**PRESCRIBED SAMPLE SIZE**

| **ID** | **Area of Verification** | **Indicative Sample Size** | **Methodology for Sample selection** | **Applicability** |
| --- | --- | --- | --- | --- |
|  | **MARGINS** |  |  |  |
|  | The Clearing member has collected margins on Consolidated Crystallized Obligation from its respective TMs-Prop/CPs only in the form of Cash (and not in the form of FDRs/BGs or any other form of collateral) in the F&O and Currency Segment (except for physical settlement component on expiry of the contract, as may be specified by Clearing Corporation) in terms of NCL/CMPL/44977  Refer to Annexure V for format of samples verified to be provided by auditor. | Refer Sampling Criteria | 6 Dates (one date in each month of the Audit period) with highest margin requirement (combined across all segments)    Verify whether the Consolidated Crystallized Obligation has been collected in cash | All Members- Registered for other than Commodity Segment |
|  | The clearing member had collected appropriate and adequate margins (EOD margins and peak margins) in prescribed forms from respective trading members/custodial participants.  Refer to Annexure V for format of samples verified to be provided by auditor. | Refer Sampling Criteria | 6 Dates (one date in each month of the Audit period) with highest margin requirement (combined across all segments)  Margin verification shall be done for the sample.  For Cash- Ledger balance may be verified  For BG and FD- verify the supporting  For securities- verify with Sec pledge file  Further, within the ledger for bank receipt entries (verify with bank statements) | All Members- Registered for Any Segment |
|  | Margin collection reported to Clearing Corporation is in accordance with margins actually collected from trading member/custodial participant.  Refer to Annexure V for format of samples verified to be provided by auditor | Refer Sampling Criteria | 6 Dates (one date in each month of the Audit period) with highest margin requirement (combined across all segments)  Margin verification shall be done for the sample.  For Cash- Ledger balance may be verified  For BG and FD- verify the supporting  For securities- verify with Sec pledge file  Further, within the ledger for bank receipt entries (verify with bank statements) | All Members- Registered for Any Segment |
|  | **DEALING WITH CLIENTS’ FUNDS AND SECURITIES AND COMMODITIES** |  |  |  |
|  | Client (TM/CP) funds and securities & commodities are segregated from own funds and securities & commodities | Audit Period | Verify client bank and own bank accounts.  Verify client collateral and own beneficiary accounts | All Members- Registered for Any Segment |
|  | No Cash dealings with TM/CP | Audit Period | Cash book maintained by the Member to be verified | All Members- Registered for Any Segment |
|  | Member has not pledged clients’ securities to the Banks/NBFCs for raising funds, even with authorization by client as the same would amount to fund based activity which is in contravention of Rule 8(1)(f) & 8(3)(f) of Securities Contracts (Regulation) Rules, 1957 | Audit Period | 1. Ascertain if any client securities are pledged from any of the demat accounts of the clearing member   2. Ascertain the ownership of securities pledged as Proprietary securities of the clearing member | All Members- Registered for Any Segment |
|  | Member has not engaged in any activity involving any personal financial liability, other than of securities or commodities derivative or which is connected to or incidental to or consequential upon securities/commodities business | Audit Period |  | All Members- Registered for Any Segment |
|  | Whether member has availed loan facility based on Client Bank Account/Upstreaming Account | Audit Period | - | All Members- Registered for Any Segment |
|  | Record of Monies borrowed or loaned including monies received in terms of NSE/COMP/50957 dated Jan 7, 2022 and NSE/COMP/53802 dated Sep 22, 2022 | Audit Period | Check if loan/ICDs given to associates/subsidiaries.  Whether the same have been deducted while computing half yearly net worth. | All Members- Registered for Any Segment |
|  | Statement of accounts has been sent to trading member/ custodial participants. | Audit Period | Verify the statement of accounts sent to all TMs | All Members- Registered for Any Segment |
|  | Daily Margin statement is issued to the respective clients with the details as specified and Proof of delivery / dispatch/ log for dispatch is maintained.  Refer to Annexure V for format of samples verified to be provided by auditor | Refer Sampling Criteria | 6 Dates (one date in each month of the Audit period) with highest margin requirement (combined across all segments) | All Members- Registered for Any Segment |
|  | Whether there was any delay in issuing the DMS?  Refer to Annexure V for format of samples verified to be provided by auditor | Refer Sampling Criteria | 6 Dates (one date in each month of the Audit period) with highest margin requirement (combined across all segments) | All Members- Registered for Any Segment |
|  | In case of any transfer of funds between client account & proprietary account for legitimate purposes, member has maintained a daily reconciliation statement clearly indicating the details of funds transferred. | Audit Period | Verification of transfer/JV entries between client accounts and proprietary accounts. | All Members- Registered for Any Segment |
|  | **MAINTENANCE OF BOOKS OF ACCOUNTS** |  |  |  |
|  | Maintenance of a) Client/TM ledger b) Register of Securities (Client / TM wise scrip wise Register) (as applicable) | Audit Period | - | All Members- Registered for Any Segment |
|  | Register of Securities maintained in the prescribed format (as applicable). | Audit Period | - | All Members- Registered for Any Segment |
|  | All Entries for receipt and payment/ transfer of securities & Commodities are duly recorded in the register of securities & commodities. | Audit Period | - | All Members- Registered for Any Segment |
|  | CM has maintained prescribed books of accounts like general ledgers/Cash and Bank Book/Margin Deposit details/Register of complaints/Register of transaction/Register of commodity (as applicable) | Audit Period | - | All Members- Registered for Any Segment |
|  | **REPORTINGS BY CLEARING MEMBERS** |  |  |  |
|  | Clearing member has undertaken adequate reconciliation before submitting TM wise securities details to Clearing corporation (Submission of collateral details by clearing member as per Clearing Corporation circulars) | Audit Period | Verify that the submission made by the member for the last Saturday of each month w.r.t securities balance is as per back office books maintained by the member. | All Members- Registered for Any Segment |
|  | Verification of T+1 segregated client collateral reporting  Refer to Annexure V for format of samples verified to be provided by auditor | Refer Sampling Criteria | 6 Dates (one date in each month of the Audit period) with highest margin requirement (combined across all segments)  Placed with CM, Retained by CM – figures reported to be verified from the books of the members.  Placed with NCL (Cash/FD/BG)- for the shortlisted date, members can take aggregate of each column (cash/FD and BG)  under “Placed with NCL” reported in T+1 and match with the COLLDTLS files issued by NCL.  For securities placed with NCL, the same can be matched with Sec Pledge file value  Verify whether Placed with CM is equal to sum of Retained by CM and Placed with NCL. | All Members- Registered for Any Segment |
|  | Member has correctly allocated the collaterals  Refer to Annexure V for format of samples verified to be provided by auditor | Refer Sampling Criteria | 6 Dates (one date in each month of the Audit period) with highest margin requirement (combined across all segments)  Verify that allocation of collateral at CC shall not be lower than the amount of collateral (except securities collateral repledged to CC) reported as having been passed on by the CM to the CC.  Verify that the amount of collateral allocated shall not exceed the amount of collateral received by the TM/CM from the client and reported as such in T+1 (excluding the securities collateral re-pledged to CC  through margin pledge mechanism) | All Members- Registered for Any Segment |
|  | Member has reported all their Bank account details in terms of NCL/CMPL/47240 | Audit Period | All bank accounts to be verified | All Members- Registered for Any Segment |
|  | Submission of Associate details by clearing members in terms of NCL/CMPL/62689 dated June 28, 2024. | Audit Period | List of associates details needs to be verified by the internal auditor with the submission made to NCL. | All Members-Registered for Any Segment |
|  | Member is required to mention justifications for retention of collateral in the daily client collateral segregation file in terms of NCL/CMPL/61744 dated April 25, 2024. | Refer Sampling Criteria of margin dates | For Reason code mentioned in segregation reporting, internal auditor shall ask the justification of the same to the member along with relevant proof. Internal Auditor shall consider the same sample date as considered for margin reporting. | All Members-Registered for Any Segment |
|  | **STRENGTHENING OVERSIGHT ON CLEARING MEMBERS** |  |  |  |
|  | Monitoring pay-in timelines by the TMs  CM should monitor the payin timelines by the TM and regular delayed receipt of payins/ repeated instances of shortfalls be dealt with in accordance with the Risk Management Policy of the Clearing Member  Refer to Annexure V for format of samples verified to be provided by auditor | Refer Sampling Criteria | 6 Dates (one date in each month of the Audit period) with highest margin requirement (combined across all segments) | All Members- Registered for Any Segment |
|  | Monitoring penalties levied to clients of the Trading Members  The CM should analyze the data of the Trading Members such as repeated instances of penalties being levied to the clients of TM for client margin reporting  Refer to Annexure V for format of samples verified to be provided by auditor | Out of number of members selected on the basis of the methodology given, select top 5 TMs on the basis of highest penalty | No. of instances of penalty levied on trading members is greater than 3 instances during the audit period | All Members- Registered for Any Segment |
|  | Seeking data of debit balances of Trading Member’s clients  CM should seek data with respect to debit balances of clients from Trading Member and review the exposure allowed by the TM and direct the TM to restrict / reduce exposure for such clients | Audit Period | - | All Members- Registered for Any Segment |
|  | Monitoring misuse of client collaterals by TM for proprietary trading  The CM should ensure that the TM does not comingle client collateral with the proprietary collateral and that it provides separate collaterals for proprietary positions out of own funds only and not from the client collaterals. The inspection of TM should cover this aspect in compliance with NCL/CMPL/51038 | Audit Period | - | All Members- Registered for Any Segment |
|  | Correctness of data submitted by TMs to CM  TMs submit various data to the CM, which may be submitted by the CM to CC. The CM should assess the correctness of the data submitted by the TMs to CM in compliance with NCL/CMPL/51038 | Audit Period | - | All Members- Registered for Any Segment |
|  | Inspection of TMs  It is recommended that the CM carry out inspections of Trading Members, covering atleast 1/3rd of the TMs cleared by it each year in order to cover all TMs over a period of 3 years. Additionally, CM may also conduct surprise inspection based on any rumours / adverse news in the media about the TM or any other concern/ alerts as arising out of the above points by the CM during the course of business in compliance with NCL/CMPL/51038. | Audit Period | - | All Members- Registered for Any Segment |
|  | Formation of Risk Management Committee / Board Approved Committee for monitoring the risks The CMs should be required to form a Risk Management Committee / board Approved Committee to monitor the various risks in the business. A periodic report (monthly or atleast quarterly) for the TMs for which it has undertaken the clearing activity should be submitted to such Committee | Audit period | - | All Members- Registered for Any Segment |
|  | Whether the member has placed any periodic reports before its Risk management Committee/Board Approved Committee during the audit period | Audit period | Details of the cases placed before the Committee to be sought. | All Members- Registered for Any Segment |
|  | Reporting of alerts by Clearing Members Clearing Members should be reporting the concerns identified by them during the oversight over Trading Members to the concerned Clearing Corporation, which in turn would report the same to the concerned Exchange for further action | Audit period | - | All Members- Registered for Any Segment |
|  | CMs should have a Risk Management policy duly approved by the Board / Board Approved Committee covering the below points:  i. Internal escalation matrix with respect to non-compliances / defaults by TMs/CPs  ii. Performance evaluation process of TMs/CPs registered with the CMs including its periodicity  iii. Seeking data information from TMs/CPs in the event of repeated cases of shortfall in margins / margins on Consolidated Crystallised Obligation or governance issues  iv. Procedures for segregation of TM proprietary and Client collaterals  v. Inspection of TMs  vi. Upper Cap for acceptance of securities from a member and / or across all members in absolute terms and / or on an overall basis to avoid concentration risk  vii. List of banks from which FDRs and BGs shall be accepted  viii. List of securities that shall be accepted as collaterals  ix. Components of cash collateral and non-cash collateral  x. Ratio of Cash and Non-cash component of collateral  xi. Haircut percentage for all types of collaterals other than Cash, FDRs and BGs.  xii. Securities subject to a minimum of VAR and other collateral shall be subject to minimum haircut of 10%  xiii. Timelines and threshold limits beyond which action such as square off of positions shall be undertaken by CM for non-payment of margins on Consolidated Crystallised Obligation by the TMs/CPs | Audit period | - | All Members- Registered for Any Segment |
|  | Confirmation on reporting of TM/CP level fund shortfall beyond Rs 5 lacs to CC as per the timelines prescribed by CC | Audit period | - | All Members- Registered for Any Segment |
|  | Invocation of pledged securities by the Clearing Member was carried out only in respect of debit balance clients | Audit period | - | All Members- Registered for Any Segment |
|  | **OTHER COMPLIANCES** |  |  |  |
|  | The Clearing member custodial participant agreements are executed in prescribed formats (wherever applicable). | Audit Period | CM-CP Agreements executed during the Audit period to be checked | All Members- Registered for other than Commodity Segment |
|  | All the mandatory clauses have been included in CM - TM agreement (wherever applicable). Member has not executed trading member and clearing member agreement otherwise than in the prescribed format | Audit Period | CM-TM Agreements executed during the Audit period to be checked | All Members- Registered for Any Segment |
|  | Compliance officer has obtained NISM-Series-III A/ prescribed certification. | Audit Period | - | All Members- Registered for Any Segment |
|  | Member has complied with the Guidelines on Compliance Officers as issued in NSE/COMP/54600 dated November 25, 2022. | Audit Period |  | All Members- Registered for Any Segment |
|  | Clearing member has not outsourced their core business activities and compliance functions and adhered to the provisions of SEBI circular CIR/MIRSD/24/2011 dated 15th Dec 2011 | Audit Period | Report if Member has not adhered to the provisions of SEBI circular CIR/MIRSD/24/2011 dated 15th Dec 2011 relating to outsourcing of their core business activities and compliance functions. | All Members- Registered for Any Segment |
|  | Prescribed policies are maintained (Risk Management Policy, PMLA Policy and SORM policy) | Audit Period | - | All Members- Registered for Any Segment |
|  | Exclusive e-mail id for any complaints created | Audit Period | - | All Members- Registered for Any Segment |
|  | Regular back up of data taken and maintained. | Audit Period |  | All Members- Registered for Any Segment |
|  | Proper monitoring mechanism is in place to review the IT/Security related incidents detected and resolution of the same | Audit Period | Ascertain whether all the recommendations of system audit/cyber security audits have been closed during the audit period by taking corrective actions. Details of pending Recommendations to be provided separately | All Members- Registered for Any Segment |
|  | Member has closed all existing demat accounts tagged as Client Collateral/ Client Margin Trading Securities/Client Beneficiary accounts in compliance with relevant SEBI Circular. If accounts are not closed due to reasons prescribed in NCL/NSE circular, whether the member has suspended or frozen the demat account. | Audit Period | - | All Members- Registered for Any Segment |
|  | Member has closed Client Unpaid Securities (CUSA) in terms of SEBISEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2022/153 dated Nov 11, 2022 | Audit Period | - | All Members- Registered for  Other than Commodity segment |
|  | Member has opened client unpaid securities pledgee account in terms of SEBISEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2022/153 dated Nov 11, 2022 | Audit Period | - | All Members- Registered for other than commodity segment |
|  | Member has accepted securities as margin obligation from clients only by way of margin pledge/repledge in the depository system by opening a separate demat account for accepting margin pledge which shall be tagged as “Client Securities Margin Pledge account" in accordance with SEBI circular no. SEBI/HO/MIRSD/DOP/CIR/P/2020/28 dated February 25,2020. | Audit Period | - | All Members- Registered for Any Segment |
|  | Member has ensured that all associated person as defined in SEBI Notification LAD-NRO/ GN/ 2010-11/ 21/ 29390 dated December 10, 2010 have valid NISM series VII certification – (Securities Operations and Risk Management Certification Examination) | Audit Period | To be checked for all associated person except for persons handling the basic clerical/elementary functions and whose work is supervised by NISM Series VII certified personnel. | All Members- Registered for Any Segment |
|  | Adverse comments in Statutory Audit Report of Corporate Member have been considered | Audit Period | Verify adverse Comments of Statutory Auditors | All Members- Registered for Any Segment |
|  | Member has submitted Undertaking/Authorisation to Exchange to access the information/statements pertaining to all bank accounts (maintained by members) from Banks | Audit Period |  | All Members- Registered for Any Segment |
|  | Segregation and Monitoring of Collateral at Client Level- Display of link of client collateral details on website in accordance with circular - NCL/CMPL/63144 dated July 30, 2024. | Audit Period | Check whether the clearing member have displayed the link wrt Client Collateral Details on their own website and have also created awareness about the facility available to the clients for viewing of the collaterals. | All Members- Registered for Any Segment |
|  | **NETWORTH REQUIREMENTS** |  |  |  |
|  | Networth is maintained as prescribed by the SEBI Gazette Notification No. SEBI/LAD-NRO/GN/2022/73 dated February 23, 2022 and submitted as per the CC prescribed norms. | As on 31st December/30th June of every year as applicable in the Audit period | Analyze the Net worth requirement as specified, report if there is shortfall of Net worth/erosion of more than 50% of the Net worth. In case of shortfall of Net worth comment on reason and date of recoupment of shortfall and in case of erosion, comment on reason of erosion. | All Members- Registered for Any Segment |
|  | Last submitted net worth certificate to the CC is correctly submitted. In case of incorrect reporting of Networth that is leading to shortfall, please specify in remarks. | Audit Period | Ascertain the correctness of the Net worth calculation and report if there is an erosion of more than 50% of the Net worth submitted to the CC along with the reasons of such erosion. In case of shortfall of Net worth comment on reason and date of recoupment of shortfall and in case of erosion, comment on reason of erosion. | All Members- Registered for Any Segment |
|  | **BANK GUARANTEE (BG) MADE OUT OF CLIENT FUNDS** |  |  |  |
|  | No new BGs have been made out of client funds on or after May 1, 2023 |  | Verify all the BGs created after May 1, 2023 comply with SEBI circular dated April 25, 2023 | All Members- Registered for Any Segment |
|  | **UPSTREAMING OF CLIENT FUNDS TO CLEARING CORPORATION** |  |  |  |
|  | Whether the member has opened the designated bank account(s) maintained with the nomenclature “Name of the CM –TM prop account” to receive/pay proprietary funds from/to stock brokers | Audit Period | - | All Members- Registered for Any Segment |
|  | Whether the member has opened the Up Streaming Client Nodal Bank Account (USCNBA) and the Down streaming Client Nodal Bank Account (DSCNBA) | Audit Period | - | All Members- Registered for Any Segment |
|  | Clear credit balances of all the clients in the book of account of the SBs/CMs at the end of a given day are placed with the CC in form of either cash, lien on Fixed Deposit Receipts (FDRs) created out of the clients’ funds, or pledge of units of MFOS, created out of the clients’ funds | Audit Period | - | All Members- Registered for Any Segment |
|  | Member  has ensured that any clear credit balance that could not be upstreamed to Clearing Corporations  due to receipt of funds from clients beyond cut-off time has remained in UNSCBA and upstreamed to Clearing Corporation on the next day | Audit Period | - | All Members- Registered for Any Segment |
|  | In case any clients’ clear credit balances which are not placed by the SBs/CMs with the CC on account of justifiable reasons as enumerated in NSE circular no.NSE/INSP/60369 dated Janaury 20, 2024 , the said clear credit balances are reported in the segregation file as “Retained with TM” or “Retained with CM” in the T+1 report | Audit Period | Audit period | All Members- Registered for Any Segment |
|  | Clients’ balances reported as retained with the SBs/CMs should be either available in USCNBA/DSCNBA/Settlement account of the SBs/CMs and/or in transit to the CC. | Audit Period | - | All Members- Registered for Any Segment |
|  | Member has not transferred funds from client bank account/DSCNBA/USCNBA to any third party or  any other non-client account | Audit Period | All client bank accounts to be checked for the audit period. | All Members- Registered for Any Segment |
|  | The following conditions are met if any FDRs has been created out of clients funds:  i)The FDR shall be created only with banks which satisfy the CC’s exposure norms as specified by CCs/SEBI from time to time.  ii. FDRs created only from ‘Up Streaming Client Nodal Bank Account (USCNBA)’ and has been lien-marked to one of the Clearing Corporations at all times.  iii. The tenor of FDRs created after July 01, 2023 are not more than one year and one day; and the FDRs is pre-terminable on demand.  iv. The principal amount of the FDR is remained protected throughout the tenure, even after accounting for all possible pre-termination costs.  v. Member has not availed any funded or non-funded banking facilities based on FDRs created out of clients’ funds  vi. Existing FDRs (created out of clients’ funds and having tenor of more than one-year) created prior to June 30, 2023 shall be allowed to be grandfathered till maturity. | Audit Period | Audit period | All Members- Registered for Any Segment |
|  | Payment for own trades (PRO) are not made from client bank accounts/DSCNBA/USCNBA | Audit Period | All client bank accounts to be checked for the audit period. | All Members- Registered for Any Segment |
|  | Member has not transferred funds to its Group companies/ Associates from client bank accounts/DSCNBA/USCNBA | Audit Period | All client bank accounts to be checked for the audit period. | All Members- Registered for Any Segment |
|  | Member has not transferred funds from client bank account/DSCNBA/USCNBA to any third party or any other non-client account | Audit Period | All client bank accounts to be checked for the audit period. | All Members- Registered for Any Segment |
|  | Member has opened a separate Client Bank and set aside the funds and securities of Inactive/untraceable clients in such accounts and TM has upstreamed the untraceable/unclaimed clients funds to CC. | Audit Period | - | All Members- Registered for Any Segment |
|  | Member has ensured that client funds have been invested only in such MFOS that deploy funds into risk-free government bond overnight repo markets and overnight Triparty Repo Dealing and Settlement (TREPS) | Audit Period | - | All Members- Registered for Any Segment |
|  | Member has maintained a dedicated demat account to as “Client Nodal MFOS Account” for subscription/ redemption of MFOS units in case they are investing clients funds in MFOS | Audit Period | - | All Members- Registered for Any Segment |
|  | Member complied with the provisions of SEBI circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/187 dated December 12, 2023 with respect to bank guarantees. | Audit Period | - | All Members- Registered for Any Segment |
|  | **COMPLIANCE WITH RESPECT TO SOP UNDERTAKING** |  |  |  |
|  | Clearing Member has submitted Undertaking cum Indemnity bond to CC empowering the CC to freeze the bank accounts of the Clearing Member in compliance to SEBI circular SEBI/HO/MIRSD/DPIEA/CIR/P/2020/115 dated July 01, 2020, on the subject "Standard Operating Procedure in the cases of Trading Member /Clearing Member leading to default" | Audit Period |  | All Members- Registered for Any Segment |
|  | Clearing member has submitted the undertaking for any new bank accounts opened within 7 days of opening the bank account in terms of NCL/CMPL/45608 | Audit Period | All bank accounts to be verified | All Members- Registered for Any Segment |
|  | Clearing member has submitted all bank account details in terms of NCL/CMPL/45608 | Audit Period | All bank accounts to be verified | All Members- Registered for Any Segment |
|  | **COMPLIANCE STATUS OF LAST INSPECTION CARRIED OUT BY SEBI/ CC/ INTERNAL AUDITOR** |  |  |  |
|  | Whether Member has placed the disciplinary action letter received from Exchanges/SEBI before Board for consideration. | Audit Period |  | All Members- Registered for Any Segment |
|  | Member has taken corrective steps to rectify the deficiencies observed in the inspection carried out by SEBI. Further whether Member has complied with the qualifications/violations made in last SEBI inspection report | Audit Period | Last SEBI/CC Inspection Report | All Members- Registered for Any Segment |
|  | Member has taken corrective steps to rectify the deficiencies observed in the inspection carried out by CC. Further Member has complied with the qualifications/violations made in last CC inspection report | Audit Period | Last SEBI/CC Inspection Report/half yearly internal audit report | All Members- Registered for Any Segment |
|  | Member has taken corrective steps to rectify the deficiencies observed in the latest half yearly internal audit report | Audit Period | Last half yearly internal audit Report | All Members- Registered for Any Segment |
|  | Comments /observation on any other specific area which is not covered under any of the above area of verification. | Audit Period |  | All Members- Registered for Any Segment |
|  | There are no repeat violations as per last inspection carried out by SEBI/ CC and last half yearly Internal Audit | Audit Period | - | All Members- Registered for Any Segment |

**Sample Details**

Identify top 6 dates (one date in each month of the Audit period) with highest margin requirement (combined across all segments)

Out of the 6 dates selected, identify top clients in each segment, with highest margin obligation.

|  |  |
| --- | --- |
| **No. of clients\* for which CM clears the trades** | **Sample size** |
| Less than 100 active clients during the audit period | Minimum of 25 clients or the total number of clients per segment whichever is lower. |
| Between 100 to 500 active clients during the audit period | Minimum of 50 clients per segment |
| More than 500 active clients during the audit period | Minimum of 100 clients per segment |

**(\*Client for the purpose of shortlisting shall mean TM Prop or CP)**

**POINTS TO BE NOTED**

The guidelines prescribed here are only indicative in nature and not exhaustive. It does not in any way limit the scope of the internal audit. The guidelines have been prepared based on the regulatory requirements (as per relevant Acts, Rules, Regulations and circulars) which keep on developing from time to time on best effort basis. The auditors should peruse them and update the scope of the audit. The auditors should clearly indicate ‘Complied’ indicating Compliance, ‘Not Complied’ indicating Non-compliance and ‘N.A’ wherever ‘Not Applicable’.

The audit report shall also include the following:

1. **Management comments**

In case of any non-compliances/findings/observations/qualifications by the auditor the management responses should be given to the CC against each point.

1. **Points to be noted by the Internal Auditor**
2. No remarks will be allowed by Auditor in case of “complied” status. In case the auditor is of the opinion that the relevant checklist point has not been complied by the Member in full, Auditor shall indicate “Non-compliance” against such points.
3. 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.
4. A statement by the auditor that the provisions of SCRA 1956, SEBI Act 1992, SEBI (Stock Brokers) Regulations 1992, SCRR 1957, Rules, Bye laws, Regulations, circulars of SEBI, agreements, Bye laws of Clearing Corporation, data security.
5. Auditor shall specifically declare about direct / indirect interest in or relationship with the member or its shareholders / directors / partners / proprietors / management if any and also confirm that they do not perceive any conflict of interest in such relationship / interest while conducting internal audit of the said member.
6. Sample size indicated in the format above is minimum sample size. The guidelines for selection of sample is given in Annexure III. All Auditors are advised to adhere to the guidelines while verifying the respective areas. The auditor may increase the sample size as it may deem fit.
7. For each theme/area of audit, auditor shall clearly specify the sample size verified and in case of any non-compliance, the number of instances where adverse observations is noted including the details of the adverse observations in the space provided.
8. The internal audit report should be submitted to the CC as per the report format specified above.
9. In case where internal audit report submitted is incomplete and not as per the prescribed guidelines like non-adherence to sample size guidelines same would be treated as non-submission of internal audit report. NCL reserves the right to advise a Member to change its auditor if quality of the report is not satisfactory or the audit is not carried out as per guidelines.