Circular No.: NSDL/CIR/II/19/2016 Date: November 07, 2016

Subject: Internal Audit requirement for Registrar and Transfer Agents (RTAs) / Issuers having direct electronic connectivity with NSDL

All RTAs and Issuers having direct electronic connectivity with NSDL are hereby informed that they must carry out an internal audit for their operations and submit a report to NSDL. Accordingly, RTAs/Issuers having direct electronic connectivity with NSDL are requested to take note of the following:

1. Broad objectives of the audit:
    a. To assure the management that the operations of the RTA/Issuer having direct electronic connectivity with NSDL are in compliance with the requirements of The Depositories Act, 1996, SEBI (Depositories & Participants) Regulations, 1996, NSDL Bye Laws and Business Rules, its agreement with NSDL and various circulars issued by SEBI / NSDL from time to time.

    b. To assure management that the DPM (SHR) system is managed and maintained in a manner that there is no threat to business continuity, integrity of data processing system is maintained at all times and methods are put in place to ensure that records are not lost, destroyed or tampered with or in the event of loss or destruction of data, sufficient backup of records is available at all times.

    c. To assure management that the capacity of computer system, staff strength and internal procedures are commensurate with the level of business activity.

    d. To assure management and NSDL that the business operations of the RTA / Issuer having direct electronic connectivity with NSDL are conducted in a manner that the foreseeable risks are addressed with appropriate internal control mechanism.

2. The scope, minimum samples required and the format of the Audit Report are given at **Annexure 1**. Auditor may expand the scope of audit / add more audit points to achieve the objectives of audit.

3. Periodicity of Audit and submission of Audit Report

a. The periodicity of carrying out the internal audit will be on a half-yearly basis and the submission of the Audit Report to NSDL will be as per the following schedule:

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

b. For the first audit period (*i.e. from April 1, 2016 to September 30, 2016*), the audit report must be submitted by December 31, 2016.

c. RTA/Issuer having direct connectivity with NSDL shall ensure that internal audit findings along with management comments are placed before its Board of Directors in respect of its depository operations. Further, the inspection findings of NSDL must also be placed before its Board of Directors in respect of its depository operations. If there are no adverse finding in NSDL inspection/internal audit, then it is not mandatory for the RTA/Issuer having direct electronic connectivity with NDSL to report to its Board of Directors.

d. The internal audit reports which are not as per guidelines will be treated as non-submission of the report. NSDL reserves the right to advise the RTA/Issuers having direct connectivity with NSDL to change its auditor if quality of the report is not satisfactory or the audit is not carried out as per guidelines.

e. In case auditor's remarks/comments are negative, management's comments shall be mandatory. If any checklist point is not applicable, it shall be commented as "Not Applicable" along with the reason for the same in the remarks column.

4. Amendments to Bye Laws

Bye Laws 8.5.9 and 8.5.10 have been inserted and existing Bye Law 8.5.9 is renumbered to Bye Law 8.5.11. The Bye-Laws 8.5.9 and 8.5.10 are given below:

Bye-Law 8.5.9

Every Issuer or its Registrar and Transfer Agent shall ensure that an internal audit in respect of its depository operations is conducted at intervals of not more than six months by a qualified Chartered Accountant or a Company Secretary or a Cost and Management Accountant, holding a Certificate of Practice and a copy of the internal audit report shall be furnished to the Depository.

Bye-Law 8.5.10

Every Issuer or its Registrar and Transfer Agent shall ensure that following items are placed before its Board of Directors in respect of its depository operations:

i. Internal audit findings alongwith management comments
ii. Inspection findings of the Depository along with management comments.

For and on behalf of
National Securities Depository Limited

Nitin Ambure
Vice President

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