



PAKISTAN
MERCANTILE
EXCHANGE

Circular No. 25/2013

All Registered Brokers
Pakistan Mercantile Exchange Limited

July 24, 2013

Dear Sir/Madam,

Subject:- Process of System Audit, Formats of Auditor's declaration & Compliance Report

In terms of Regulation 5 (3) and 7 (4) of the "Regulations Governing System Audit (Regulatory Compliance) of the Brokers of Pakistan Mercantile Exchange Limited, 2012", the brokers of the Exchange are hereby notified as under:

All brokers selected by the Exchange for system audit are required to submit the Auditor's declaration and Compliance Report to the Exchange in the prescribed formats which are enclosed as **Annexure I & II.**

The brokers are required to follow following steps for System Audit:

1. The Broker shall discuss the assignment fee and date for conducting system audit with the Auditor;
2. Once agreed, The Auditor shall send Auditor's declaration vide Annexure I to the Broker;
3. The Broker shall appoint an Auditor through Appointment letter as per format prescribed by the Exchange vide Annexure B of Regulations Governing System Audit (Regulatory Compliance) of the Brokers of Pakistan Mercantile Exchange Limited, 2012.
4. The Broker shall submit Auditor's declaration, Appointment letter of Auditor and Auditor's assignment fee through pay order in the name of auditor to the Exchange. It is incumbent upon the Broker to submit the aforesaid immediately on the date the auditor is appointed as required under System Audit Regulations however, the maximum time period for appointing auditor and completing this process is 30 days from the date of selection of Broker for System Audit.
5. Reiterate, the Auditor shall submit its compliance report vide Annexure II directly to the Exchange within 30 days from the appointment of the Auditor and forward a copy of the same to the broker;
6. The Broker shall rectify non-compliance(s) identified in the report immediately.

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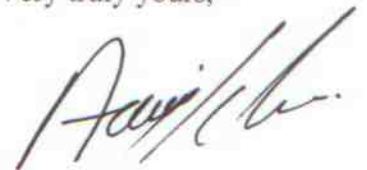
Add On:

It is important to interpret Regulation 3(3) of the System Audit Regulations which says: **No Auditor shall be appointed to conduct the Audit of a Broker, if that Auditor has conducted the statutory audit or other assignment of such Broker, at any time during the past two years immediately preceding from the date of balloting in which such Broker is selected for the Audit.**

Interpretation: Other Assignment means assignments including but not limited to, Formation and assistance in preparation of Accounts, Net capital & Net worth statement, Any other System Audit, Control testing & Risk based or financial consultancy assignment or any nature of assignment during the past two years. The basic objective is non familiarity and independence in the relationship of Broker and Auditor.

With warm regards,

Very truly yours,



Aamir Zareef Khan
Chief Regulatory Officer

Annexure I

Auditor's declaration/ Engagement letter:

Letterhead Audit Firm

Date

[Broker's Address]

Dear [Broker/CEO Name],

Subject: Engagement Letter

We are pleased to confirm our understanding on terms of reference, objective of engagement, nature and limitations of our professional services which we shall provide under Regulations Governing System Audit (Regulatory Compliance) of the Brokers of Pakistan Mercantile Exchange Limited, 2012.

In this respect, we are also agreed to perform the procedures specified in aforesaid Regulations and to submit our report on findings resulting from our work directly to Pakistan Mercantile Exchange Ltd.

The procedures we shall adopt are solely to assist you to ensure compliance with the requirements of the Securities and Exchange Ordinance, 1969, (XVII OF 1969), General Regulations 2007 of PMEX, Commodity Exchange and Futures Contracts Rules, 2005 as well as decisions, directives and/or circulars issued by the Exchange and Commission from time to time.

This engagement is intended to cater the needs of all those who are interested in the affairs of [Broker]. We have no responsibility through this engagement to fulfill needs of any party or any person or any other authority those who have no interest in the affairs of [Broker].

The procedures that we will perform will not constitute an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements and, consequently, no assurance will be expressed.

We look forward to full cooperation with your staff and we trust that they will make available to us whatever records, documentation and other information requested in connection with our engagement.

If, for any reason, we are unable to complete the procedures, we will describe any restrictions on the performance of the procedures in our report, or will not issue a report as a result of this engagement.

We plan to begin our procedures on approximately and, unless unforeseeable problems are encountered, the engagement should be completed by [date by which audit will be completed].

We estimate that our fees for these services will be Rs. [.....], the fee estimate is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the engagement. If significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs.

Please sign and return the attached copy of this letter to indicate that it is in accordance with your understanding of the terms of the engagement including the procedures which we have agreed will be performed.

Sincerely,

[Signature of Engagement Partner]

[Engagement Partner's name]

Annexure II

Compliance Report

Letterhead Audit Firm

The Managing Director
Pakistan Mercantile Exchange Ltd
Karachi

We have performed the procedures agreed with M/s. _____ (Name of Broker) for the period from _____ to _____ under the Regulations Governing System Audit (Regulatory Compliance) of the Brokers of Pakistan Mercantile Exchange Limited- 2012, to assist PMEX in evaluating the compliance with requirements as specified under General Regulations 2007 of Exchange, Securities and Exchange Ordinance, 1969, (XVII OF 1969), the Commodity Exchange and Futures Contracts Rules, 2005 as well as the directives/decisions/guidelines and/or circulars issued by the Exchange or Commission from time to time.

Since, the agreed-upon procedures do not constitute either an audit or a review made in accordance with International Standards of Auditing or International Standards on Review Engagements, we do not express any assurance/opinion in the matter.

Had we performed additional procedures, an audit or review of the financial statements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose or to be used by any other party except the broker and the Securities and Exchange Commission of Pakistan.

Our report of findings is enclosed herewith as "Annexure A".

Signature:

Engagement Partner, [.....]

Chartered Accountant firm

Date.....

The brokers are requested to ensure compliance with above requirement.

Please visit our website: <http://www.pmax.com.pk/systemaudit/systemaudit.php> in order to download information and documents related to System Audit.