
NATIONAL COMMODITY & DERIVATIVES EXCHANGE LIMITED

Circular to all members of the Exchange

Circular No : NCDEX/COMPLIANCE- 059/2022

Date : September 27, 2022

Subject : System Audit by the members of the Exchange – ATS (ALGO Trading)

Further to the Exchange circular no. NCDEX/COMPLIANCE-009/2016/184 dated August 04, 2016, NCDEX/COMPLIANCE-010/2016/191 dated August 16, 2016, on “System Audit by the members of the Exchange”, the members having Exchange Approved Algo Trading Software (ATS) are required to carry out System audit of their trading facility for the period April 2022 to September 2022 and submit system audit report to the Exchange with in the timeline as mentioned in the table given below

Audit Period	Criteria	Type of Broker	Preliminary Audit & Executive Summary Report (Annexure – A & B)	Action taken Report (ATR) (if applicable)	Follow-on Audit Report (if applicable) (Annexure - C)
Half Yearly (April 2022 to September 2022)	All Members using ATS Facility	Type of broker – III	November 30, 2022	December 31, 2022	February 28, 2023

The System audit report is now required to be submitted to the Exchange in digitally signed soft copy within the timeline as mentioned in the table given below by way of sending the same as an attachment only to email ID: **sar_submission@ncdex.com**

Preliminary audit will be conducted as per the Terms of reference (ToR) specified for Type III Broker as given in **Annexure – A**. The same is available in the “Downloads section” on the Exchange website under ALGO System Audit Annexures September 2022. (https://ncdex.com/quick_links/download).

For findings / observations during the preliminary audit, the auditor must also report such findings in 'EXECUTIVE SUMMARY REPORT' as per format given in **Annexure - B** highlighting the major findings of the preliminary audit. The same is available in the “Downloads section” on the Exchange website under ALGO System Audit Annexures September 2022. (https://ncdex.com/quick_links/download)

The audit report should be submitted to the Exchange with management comments on non-compliance / non-conformities (NCs) and observations mentioned in the report and take corrective action for the observations made by the system auditor on each non-compliance / non-conformities (NCs) and submit Action Taken Report (ATR).

If the Follow-on audit has been recommended by the auditor in System audit report, then schedule the same after taking necessary corrective actions and submit the Follow-on Audit Report as per **Annexure - C** to the Exchange. The same is available in the “Downloads section” on the Exchange

Auditor Selection Norms – for Type III Brokers (Member using ATF Facility):

1. The Auditor shall have minimum 3 years of experience in IT audit of securities market participants e.g. stock 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 Stock Broker. Further, the directors / partners of Audit firm shall not be related to any stock broker 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 audits of the member.** Follow-on audits conducted by the auditor shall not be considered in the successive audits.

The members are advised to submit the following documents **digitally signed soft copy in PDF format** to the Exchange

- System Audit Report (Annexure A) along with Executive summary (Annexure B)
- Action Taken Report, if applicable.
- Follow-on report with management comments (Annexure C) if applicable, as per the time line provided

Non/late submission of System audit report shall attract penal charges as mentioned below:

- Penalty of Rs. 200/- per day on members failing to submit the said reports within 1 month from the end of due date of submission,
- Penalty of Rs. 500/- per day after 1 month but within 3 months from the end of the due date for submission and

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- Disablement of trading facility across segments after giving 2 weeks' notice for non-submission within 3 months from the end of due date for submission.

It may be noted that submission of Systems Audit Report shall be considered complete only after Member submits the report to the Exchange with **digitally signed soft copy by the auditor in PDF format.**

For and on behalf of
National Commodity & Derivatives Exchange Limited

Pranesh Shetty
Vice President – Audit & Inspection

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