

# National Stock Exchange of India Limited

## Circular

| DEPARTMENT: INSPECTION                 |                               |
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| <b>Download Ref No: NSE/INSP/58937</b> | <b>Date: October 13, 2023</b> |
| <b>Circular Ref. No: 89/2023</b>       |                               |

To All Trading Members

### Sub: Internal Audit of Trading Members

This is to inform that all Trading Members are required to carry-out complete Internal Audit for the half year ended September 30, 2023, and submit the report electronically through the Inspection module in the Member Portal. The Audit shall be conducted only by an 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. Attention of members is also drawn to Exchange Circular No. NSE/INSP/54080 dated October 14, 2022, regarding eligibility criteria for internal auditors.

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, 2023, the due date is November 30, 2023. 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 No. NSE/INSP/53530 dated September 02, 2022.

Members' attention is drawn to Exchange Circular No. NSE/INSP/54080 dated October 14, 2022, wherein the members were informed to 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. In view of the same, members are required to submit the undertaking digitally signed by the proprietor or partner or the designated director of the Company. The Internal Auditor shall not be able to submit the Internal Audit Report unless the said undertaking is submitted by the member.

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Further, the 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/daily submissions such as bank account balances, Holding Statement and weekly submissions such as client level cash & cash equivalent balances 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 the previous half year submission. Auditors are advised to refer to 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" and "Amount/value involved where non-compliance is observed" while submitting the Audit Report. Further, for each "Not Applicable" Points, appropriate remarks are mandatory to be provided.

Please find enclosed the following Annexures applicable for the Internal Audit Report for half year ended September 30, 2023:

- Internal Audit Certificate - Annexure I.
- Format of Internal Audit Report - Annexure II. (Excel File-"IARNSESEP23")
- 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.
- Eligibility criteria for the auditors qualified to conduct the internal audit of trading members for the half year ended September 30, 2023- Annexure VI

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## National Stock Exchange of India Limited

For and on behalf of  
National Stock Exchange of India Limited

Jayalakshmi Iyer  
Chief Manager

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

| Regional Office   | CONTACT NO.   | E MAIL ID                    |
|-------------------|---|------------------------------|
| Ahmedabad (ARO)   | 079-49008632  | inspectionahm@nse.co.in      |
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