed periodically.</p> <p>(v) Verify whether minimum password controls (such as, minimum password length, password complexity, locking</p>		

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No.	Particulars	Observation, Associated Risk & Recommendation	Management Comments
	<p>of password after certain number of unsuccessful attempts, forcing the user to change password on first logon, etc.) are implemented in the critical applications.</p> <p>(vi) Verify whether logical controls in the applications such as, session time out, disabling inactive users, login banner in application providing legal notice to users, notify the user with last log-in/ log-out information, etc., have been implemented in the critical applications.</p> <p>(vii) Verify whether the organization has defined process for periodic review of application audit logs of the users.</p> <p>(viii) Verify whether automated "interface controls" are in place to facilitate business data flow as an independent scheduled activity free from manual intervention.</p> <p>(ix) Verify whether application development is done by following a systematic Systems Development Lifecycle Methodology.</p>		
	<p>15.3. Data Centre Controls</p> <p>(i) Verify whether temperature and humidity levels at the</p>		

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No.	Particulars	Observation, Associated Risk & Recommendation	Management Comments
	<p>data center are monitored and documented on a daily basis.</p> <p>(ii) Verify whether power backup solutions like UPS/ power generator utilization is monitored and documented on a daily basis.</p> <p>(iii) Verify whether fire sensors and fire extinguishers are available to handle emergencies at the data centre.</p> <p>(iv) Verify whether all network and electrical cables are laid down separately with a minimum distance of one foot between them and appropriately labeled.</p> <p>(v) Verify whether the organization has developed policies and procedures with respect to physical security of the data centre and these are adhered. Critical areas like, process of granting access to authorized users, visitors, vendors, etc., to the data centre are defined in the policy.</p> <p>(vi) Verify whether CCTVs were deployed in the data centre to monitor physical activity.</p> <p>(vii) Verify whether all asset movements within and out of the data centre are recorded</p>		

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No.	Particulars	Observation, Associated Risk & Recommendation	Management Comments
	and maintained.		
	<p>15.4. Desktop Controls</p> <p>(i) Verify whether all the Desktop controls and hardening like, renaming the local administrator, disabling CD/USB is performed according to the organization Desktop Hardening policy.</p> <p>(ii) Whether all the desktop and laptops are patched with the latest windows patches.</p>		
	<p>15.5. Operation Systems Controls</p> <p>(i) Verify whether all the Server Access Controls and Server hardening like, renaming the local administrator, disabling CD/USB, disabling unwanted services are performed according to the Organization Server Hardening policy.</p>		
	<p>15.6. Database Controls</p> <p>(i) Whether the organization has formal documentation guidelines defining the process of inducting databases and appropriately hardened with IT controls.</p> <p>(ii) Whether password and logical access control are implemented as a part of database controls.</p> <p>(iii) Whether audit trails are implemented on the</p>		

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No.	Particulars	Observation, Associated Risk & Recommend ation	Management Comments
	databases for performing audit trails for tracking the changes/ modifications in database.		
	<p>15.7. Backup Management</p> <p>(i) Whether the organization has documented policies, procedures and schedules that define the entire backup management process being followed in the organization, Also, check whether these documents clearly define the scope, frequency, types and schedule for backup.</p> <p>(ii) Whether backup tapes are sent to off-site location and are stored in a fireproof cabinet.</p> <p>(iii) Whether the backup tapes are adequately labeled.</p> <p>(iv) Verify whether the backup tapes are stored in a secure infrastructure for 8 years as per the SEBI regulations.</p> <p>(v) Verify whether the backup administration team performs the backup restoration drill to test and document backup results.</p>		
	<p>15.8. Incident Response Management</p> <p>(i) Whether a formal defined policy and procedure for</p>		

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No.	Particulars	Observation, Associated Risk & Recommendation	Management Comments
	Incident Response is followed in the organization.		
	<p>15.9. Source Code and Escrow Arrangements</p> <p>(i) Verify whether critical applications running the mutual fund business have active Source Code Escrow Agreements with the vendors.</p>		
	<p>15.10. Network Security</p> <p>(i) Verify whether the organization maintains Secure Configuration Document (SCD) for hardening of Network Routers and Switches.</p> <p>(ii) Verify whether the firewall is configured to restrict access to network addresses and services only from those hosts, which require access.</p> <p>(iii) Verify whether Antivirus software is installed and updated in all servers and desktops and are patched against all known viruses and prospective malicious codes.</p>		
	<p>15.11. Disaster Recovery and Business Continuity Plan</p> <p>(i) Whether the organization has defined, documented and tested Disaster Recovery Plan.</p>		

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No.	Particulars	Observation, Associated Risk & Recommendation	Management Comments
	(ii) Whether periodic DR drills are performed. (iii) Whether Business Continuity Plan (BCP) is in place and tested at regular intervals.		
	15.12. Outsourcing and Vendor Management (i) Whether the organization has communicated its generic information security guidelines to the vendors/outsourced partners while operating in its premises. (ii) Whether the organization has signed service level agreements with outsourced vendors for all critical service contracts. (iii) Whether the organization is doing evaluation of the vendors on a periodic basis.		
16.	ROLE OF TRUSTEES		
	16.1. No of Meetings held of Trustees. (i) Obtain the minutes of all the meetings of trustees held during the year.		
	16.2. Quality of Supervision provided by Trustees. (i) Whether the internal audit reports, concurrent audit reports, system audit report and any other report on controls		

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No.	Particulars	Observation, Associated Risk & Recommend ation	Management Comments
	(ii) effectiveness has been put to trustees for their review. Whether the accounts and report of statutory auditors were put to trustees review.		

Gist of Important Recent SEBI Circulars/ AMFI Guidelines

Circular Reference	Particulars
IMD/MC 2/ 836/2011 dated 7 th January 2011	Master Circular for Mutual Funds – Compilation of all circulars issued by SEBI which are operational as on 7 th January, 2011.
IMD/DF/4/ 2011 dated March 9, 2011 <i>(This circular supersedes all instructions regarding use of load accounts issued subsequent to the circular dated 30-6-2009).</i>	<p>Usage of Load Account</p> <p>With a view to bring about uniformity in usage of load balances, the following have been decided:</p> <ul style="list-style-type: none"> (a) The load balance shall be segregated into two accounts in the books of accounts of the scheme – one to reflect the balance as on 31-7-2009 and the other to reflect accretions since 1-8-2009. (b) Load balances can be used for marketing and selling expenses including distributor's / agent's commissions. (c) Not more than one-third of load balance as on 31-7-2009 shall be used in any financial year including the current financial year 2010-11. It is clarified though the unutilized balances can be carried forward, yet in no financial year the total spending can be more than one-third of the load balances on 31-7-2009. (d) The accretions after 31-7-2009 can be used by mutual funds for marketing and selling expenses including distributor's/agent's commissions without any restrictions mentioned in para (c) above.

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Circular Reference	Particulars
CIR/IMD/DF/9/2011 dated May 19, 2011	<p>Option to Hold Units in Demat Form</p> <p>a) Mutual Funds should provide an option to the investors to receive allotment of Mutual Fund units in their demat account while subscribing to any scheme (open ended/close ended/Interval).</p> <p>b) Mutual Funds/AMCs shall ensure that above mentioned option is provided to the investors in all their schemes (existing and new) from October 01, 2011 onwards.</p>
CIR/ IMD /DF / 14 /2011 dated August 9, 2011	<p>Investment by Foreign Investors in Mutual Fund Schemes</p> <p>Foreign investors (termed as Qualified Foreign Investors/ QFIs) who meet KYC requirement may invest in equity and debt schemes of Mutual Funds (MF) through the following two routes:</p> <ul style="list-style-type: none"> • Direct route - Holding MF units in demat account through a SEBI registered depository participant (DP). • Indirect route- Holding MF units via Unit Confirmation Receipt (UCR).
CIR/ IMD/ DF/13/ 2011 of August 22, 2011	<p>A. Transaction Charges</p> <ul style="list-style-type: none"> • A transaction charge per subscription of ₹ 10,000/- and above be allowed to be paid to the distributors of the Mutual Fund Products. <p>B. Distributors of Mutual Fund Products</p> <ul style="list-style-type: none"> • Need for regulating distributors through AMCs. • Due diligence process for distributors to satisfy 'Fit and Proper criteria'. <p>C. Transparency of Information.</p> <ul style="list-style-type: none"> • Advertisement of scheme performance. • Disclosure on bifurcation of the AUM into debt/equity/ balanced etc, and percentage of AUM by geography.

Gist of Important Recent SEBI Circulars/ AMFI Guidelines

Circular Reference	Particulars
	<ul style="list-style-type: none"> • Disclosure on websites for total commission and expenses paid to distributors.
<p>Mutual Funds (Amendment) Regulations, 2011</p>	<p>A. Restrictions on Business Activities of the Asset Management Company</p> <ul style="list-style-type: none"> • AMC to not to act as a trustee of any mutual fund. • AMC to not undertake any business activities other than in the nature of management and advisory services provided to pooled assets including offshore funds, insurance funds, pension funds, provident funds, if any of such activities are not in conflict with the activities of the mutual fund. <p>B. The AMC shall not invest in any of its scheme, unless full disclosure of its intention to invest has been made in the offer documents.</p> <p>C. The AMC shall not carry out its operations including trading desk, unit holder servicing and investment operations outside the territory of India.</p> <p>D. The AMC shall ensure that consolidated account statement for each calendar month is issued, on or before tenth day of succeeding month.</p> <p>E. Introduction of Infrastructure Debt Fund Schemes.</p>
<p>MIRSD/SE/Cir-21/2011 dated October 5, 2011</p>	<p>Uniform Know Your Client (KYC) Requirements for the Securities Markets.</p>
<p>CIR / IMD / DF / 19 / 2011 dated November 11, 2011</p>	<p>Participation of Mutual Funds in Repo in Corporate Debt Securities</p> <p>The gross exposure of any mutual fund scheme to repo transactions in corporate debt securities shall not be more than 10 % of the net assets of the concerned scheme.</p>

References

1. SEBI (www.sebi.gov.in) – Please refer Mutual Funds Section.
2. AMFI (www.amfiindia.com)
3. BSE (www.bseindia.com)
4. NSE (www.nseindia.com)
5. Credence Analytics (www.credenceanalytics.com)
6. CRISIL (www.crisil.com)
7. Lipper (www.lipperweb.com)
8. Mutual Fund India (www.mutualfundsindia.com)
9. Morning Star (www.morningstar.com)
10. RBI (www.rbi.org.in)
11. Value Research (www.valueresearchonline.com)