



Circular No.: IIDI IFSC/DP/2025-26/094

Date: May 08, 2025

To,

All Depository Participants,

Sir/Madam,

Subject: Submission of Internal Audit Report (IAR) by Depository Participants

All the Depository Participants (DPs) are hereby requested to refer to the IIDI Bye Law 16.3.2 which states that every Participant shall ensure that an internal audit shall be conducted in respect of the operations of the Depository by a qualified practicing Chartered Accountant/Company Secretary/Cost Accountant holding a Certificate of Practice. The internal audit is detailed in **Annexure I**.

The frequency of internal audit report submission is quarterly for Depository Participants (DPs) are as below:

1. All the DPs registered with IIDI who have 10,000 or more demat accounts as on March 31, 2025, shall conduct internal audit of its operations relating to IIDI by an Independent qualified practicing Chartered Accountant / Company Secretary / Cost Accountant every quarter (April to June, July to September, October to December and January to March) and such audit reports to be submitted to the IIDI within 45 days of end of each quarter; However, the first internal audit report for period from April 1, 2024 to March 31, 2025 for such DPs to be submitted along with internal audit report of April 1, 2025 to June 30, 2025 quarter.
2. All the DPs registered with IIDI who have less than 10,000 demat accounts as on March 31, 2025, shall conduct an internal audit of its operations relating to IIDI by an Independent qualified practicing Chartered Accountant / Company Secretary / Cost Accountant every year such audit report to be submitted to the IIDI latest by September 30 of the current financial year.

The above-mentioned details are required to be submitted at dp.compliance@iidi.co.in and physical copies at IIDI registered office address.

For more information/clarifications please contact the below official:

Department	Email address	Telephone Number
Inspection	dp.compliance@iidi.co.in	079 – 68320009

INDIA INTERNATIONAL DEPOSITORY IFSC LIMITED

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CIN: U65990GJ2021PLC121672 | **Phone:** 079 - 6674 0083 / 87 | <https://www.iidi.co.in>



For and on behalf of

INDIA INTERNATIONAL DEPOSITORY IFSC LIMITED

Vishal Joshi

Interim Chief Risk Officer

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Annexure I

A. Objectives of Internal Audit:

The following are the broad objectives of the internal audit for depository operations:

- To assure the management that the operations of the Participants are in compliance with the requirements of the directives issued by International Financial Services Centres Authority (herein after referred to as 'IFSCA'), India International Depository IFSC Limited (herein after referred to as 'IIDI') Bye Laws and directives, its rights and obligations with the clients and Agreement with IIDI and various circulars issued by IFSCA and IIDI from time to time.
- To assure management that the Depository Participant Module (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 tempered with or in the event of loss or destruction of data, sufficient backup of records is available at all times.
- To assure management that the capacity of computer system, staff strength and internal procedures are commensurate with the level of activity.
- To assure management and IIDI that the business operations of the Participant are conducted in a manner that the foreseeable risks are addressed with appropriate internal control mechanism.
- To assure management that the operations are conducted in a manner that there is no loss of revenue and receivables are received promptly.
- To assure management and IIDI that the business operations of the Participants are conducted as per the operations manual and in strict adherence with IIDI prescribed procedures.

B. Audit program:

Internal 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 IIDI / IFSCA from time to time and other information / records desired by the auditors should be made available to them within a reasonable time.

Internal Audit Report (IAR) must contain auditor's observation on all the audit points given below:

1. Operations Manual

The Operations Manual prepared by the Participant should be reviewed by the auditor. The Operations Manual should have an organization Chart Showing hierarchy of the staff members involved in depository activities, a chart showing accountability at each level, segregation of duties, maintenance of records and documents, procedure to be followed for reporting exceptional issues related to systems (e.g. problem in hardware or any component of hardware / software, backup, UPS, telephone line, reducing hard disk space, decreasing speed of machine, etc.) and operations (e.g. failure in executing instructions, failure of transactions leading to auction of clients, delay in confirmation back to clients, etc.) procedure to comply

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with the requirements related to anti-money laundering counter-terrorist financing (AML-CFT), Compliance Certificate etc.

Auditor shall certify-

- 1.1. Whether Operations Manual covers all depository activities?
- 1.2. Whether the Operations Manual is updated as and when required?
- 1.3. Whether the Operations Manual is available to persons who need to refer it?
- 1.4. Whether the procedures mentioned in the Operations Manual are followed?
- 1.5. Whether there are procedures / systems in place to ensure compliance with guidelines?

The auditor should review the operations manual and provide its comments in the report. If the Participant has not prepared the Operations Manual, auditor should mention this fact in the report and management comments should be obtained.

Auditor may refer to the IFSCA and IIDI directives:

2. Anti Money Laundering, Counter-Terrorist Financing

- 2.1. Whether the Participant has complied with relevant laws, rules and instructions on Anti Money Laundering, Counter Terrorist Financing?
- 2.2. Whether the Participant has defined to detect and report suspicious transactions?

While commenting on this area, auditor shall also mention whether the Participant has drawn up a policy for implementation of Anti Money Laundering, Counter-Terrorist Financing mechanism and has appointed a 'Principal Officer'. If the Participant has not drawn up a policy and/or has not appointed a Principal Officer, auditor shall mention this fact in the report and management comments shall be obtained.

3. Audit of Account Opening and Modifications

3.1. New Account Creation

- 3.1.1. Whether the Participant has undertaken necessary due diligence to comply with the 'Know Your Client' (KYC) norms, Permanent Account Number (PAN) verification, verification of original documents, etc. as prescribed by IFSCA directives from time to time for all categories of accounts?

Auditor may refer to the IFSCA and IIDI directives:

- 3.1.2. Whether maker/checker is followed by the Participants for new account opening?
- 3.1.3. Whether data entered in DPM exactly matching with the details mentioned in the account opening form?
- 3.1.4. Whether signature of the client on the account opening form is exactly same as that scanned in DPM?
- 3.1.5. For points 3.1.3 and 3.1.4 above, auditor should randomly verify data entered in the DPM and the signature(s) of the client(s) scanned vis a vis the details in the account opening form(s).

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Auditor shall record the findings in following manner:

- Number of accounts verified:
- Number of accounts where signature scanned and/or data matches:
- Number of accounts where signature and/or data entered do not match:

3.1.6. Whether simplified demat account opening process adhered to by the Participants?

3.1.7. For point 3.1.6. above, auditor should carry out verification of all such accounts opened. Auditor shall record the findings in following manner:

- Number of accounts verified:
- Number of accounts where Voluntary Consent letter for KYC obtained from client:
- Number of accounts where Voluntary Consent letter for KYC not obtained from client as same was not required:

3.2. Modifications

3.2.1. Whether the Participant has undertaken necessary due diligence to comply with the 'Know Your Client' (KYC) norms, for all categories of accounts at the time of modifications in account opening data requests from clients?

3.2.2. Whether participant ensures signature on modifications matches with signature in DPM?

3.2.3. Whether maker/checker is followed by the Participants for modifications in account opening data requests from clients?

3.2.4. Whether data entered in DPM exactly matching with the details mentioned in the modifications in account opening data requests from clients?

3.2.5. Whether clients are communicated after processing modifications in account opening data requests?

4. Audit of Delivery Instructions

4.1. Issuance of Delivery instruction slip (DIS):

4.1.1. Whether the Participant maintains records of Issuance of DIS to its clients?

4.1.2. Mention total number of DIS issued to all the Clients.

4.1.3. Mention total number of clients to which DIS is issued.

4.2. Acceptance, verification and execution of DIS:

4.2.1. Whether date time stamping is done by the Participant at the time of acceptance of DIS by clients?

4.2.2. Whether participant ensures signature on DIS matches with signature in DPM?

4.2.3. Whether maker and checker followed for verification and execution of DIS by the Participant?

4.3. Whether Demat debit consent form is obtained in favor of the Participants before debiting the demat account of the client if the signed delivery instruction slip is not provided by the client?

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- 4.3.1. Whether the participant obtained consent from the clients, who should explicitly authorize the depository participant to access their demat account for the limited purpose of meeting the specific purpose only?
- 4.3.2. For point 4.3. and 4.3.1. above, auditor should carry out verification of all such Demat debit consent forms obtained from client in favor of the Participants before debiting the demat account of the client if the signed delivery instruction slip is not provided by the client. Auditor shall record the findings in the following manner:
- Number of accounts verified:
 - Number of accounts wherein demat debit consent obtained from client:
 - Number of accounts wherein demat debit consent not obtained from client, as same was not required:

Auditor may refer to the operation manual maintained by the Participants for ensuring DIS management.

5. Audit of Statement of Transactions

- 5.1. Whether statements of transactions are provided to the clients as per the prescribed guidelines?

Auditor may refer to the IFSCA and IIDI directives:

6. Complaint Handling and Grievance Redressal

- 6.1. Whether the Participant has adopted Complaint Handling and Grievance Redressal policy?

Auditor may refer to the IFSCA and IIDI directives:

7. Exceptional Reporting

- 7.1. In addition to above mentioned points, auditor shall verify all other depository related operational areas including supplementary agreements/power of attorney executed with clients, handling of investor grievances, records and documents maintained, format of stationery, information on timely submission of reports/dues, etc. and shall submit only an exceptional report with a statement that "All other operational areas have been verified and found satisfactory and the exceptions are mentioned hereunder". Report shall point out findings and conclusions, recommendations, reservations, qualifications, areas where internal controls are weak/do not exist, areas where internal controls exist, but exceptions are observed.

C. Audit report:

In addition to comments on above-mentioned six mandatory audit points, the audit report should also contain the following:

A certification by the auditor that-

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- a. 100% verification is carried out for demat account opening and modification(s) (i.e. all accounts opened and any modification(s) during the audit period).
- b. 100% verification is carried out for Delivery Instructions Slip (DIS).
- c. Auditor shall mention the exact percentage of samples verified.

Samples verified for other depository activities such as client master changes, SOH/SOT etc.

If any major/significant deviations and deviations of recurring nature are observed, then these should be highlighted in the audit report.

If the observation is in the nature of a deviation or a recommendation, management response should be sought and recorded in the report.

Approximate man hours spent, and level of persons engaged in this work.

A statement by the auditor that this circular was read, understood and the IAR is based on the guidelines given in this circular.

A statement by the auditor that the auditor is neither related to officials of the Participant and/or does not have any interest in the management of the Participant nor has any partner/proprietor in the firm who is also a Participant official.

Auditor's membership number should be mentioned at the end of the report.

The circulars referred above under various heads are indicative and not exhaustive.

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