

National Stock Exchange of India Limited

Circular

DEPARTMENT: INSPECTION	
Download Ref No: NSE/INSP/54080	Date: October 14, 2022
Circular Ref. No: 77/2022	

To All Trading Members/Clearing Members,

Sub: Internal Audit of Trading Members/ Clearing Members

This is to inform that all Trading Members/ Clearing Members are required to carry-out complete Internal Audit for the half year ended September 30, 2022 and submit the report electronically through the Inspection module in the Member Portal. The Audit shall be conducted only by independent qualified Chartered Accountant or Company Secretary or Cost & Management Accountant who is in practice and does not have any interest in or relation with the Member other than the Internal Audit assignment.

It is to be noted that the due date to submit the Internal Audit Report is within two months from the end of half year i.e., for the half year ended September 30, 2022, the due date is November 30, 2022. The penalties/disciplinary actions for late/non-submission of the Internal Audit Report and non-compliances observed in the Internal Audit Report, shall be applicable as per the Exchange Circular NSE/INSP/53530 dated September 02, 2022, or any other relevant circular that may be issued by the Exchange from time to time.

Members' attention is drawn to Exchange circular NSE/INSP/52711 dated June 23, 2022, wherein it has been prescribed that the trading member shall submit an undertaking to Exchange on half yearly basis along with Internal Audit Report confirming that the penalty levied by clearing corporations on account of "short/non-collection of upfront margins from clients" is not being passed on to respective clients under any circumstances. Accordingly, the facility to submit the same has been provided under 'Internal Audit Tab' in member portal. The undertaking submitted by the member shall be digitally signed by the proprietor or partner or the designated director of the company. Internal Auditor shall not be able to submit the Internal Audit Report unless the said undertaking is submitted by member.

Members' attention is also drawn to Exchange Circular NSE/INSP/52017 dated April 13, 2022, wherein members were informed to submit the details of Inventory of Assets as on March 31, XXXX on annual basis along with the Internal Audit Report for the half year ended September 30, XXXX. In view of the same, Members are required to submit the details of their Inventory of Assets as on March 31, 2022, at the

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following path in the New ENIT: Compliance > Inventory of assets > Inventory of Assets submission. Kindly refer to the manual enclosed as Annexure VI, for the purpose of submission. The details shall subsequently be certified by Internal Auditor.

In partial modification to the Exchange circular NSE/INSP/ 51939 dated April 06, 2022, regarding eligibility criteria for internal auditors, Auditor meeting the following eligibility criteria is qualified to conduct the Internal Audit of the Trading Members:

- a) The Auditor / Audit firm or at least one of the partners should have a minimum of 5 years' experience in carrying out audits.
- b) The Auditor/ Audit firm is not debarred or restrained from issuing any certificate by ICAI, ICSI, ICMAI, RBI, SEBI or by other regulator/law enforcement agency.
- c) Auditor and/or its employee or partner signing the Internal Audit Report shall have a valid NISM-Series-XIV: Internal Auditors for Stockbrokers Certification or NISM Series III-A: Securities Intermediaries Compliance Certification or ICAI Certificate Course on Financial Markets and Securities Laws or any other equivalent examination.

Further, Internal Auditors are advised to take note of below while carrying out the Audit:

- i. Exchange has made available the data submitted by members to Exchange towards Enhanced Supervision, List of Bank/ Demat Accounts reported and other weekly submissions such as client level cash & cash equivalent balances, bank account balances, Holding Statement for the sample dates/ period in the respective Auditor's login for the purpose of verification.
- ii. Details of sample dates/clients applicable for certain checklist points have been made available in respective Auditor's login to enable the auditor to select samples as per the sampling criteria 1, 2 and 3 prescribed in Annexure III. Auditors are advised to get their registration done from members and retrieve the aforesaid data and samples from their respective logins before initiating the audit.
- iii. The samples for parameters/ criteria other than provided above, shall be as per the "methodology for sample selection" prescribed in Annexure III, and the data required for the same may be sourced from the member.
- iv. There are certain changes in the sampling criterion and methodology for sample selection compared to previous half year submission. Auditors are advised to refer Annexure III carefully before initiating the audit.
- v. For each "Not complied" observation, wherever applicable, the auditor shall mandatorily provide the "no. of instances verified", "% of instances where non-compliance is observed" and "Amount/value involved where non-compliance is observed" while submitting the Audit Report.

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Further, for each “Not Applicable” Points, appropriate remarks are mandatory to be provided.

- vi. The auditor shall verify and certify the “Inventory of Assets” data submitted by the members in member portal (ENIT-INV-ASSETS-AUDITOR). The auditor shall not be able to submit the Internal Audit Report without certifying the same. Detailed instructions in this regard are provided in Annexure VI.

Please find enclosed the following Annexures applicable for the Internal Audit Report for half year ended September 30, 2022:

- Internal Audit Certificate - Annexure I.
- Format of Internal Audit Report - Annexure II. (Excel File-"IARNSESEP22")
- Guidelines on sample selection & other points to be noted - Annexure III.
- List of indicative processes & reference of Exchange/SEBI circulars - Annexure IV.
- Detailed manual for submission of Internal Audit Report & Troubleshooters - Annexure V.
- Manual to submit/certify “Inventory of Assets” data - Annexure VI.

**For and on behalf of
National Stock Exchange of India Limited**

**Harinatha Reddy M
Chief Manager**

In case of any clarifications, Members may contact our below offices:

Regional Office	CONTACT NO.	E MAIL ID
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Mumbai (WRO)	Board Line : 022-25045000 / 022-61928200 Direct Line : 022 2504 5138/022 25045144 Extn: 28144/28138	compliance_wro@nse.co.in
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