NATIONAL COMMODITY & DERIVATIVES EXCHANGE LIMITED

Circular to all members of the Exchange
Circular No. : NCDEX/TRADING- 20/2023
Date : June 02, 2023
Subject : Periodic submission of System Audit of Application Service Provider (ASP)

Empaneled ASPs of the Exchange are required to carry out Annual system audit of the CTCL facility & also conduct an additional system audit w.r.t. security controls built in their ASP platform.

Report 1: For Annual system Audit of CTCL facility, empaneled ASPs of the Exchange are required to submit the report to the Exchange as per the latest Terms of Reference (TOR) applicable for Type II Members audited by CISA / CISSP / CISM / DISA certified auditor. Details of the latest TOR and auditor selection norms are provided in the circular issued by the Inspection team on a yearly basis.

Report 2: For submission of additional system audit w.r.t. security controls built in ASP platform & as a part of Regulatory requirement, ASPs are required to follow auditor selection norms (refer Annexure A) & provide the following information:

- Details regarding the security controls built in the ASP platform for each version/ instance (to be provided in a tabular format).
- Finding / Observations reported by the auditor to be submitted in the enclosed format (refer Annexure B and C).

ASP shall submit both reports to the Exchange every year for the period April to March. This certificate along with the original audit report and/or re-confirmatory audit report shall be submitted to the Exchange in accordance with the below timelines.

System Audit Report as per Type II TOR and Preliminary Audit Report submission w.r.t. security controls built in their ASP platform	Follow on System Audit Report (if applicable) w.r.t. security controls built in their ASP platform
On or before June 30	On or before September 30

Submission of the system audit report shall be considered complete only after ASP submits the report to the Exchange after providing management comments. ASPs may submit both the aforesaid audit reports for the period April 2022 to March 2023 and henceforth within the timelines to avoid any penal/disciplinary action, as prescribed by the Exchange from time to time.

For and on behalf of
National Commodity & Derivatives Exchange Limited

Hitesh Savla
Chief - Trading Operations

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

Enclosure

- Annexure A - Auditor Selection Norms for system audit report w.r.t. security controls built in ASP platform
- Annexure B - Executive Summary Report
- Annexure C - Follow on System Audit Report

Annexure A

Auditor Selection Norms

1. The Auditor shall have minimum 3 years of experience in IT audit of securities market participants e.g. Exchanges, clearing corporations, depositories, stock brokers, depository participants etc. The audit experience should cover all the major areas mentioned under Terms of Reference (ToR) of the system audit specified by SEBI / stock exchange from time to time.

2. Resources employed for the purpose of system audit shall have relevant industry recognized certifications e.g. D.I.S.A. (ICAI) Qualification , CISA (Certified Information System Auditor) from ISACA, CISM (Certified Information Securities Manager) from ISACA, CISSP (Certified Information Systems Security Professional) from International Information Systems Security Certification Consortium, commonly known as (ISC).

3. The Auditor should have experience of IT audit/governance frameworks and processes conforming to industry leading practices like CobiT.

4. The Auditor shall not have any conflict of interest in conducting fair, objective and independent audit of the Member. Further, the directors / partners of Auditor firm shall not be related to any Member including its directors or promoters either directly or indirectly.

5. The Auditor shall not have any cases pending against its previous audited companies/firms, which fall under SEBI"s jurisdiction, which point to its incompetence and/or unsuitability to perform the audit task.

6. Auditor has not conducted more than 3 successive system audits of the member. Follow-on audits conducted by the auditor shall not be considered in the successive audits

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Annexure – B

Executive Summary Report

(To be on the letterhead of the system auditor)

System Audit Report for the period _____ to _____)

I/We, M/s. _____ (Name of the system auditor / system audit firm) have conducted the system audit of Trading system facility/ies of the below mentioned Application Service Provider (ASP) of National Commodity & Derivatives Exchange Limited in accordance with the provisions and scope laid down by the Exchange in Annexure-D. The detailed audit report has been submitted to the ASP. The summary of findings are grouped under the broad categories as below and classified as "High Risk", "Medium Risk" or "Low Risk".

Audit Date	Observation No	Description of Finding / Observations	Status / Nature of Findings	Risk Rating of Findings	Audit TOR Clause	Audited By	Root Cause Analysis	Impact Analysis	Suggested Corrective Action	Deadline for the Corrective Action	Follow-on Audit required (Yes / No)	Verified By	Closing Date	Management Comments

Declaration:

- There is no conflict of interest with respect to the Application Service Provider (ASP) being audited. If any such instance arises, it shall be brought to the notice of the Exchange immediately before undertaking the audit.
- With regard to the areas mentioned in the Terms of Reference (ToR), compliance / non-compliance status has been specified. Observations on minor / major deviations as well as qualitative comments for scope for improvement also have been specified in the report.

Signature

(Name of the Auditor & Auditing firm)

CISA / DISA / CISM / CISSP Reg. No. :

Date:

Place:

Countersigned by ASP

Authorized signatory

Stamp / Seal

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Description of relevant Table heads:

1. **Audit Date –** This indicates the date of conducting the audit.

2. **Description of Findings/ Observations** – Description of the findings in sufficient detail, referencing any accompanying evidence (e.g. copies of procedures, interview notes, screen shots etc.)

3. **Status and Nature of findings –** The category can be specified as (a) Non-Compliant (b) Work In Progress (c) Observation (d) Suggestions (e) Not Applicable

4. **Risk Rating of Findings –** A rating has to be given for each of the observations based on their impact and severity to reflect the risk exposure, as well as the suggested priority for action.

Rating	Description
HIGH RISK	Weakness in control those represent exposure to the organization or risks that could lead to instances of noncompliance with the requirements of TORs. These risks need to be addressed with utmost priority.
MEDIUM RISK	Potential weakness in controls, which could develop into an exposure or issues that represent areas of concern and may impact internal controls. These should be addressed reasonably promptly.
LOW RISK	Potential weaknesses in controls, which in combination with other weakness can develop into an exposure. Suggested improvements for situations not immediately/directly affecting controls.

5. **Audit TOR Clause –** The TOR clause corresponding to this observation.

6. **Root cause Analysis –** A detailed analysis on the cause of the nonconformity.

7. **Impact Analysis –** An analysis of the likely impact on the operations/ activity of the organization.

8. **Suggested Corrective Action –** The action to be taken by the broker to correct the nonconformity.

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Annexure – C

Follow on System Audit Report

(To be on the letterhead of the system auditor)
(System Audit Report for the period _____ to _____)

I/We, M/s. _____ (Name of the system auditor / system audit firm) have conducted the follow-on system audit of Trading system facility/ies of the below mentioned Application Service Provider (ASP) of National Commodity & Derivatives Exchange Limited for the observations about the non-compliance / non-conformities (NCs) made in the preliminary audit report. The summary of findings is reproduced below:

Name of ASP: _____

Preliminary Audit Date	S No.	Preliminary Observation Number	Preliminary Status	Preliminary Corrective Action	Current Finding	Current Status	Revised Corrective Action	Deadline for the Revised Corrective Action	Verified By	Closing Date	Management Comment

Declaration:

- There is no conflict of interest with respect to the ASP being audited. If any such instance arises, it shall be brought to the notice of the Exchange immediately before undertaking the audit.
- With regard to the areas mentioned in the preliminary audit all observations specified as not-compliant have been complied and met the requirement as specified in the Terms of Reference (TOR).

Signature

(Name of the Auditor & Auditing firm)

CISA / DISA / CISM / CISSP Reg. No.:

Date:

Place: Stamp / Seal

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Description of relevant Table heads:

1. **Preliminary Status –** The original findings as per the preliminary system audit report

2. **Preliminary Corrective Action –** The original corrective action as prescribed in the preliminary system audit report

3. **Current findings –** The current findings w.r.t. the issue

4. **Current status –** Current status of the issue viz. (a) Non-Compliant (b) Complaint (c) Work In Progress

5. **Revised Corrective Action –** The revised corrective action prescribed w.r.t. the Non Compliance / WIP issues

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