

# National Stock Exchange of India Limited

## Circular

DEPARTMENT: INSPECTION	
Download Ref No: NSE/INSP/64378	Date: October 4, 2024
Circular Ref. No: 71/2024	

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, 2024, and submit the report electronically through the Inspection module in the Member Portal. The Audit shall be conducted only by Auditor in the Audit firm who is 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 Trading Member other than the Internal Audit assignment. Attention of the Members is drawn to Annexure A of Exchange Circular No. NSE/INSP/58709 dated September 29, 2023, regarding the eligibility criteria for internal auditors who are eligible to conduct the internal audit of the Trading Members.

Further, Members' attention is also drawn to Exchange Circular No. NSE/INSP/59789 dated December 15, 2023, and Exchange Circular No. NSE/INSP/60986 dated March 4, 2024, on "Framework for Empanelment of Auditors for conducting Internal Audit of Trading Members". As mentioned in these Circulars, the Exchange shall accept the internal audit report certified by empaneled auditor only. The detailed procedure for empanelment of auditors has been prescribed in these Circulars.

It is to be noted that the due date to submit the Internal Audit Report is within two months from the end of the half year i.e., for the half year ended September 30, 2024, the due date is November 30, 2024. 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 also drawn to Exchange Circular No. NSE/INSP/54080 dated October 14, 2022, wherein the members were informed to submit an undertaking to the Exchange on a 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" has not been passed on to respective clients under any circumstances. In view of the same, the Trading Members are required to submit the undertaking

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digitally signed by the proprietor or partner or the designated director of the Trading Member. The Internal Auditor shall not be able to submit the Internal Audit Report unless the said undertaking is submitted by the Trading Member.

Members shall ensure to comply with the SEBI Circular No. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, with respect to Appointment and Rotation of Internal auditors.

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

- i. 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 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. Further the Exchange has also made available the data submitted by the members to the Exchange towards holding statement for the sample dates in the respective Auditor's login for the purpose of verification.
- ii. 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 Trading Member.
- iii. There are certain changes in the sampling criteria on and methodology for sample selection compared to the previous half year submission. Auditors are advised to refer to Annexure III carefully before initiating the internal audit.
- iv. 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 Internal Audit Report. Further, for each "Not Applicable" points, appropriate remarks are mandatory to be provided.
- v. Auditors are required to verify the action letters issued by the Exchange in inspection for last 6 months (i.e. for the period from October 2023 to March 2024), verify the compliance of the Trading Member with respect to the violations mentioned in these action letters and provide the comments at Point No. 19 (c) of the internal audit checklist.

Please find enclosed the following Annexures applicable for the Internal Audit Report for half year ended September 30, 2024:

- Internal Audit Certificate - Annexure I.
- Format of Internal Audit Report - Annexure II. (Excel File-"IARNSESEPT24")

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- Guidelines on sample selection and other points to be noted - Annexure III.
- List of indicative processes and reference of Exchange/SEBI circulars - Annexure IV.
- Detailed manual for submission of Internal Audit Report & Troubleshooters - Annexure V.
- Eligibility criteria and the procedure for empanelment of the auditors for conducting the internal audit of the Trading Members - Annexure VI

**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:

<b>Regional Office</b>	<b>CONTACT NO.</b>	<b>E MAIL ID</b>
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