National Securities Depository Ltd.

Participant Interface
Circular

Circular No.: NSDL/POLICY/2009/0105 Date: November 10, 2009

Subject: Internal and Concurrent Audit for 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. Such audit should be conducted atleast twice a year and a copy of the report should be submitted to NSDL.

Attention of all Participants is invited to Circular no. NSDL/POLICY/2008/0077 dated November 3, 2008 regarding guidelines related to scope of audit and format of the audit report. Since then, there have been certain additions / modifications in the guidelines.

In view of the above and findings during review of audit reports submitted by Participants, various requirements related to internal and concurrent audit have been consolidated for the benefit of Participants and their auditors. The consolidated guidelines are enclosed as **Annexure 1** (a MS – Excel file containing two sheets). Participants are advised to take note of the following:

1. Objectives of audit

Following are the broad objectives of internal audit of depository operations:

i) To assure the management that the operations of the Participant 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 the Client and NSDL and various circulars issued by NSDL from time to time.

ii) To assure management that the DPM 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.

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

iv) To assure management that the business operations of the Participant are conducted in a manner that the foreseeable risks are addressed with appropriate internal control mechanism.

v) To assure management that the business operations of the Participant are conducted as per the operations manual and in strict adherence with NSDL prescribed procedures.

2. Audit program should cover all facets of the depository operations. Auditor may expand the scope of audit / add more audit points to achieve the objectives listed above. 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.

3. Participants should submit the audit report to NSDL as per schedule given below:

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

4. New Participants which are 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 2, 2009, then it can submit single audit report for the period July 2, 2009 – March 31, 2010.

5. As prescribed vide Circular no. NSDL/POLICY/2006/0021 dated June 24, 2006, activities related to account opening, control and verification of Delivery Instruction Slips (DIS) are subject to concurrent audit which must be completed by the next working day. If such audit cannot be

completed by next working day due to large volume, it must be completed within a week. The guidelines provided in Annexure 1 in respect of these activities are applicable for concurrent audit as well.

6. Participants can appoint same auditor for concurrent and internal audit. If both audits are performed by the same auditor, then a consolidated report must be submitted instead of two separate reports. If two audits are being performed by different auditors, then two separate reports should be submitted.

7. The guidelines provided in this circular are applicable for audit period October 1, 2009 to March 31, 2010 and onwards. Audit report for period April 1, 2009 to – September 30, 2009 may be submitted as per existing guidelines (i.e. guidelines provided in Circular no. NSDL/POLICY/2008/0077 dated November 3, 2008) or as per the new guidelines provided in this circular.

8. 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 not satisfactory or if the audit is not carried out as per the guidelines.

9. A training program will be conducted for internal / concurrent auditors by NSDL shortly. Schedule and details of the program will be communicated to the Participants. Participants may request their auditors to take benefit of the training program.

10. Participants may encourage their auditors to acquire certification under NCFM – NSDL Depository Operations module.

For and on behalf of
National Securities Depository Limited

Samar Banwat
Vice President

Encl.: a/a [One Excel file containing two sheets]

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