METROPOLITAN STOCK EXCHANGE

Department: Inspection	Segment: All
Circular No: MSE/INSP/15214/2024	Date : April 19, 2024

Subject: Internal Audit of Trading Members

To All Members,

This is to inform that all Trading Members are required to carry-out complete Internal Audit for the half year ended March 31, 2024, and submit the report electronically through the Inspection Portal. The Audit shall be conducted only by an independent qualified Chartered Accountant or Company Secretary or Cost & Management Accountant who is in practice and does not have any interest in or relation with the Member other than the Internal Audit assignment. Attention of members is drawn to Annexure A of Exchange Circular No. MSE/INSP/14244/2023 dated October 04, 2023 regarding the revised eligibility criteria for the auditors qualified to conduct the internal audit of Trading Members from half year ended March 31, 2024 onwards.

Further, Members' attention is also drawn to Exchange Circular No. MSE/INSP/14614/2023 dated December 20, 2023, and Exchange Circular No. MSE/INSP/15011/2024 dated March 08, 2024, on "Framework for Empanelment of Auditors for conducting Internal Audit of Trading Members". As mentioned in these Circulars, the Exchange shall accept the internal audit report certified by empaneled auditor only with effect from the half year ending March 31, 2024, onwards. The detailed procedure for empanelment of auditors has been prescribed in these Circulars.

It is to be noted that the due date to submit the Internal Audit Report is within two months from the end of the half year i.e., for the half year ended March 31, 2024, the due date is **May 31, 2024**. The penalties/disciplinary actions for late/non-submission of the Internal Audit Report and non-compliances observed in the Internal Audit Report, shall be applicable as per the Exchange Circular No. MSE/INSP/12474/2022 dated October 21, 2022 and MSE/INSP/IAR-20-21(2)/10356/2021 dated April 26, 2021 respectively.

Members' attention is also drawn to Exchange Circular No. MSE/INSP/11982/2022 dated June 23, 2022, wherein the members were informed to submit an undertaking to the Exchange on a half yearly basis along with Internal Audit Report confirming that the penalty levied by clearing corporations on account of "short/non-collection of upfront margins from clients" has not been passed on to respective clients under any circumstances. In view of the same, members are required to submit the undertaking digitally signed by the proprietor or partner or the designated director of the Company. The Internal Auditor shall not be able to submit the Internal Audit Report unless the said undertaking is submitted by the Trading Member.

Further, the Internal Auditors are advised to take note of below while carrying out the Internal Audit:

I. Details of sample dates/clients applicable for certain checklist points have been made available in respective Auditor's login to enable the auditor to select samples as per the sampling criteria 1, 2 and 3 prescribed in Annexure III. Auditors are advised to get their registration done from members and retrieve the aforesaid data and samples from their respective logins before initiating the audit.

II. The samples for parameters/ criteria other than provided above, shall be as per the "methodology for sample selection" prescribed in Annexure III, and the data required for the same may be sourced from the member.

III. There are certain changes in the sampling criterion and methodology for sample selection compared to the previous half year submission. Auditors are advised to refer to Annexure III carefully before initiating the audit.

IV. For each "Not complied" observation, wherever applicable, the auditor shall mandatorily provide the "no. of instances verified" and "Amount/value involved where non-compliance is observed" while submitting the Audit Report. Further, for each "Not Applicable" Points, appropriate remarks are mandatory to be provided.

Please find enclosed the following Annexures applicable for the Internal Audit Report for half year ended March 31, 2024:

- Internal Audit Certificate – **Annexure I.**
- Format of Internal Audit Report – **Annexure II. (Excel File)**
- Guidelines on sample selection & other points to be noted – **Annexure III.**
- List of indicative processes & reference of Exchange/SEBI circulars – **Annexure IV.**
- Detailed manual for submission of Internal Audit Report by Members & Auditors – **Annexure V.**
- Procedure for empanelment for the auditors for conducting the internal audit of Trading Members – **Annexure VI**

All Members are advised to take note of the above and comply.

In case of any query kindly contact Inspection Department on (022) 6112 9000 or mail on compliancemsx@msei.in.

For and on behalf of
Metropolitan Stock Exchange of India Limited

Praveenkumar Acharya
AVP – Inspection and Membership Department