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**NATIONAL COMMODITY & DERIVATIVES EXCHANGE LIMITED**

Circular to all members of the Exchange  
Circular No : NCDEX/COMPLIANCE-114/2023  
Date : October 23, 2023  
Subject : Internal Audit of Members of the Exchange

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This is in continuation to Exchange circular no. NCDEX/COMPLIANCE-016/2016/239 dated September 27, 2016 on Enhanced Supervision of Stock Brokers/Depository Participants and circular no. NCDEX/COMPLIANCE-038/2021 dated August 09, 2021 on Uniform formats for Internal Audit Report and Risk Based Supervision (RBS) across exchanges, all members of the Exchange are directed to carry out internal audit for the period April 01, 2023 to September 30, 2023.

The audit shall be conducted only by independent qualified Chartered Accountants, Company Secretaries or Cost and Management Accountants who are in practice and who do not have any conflict of interest and against whom no regulatory action is taken. Further, auditor meeting the following eligibility criteria is qualified to conduct the Internal Audit of the Trading Members:

- a) The Auditor / Audit firm or at least one of the partners should have a minimum of 5 years' experience in carrying out audits.
- b) The Auditor/ Audit firm is not debarred or restrained from issuing any certificate by ICAI, ICSI, ICMAI, RBI, SEBI or by other regulator/law enforcement agency.
- c) Auditor and/or its employee or partner signing the Internal Audit Report shall have a valid NISM Series-XIV: Internal Auditors for Stockbrokers Certification or NISM Series III-A: Securities Intermediaries Compliance Certification or ICAI Certificate Course on Financial Markets and Securities Laws or any other equivalent examination.

The internal audit report is required to be submitted to the Exchange in **digitally signed soft copy on or before November 30, 2023** by way of sending the same as an attachment only to email ID: [iar\\_submission@ncdex.com](mailto:iar_submission@ncdex.com). Please note that actions for late/non-submission of the internal audit report shall be applicable as per the Exchange circular NCDEX/COMPLIANCE-111/2023 dated October 19, 2023.

The internal auditor shall submit a digitally signed Internal Audit Certificate i.e. Annexure I, Internal Audit checklist i.e. Annexure II and Samples selected i.e. Annexure IV (A to S) to the member including comments of the management with regard to audit observations. The Internal

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Audit Certificate shall mandatorily contain Unique Document Identification Number (UDIN). Member shall place it before its Board of Directors/Proprietor/Partners and shall forward the same to the Exchange within the timelines specified above, along with an undertaking i.e. Annexure VI confirming that the penalty levied by clearing corporations on account of “short/non-collection of upfront margins from clients” is not being passed on to respective clients under any circumstances in accordance with the Exchange circular no. NCDEX/COMPLIANCE-40/2022 dated June 24, 2022. The undertaking submitted by the member shall be digitally signed by the proprietor or partner or the designated director of the company. Kindly refer process manual available in the downloads section on the Exchange website [https://ncdex.com/quick\\_links/download](https://ncdex.com/quick_links/download) as **“User manual - Internal Audit Submission”**

Auditors are requested to mandatorily adhere to the sample selection guidelines specified in the Annexure III of the circular and the data required for the same can be sourced from the member. Mention the details of actual sample in Annexure IV (A to S). There are certain changes in the sampling criterion and methodology for sample selection compared to previous half year submission. Auditors are advised to refer Annexure III carefully before initiating the audit.

Auditors are also required to give the details of the instances of non-compliance (if any) against each of the checklist points in Annexure II. Auditors are requested to submit Annexure I, II and IV to the Member.

For each “Not Applicable” Points, Auditors should mandatorily provide appropriate remarks. In case of non-compliance(s) reported, Auditors should give instance wise details of such non-compliance along with amount and also attach the relevant supporting documents for the said non-compliance. 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”. All the workings and records with respect to the Audit should be retained by the Auditors for verification by the Exchange as and when required.

Internal auditor shall report directly to the Exchange in the event of non-cooperation by the member by sending an email at [iar\\_submission@ncdex.com](mailto:iar_submission@ncdex.com). In case of resignation by the auditor from Internal Audit Assignment, Internal auditor shall communicate the reason for such resignation to the Exchange.

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**Further, the penalty for violations/observations in the internal audit report shall also be levied as following:**

The heads of compliance requirements as defined in Internal Audit Report (IAR) were categorised based on its impact and gravity into Low, Medium and High categories and then the quantum of penalty for such violations were decided as Rs.5,000/-, Rs. 10,000/- Rs.25,000/-, respectively for non-compliances / violations observed in Internal Audit Reports submitted by Members on half yearly basis.

Escalated penalty @ 50% of applicable penalty for respective heads shall apply in case of repeated violations observed in the IAR submitted. To identify the repeated instances, violations shall be compared with its previous / last submission. The highest penalty applicable for the violations observed under the same head will be levied along with Advice, if any. The total penalty for all the violations observed in IAR shall be the sum of the highest penalties levied under each head along with Advice, if any.

Members are advised to adhere to the norms prescribed under clause 4.2 of SEBI circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, w.r.t Appointment and Rotation of Internal auditors. Accordingly, members shall not appoint or re-appoint the internal auditor who has completed its term as specified under clause 4.2.1.2 (a) and 4.2.1.2 (b) of aforesaid circular.

The Exchange shall initiate appropriate action against the members where deficiencies are noticed in audit reports. **Please note that incomplete submission will be treated as non-submission. Members are required to send Annexure I, II, IV and VI to the Exchange at [iar\\_submission@ncdex.com](mailto:iar_submission@ncdex.com)**

The following annexures for the internal audit report for the half year ended March 31, 2023 are available in the downloads section on the Exchange website. [https://ncdex.com/quick\\_links/download](https://ncdex.com/quick_links/download) as “**Internal Audit Annexure for Half Year ended Sep 2023**”.

- Internal Audit Certificate – Annexure I (PDF format with Digital signature & UDIN)
- Format of Internal Audit Report – Annexure II (Excel File)
- Guidelines on sample selection and other points to be noted – Annexure III
- Actual Sample selected by Auditor – Annexure IV A to S (Excel File)
- List of Indicative Processes & reference of Exchange & SEBI Circulars – Annexure V
- Undertaking on Margin collection & reporting - Annexure VI (PDF format with Digital signature)

It may be noted that submission of Internal Audit Report shall be considered complete only after Member submits **digitally signed soft copy of Annexure I, II, IV and VI to the Exchange.**

Members and Auditors are advised to take note of the same and comply.

For and on behalf of  
**National Commodity & Derivatives Exchange Limited**

Pranesh Shetty  
Vice President – Inspection & Enforcement

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For further information/clarifications, please contact

1. Customer Service Group on toll free number: 1800 26 62339
2. Customer Service Group by e-mail to : [askus@ncdex.com](mailto:askus@ncdex.com)