

Circular No.: NSDL/POLICY/2024/0042

April 08, 2024

Subject: Internal and Concurrent Audit of depository operations.

Participants are aware that as per Bye Law 10.3, each Participant is required to have its depository operations audited by a qualified Chartered Accountant or a Company Secretary or a Cost and Management Accountant holding a Certificate of Practice. Based on such audit, a copy of the report should be submitted to NSDL on half yearly basis.

Attention of Participants is invited to Circular No. NSDL/POLICY/2023/0141 dated October 04, 2023 in which guidelines related to scope of the audit and format of the audit report were provided. The audit report format has been modified and enclosed as **Annexure 1** (in track change mode) and as **Annexure 2** (without highlighting the changes). The broad objectives / guidelines for the internal / concurrent audit are enclosed as **Annexure 3**. Participants are advised to take note of the following:

1. Audit should cover all facets of the depository operations. Auditor may expand the scope of audit / add more audit points to achieve the objectives enclosed as Annexure 3. Participants are advised to extend full co-operation to their auditors to enable them to perform an effective audit. All circulars / guidelines issued by NSDL / SEBI from time to time and other information / records desired by the auditors should be made available to them within a reasonable time.
2. Participants are required to forward the audit report as per the schedule given below to NSDL.

| Audit Period | Due date for submission of report to NSDL |
|-------------------------|--|
| April 1 to September 30 | November 15 |
| October 1 to March 31 | May 15 |

3. The Participants which remain operational for less than three months in an audit period can submit audit report for that audit period along with the audit report for next audit period. For example, if a Participant is made operational by NSDL on July 01, 2023, then it can submit first audit report for period July 01, 2023 – March 31, 2024.
4. Audit work for areas which are covered under the scope of concurrent audit should be completed by next working day. If audit cannot be completed by next working day due to large volume, it must be completed within a week. Concurrent audit includes following areas:

- i) Account opening,
- ii) Delivery Instruction Slip (DIS) book issuance,
- iii) Execution of DIS.
- iv) Power of Attorney modifications,
- v) Account closure requests initiated by Participant,
- vi) Investor grievances received by Participant,
- vii) Providing Transaction Statements to clearing members (process level)
- viii) KYC reconfirmation intimated by NSDL and initiated by Participant,
- ix) Replacement of Original DIS image in tamper proof storage
- x) Non Disposal Undertakings (NDU)
- xi) Modification in the name of client (including minor correction in name)
- xii) Client data modifications
- xiii) Accreditation of investors (IGP)
- xiv) Freezes due to statutory orders (freeze reason codes 15 to 33)
- xv) Pledge & Hypothecation (w.e.f October 1, 2020)
- xvi) Margin Pledge / Re-Pledge
- xvii) Online account closure by client
- xviii) Execution of Electronic/ E DIS

5. Participants may appoint same auditor for concurrent and internal audit. If both audits are done by same auditor, then a consolidated report must be submitted instead of two separate reports. If both audits are being done by different auditors, then two separate reports must be submitted.
6. Participants are advised to note that the audit report format provided in this circular is applicable for audit period October 01, 2023 to March 31, 2024 and onwards.
7. Participants are hereby informed that internal and/or concurrent audit reports which are not as per guidelines will be treated as non-submission of the report. NSDL reserves the right to advise a Participant to change its auditor if quality of the report is found to be not satisfactory or the audit is

not carried out as per guidelines.

8. The auditors should visit adequate number of service centers (on sample basis) to check whether proper procedures are being followed at such centers.
9. Any one person conducting the internal and/or concurrent audit (risk prone areas) should obtain certification from the National Institute of Securities Markets (NISM) by passing the NISM- Series-VI: Depository Operations Certification Examination (DOCE). Alternatively, such persons, if eligible, may undergo Continuing Professional Education (CPE) program for depository operations (details available on www.nism.ac.in)
10. It is recommended to appoint / rotate Internal Auditor by the Participants to break any continued long term association of an audit firm / partner with the management of a -Participants.

For any information/clarifications, Participants are requested to email Participant-Interface@nsdl.com or contact Mr.Rohit Kumar at rohik@nsdl.com.

For and on behalf of
National Securities Depository Limited

**Arockiaraj
Manager**

Enclosures: Three

| FORTHCOMING COMPLIANCE | | | |
|---|--|-------------------|---|
| Particulars | Deadline | Manner of sending | Reference |
| Investor Grievance Report (Monthly) | By 10 th of the following month | Through e-PASS | 1. Para 20 of NSDL Master Circular for Participants on 'Grievance Redressal' chapter. 2. Circular No.: NSDL/POLICY/2023/0161 dated November 13, 2023 |
| Artificial Intelligence /Machine Learning Reporting Form (if offering or using such technologies as defined) (Annually) | Within three months of the end of the financial year | Through e-PASS | Circular No.: NSDL/POLICY/2024/0003 dated January 05, 2024 |
| Cyber Security & Cyber Resilience framework of Depository Participants (Quarterly) | By 15 th of the following month. | Through e-PASS | Para 2.59 of NSDL Master Circular for Participants on 'Internal Controls/Reporting to NSDL/SEBI' chapter. |

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| Reporting of status of the alerts generated by Participants (Quarterly) | Within 15 days from end of the quarter | Through e-PASS | Para 11.7 of NSDL Master Circular for Participants on 'Internal Controls/Reporting to NSDL/SEBI' chapter. |
| Risk based Supervision of Participants (Half yearly) | By April 30 th | Through e-PASS | Para 7 of NSDL Master Circular for Participants on 'Internal Controls/Reporting to NSDL/SEBI' chapter. |
| Tariff Sheet (Yearly) | By April 30 th | Through e-PASS | Circular No.: NSDL/POLICY/2023/0158 dated November 09, 2023 |
| Internal/ Concurrent Audit Report (Half yearly) | By May 15 th | Through e-PASS | Para 20.4 of NSDL Master Circular for Participants on 'Internal Controls/Reporting to NSDL/SEBI' chapter |