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Circular

PFRDA/2015/22/CUST/2

Date: 28th Aug.2015


To,

The Custodian of Securities for NPS and other scheme regulated by PFRDA

**Subject: PFRDA (INTERNAL AUDIT OF CUSTODIAN OF SECURITIES) GUIDANCE
NOTE - 2015**

This Guidance Note is issued under the Regulation 19(16) of PFRDA (Custodian of Securities) 2015.

2. Internal Audit is to be conducted on quarterly basis within 15 days of the next quarter.
3. This Guidance Note is applicable w.e.f. 01.09.2015.


Sumeet Kaur Kapoor
(General Manager)



**Pension Fund Regulatory & Development Authority
(PFRDA)**

**PFRDA (INTERNAL AUDIT OF CUSTODIAN OF SECURITIES)
GUIDANCE NOTE - 2015**

PFRDA (INTERNAL AUDIT OF CUSTODIAN OF SECURITIES) GUIDANCE NOTE - 2015

This Guidance Note may be referred to as PFRDA (Internal Audit of Custodian of Securities) Guidance Note – 2015.

This guidance note is being prescribed with a view to standardize Internal Audit of the Custodian of Securities for Custodian of Securities for NPS and other schemes regulated by PFRDA

1. Eligibility criteria for Appointment as Internal Auditor:

The audit may be conducted by Chartered Accountants, company secretaries or Cost and Management Accountants who have minimum 10 years of practice and who don't have any conflict of interest with CRA and PF.

2. Appointment and Fee:

Appointment and audit fee shall be approved by the Board of Custodian of Securities and audit fee to be borne by the Custodian of Securities.

3. Minimum Scope of Internal Audit:

3.1 The internal Audit should cover all aspects of Custodial operations and procedures including investor grievance redressal mechanism, compliance with requirements stipulated in PFRDA Act, Rules and regulations made thereunder and guidelines issued from time to time.

3.2 The internal audit report shall state the methodology adopted, deficiencies observed and consideration of responses of the management on the deficiencies.

3.3 The report shall include summary of operation and the audit, covering the size of the operations, number of transactions audited and the number of instances where violations and deviations were observed while making observations on the compliance of any regulatory environment.

3.4 The report shall comment on the adequacy of the system adopted by the custodian for compliance with requirements of regulations and guidelines issued by PFRDA Act and investor grievance redressal.

3.5 The minimum scope of Internal Audit is detailed as per **Annexure A**. The list of scope is only indicative and not exhaustive and Custodian/ auditor may include more parameters, in addition to the minimum scope specified in Annexure 'A', based on their requirements.

4. Frequency and Reporting:

4.1 Internal audit is to be conducted on Quarterly basis.

4.2 Auditor will also report on the unresolved audit issues and actions taken thereon as a separate annexure. Auditor will seek response/clarification from the Custodian on his observations and include their response/clarification in the report and wherever the auditor is not in agreement with the response/clarification of the Custodian, the Auditor will report the reasons for disagreement. Audit report should be signed by the partner of the firm in his/her own name along-with membership number.

4.3 The report should be considered by the Board of Custodian of Securities and thereafter the same, along with the observations of the Board and relevant extract of the Board minutes, should be forwarded to NPS Trust/ PFRDA by the Custodian of Securities.

4.4 Internal Auditor will prepare, its report, giving an '*executive summary*', to be followed by a detailed report. Each issue will be classified as 'High Risk' / 'Medium Risk' / 'Low Risk'.

5. Certification by Internal Auditor:

In addition to the Quarterly Internal Audit reports, every half year i.e. 30th September & 31st March, the Internal Auditor should submit the half yearly certification (as per **Annexure B**) to the Board of Custodian of Securities and after its consideration by the Board, Custodian of Securities will send a copy to PFRDA and NPS Trust. Consideration of Audit certification should be duly recorded in the minutes of the Custodian of Securities Board meeting. Observation of Board of Custodian of Securities and relevant extract of the Board minutes should be forwarded to NPS Trust/ PFRDA by the Custodian of Securities.

Annexure- 'A'

Scope of Internal Audit

SI.No.	Broad description	Sampling	Sub- description
1	Board Meeting	100%	Composition of Board
		100%	Frequency of meeting
		100%	Minutes of meeting
		100%	Recommendations
		100%	Delegation of Authority
2	Operational Manual/ Procedure	100%	To be approved by Board
		100%	Amendments , if any, to be approved by the board
		100%	Frequency of review
		100%	Procedure for security documents execution
		100%	Income recognition policy- accruals
3.	Risk Management Committee	100%	Composition of Risk Committee
		100%	Frequency of meeting
		100%	Minutes of meeting
		100%	Recommendations
4.	Risk Management Policy	100%	Approved by Board of Director
		100%	Frequency of review
		100%	Disaster recovery strategy
		100%	Business Continuity Plan
		100%	IT System audit
		100%	Data Integrity
		100%	Operational risk management
		100%	Counter party management
		100%	Employee dealing Guidelines
		100%	Insurance cover against risk
5.	Adequacy of Infrastructure	100%	Adequacy of Physical Infrastructure
		100%	Adequacy of IT Infrastructure
		100%	Adequacy of information Security Infrastructure
		100%	Adequacy of HR Infrastructure
6.	Settlement Processing	100%	Receipt of orders from Pension Funds
		100%	Order matching with files received from SE's and conformation of match orders to SE's
		100%	Fund Settlement
		100%	Confirmed and unconfirmed trades
		100%	Securities settlement

Sl.No.	Broad description	Sampling	Sub- description
7.	Scheme wise reconciliation of Holdings for each Pension Funds	100%	Scheme CG, SG, NPS LITE
		100%	Scheme E Tier I & II
		100%	Scheme C Tier I & II
		100%	Scheme G Tier I & II
		100%	Corporate CG scheme
		100%	APY or Any other scheme regulated by PFRDA
		100%	Reconciliation between Pension Scheme a/c and CGSL
8	Dealing Procedure (Front office)	100%	Installation of voice Recording Machine
		100%	System and procedure of dealing in Equity and Debt
		100%	Maintenance of records for investment justifications
9	Back office procedure	100%	Deployment of adequate officials
		100%	No password sharing between officers
		100%	Accounting and settlement of deal
		100%	Deal execution through STP
10	Safe Keeping	100%	Crediting securities to the designated demat account of specified Pension Funds
		100%	Intimating about free holdings in the securities a/c to the Pension Funds
		100%	Physical securities if any are properly coded and stored in High security vaults
		100%	Closed circuit TV with hidden camera
			Access control
		100%	Full time security staff
			Adequate Insurance of securities
11	Asset Servicing	100%	Event tracking
		100%	Eligibility computation for all types of events both monetary and non-monetary
		100%	Timely collection of all the dues Issuer and registrar of companies
		100%	Receipt and matching of Corporate Actions
12	Reporting to Pension Funds/NPS Trust	100%	Daily saleable Holding Report
		100%	Daily transaction statement (on next day)
		100%	Daily shortage report
		100%	Report of Corporate action
		100%	Corporate Action receipt reports on daily basis.

Sl. No.	Broad description	Sampling	Sub- description
12	Reporting to Pension Funds/NPS Trust	100%	Put & Call Intimation
		100%	Outstanding Corporate Action
		100%	Ex-Date Report
		100%	MIS to NPS Trust and PFRDA
13	Accounting	25%	Deal tickets
		25%	DIS/DIP statement & Intimation to the custodian
		25%	Verification of timely and accurate capturing of trades
		100%	Compliance with accounting Standards
		100%	Adherence to accounting policy
		25%	Corporate action- bonus, rights, dividend, interest
		25%	receivable
		25%	Reversal of brokerage on daily basis
		100%	Outsourcing (100% of all items under the scope of 'accounting', if it is outsourced)
		100%	
14	Valuation of Asset Under Custody (AUC)	100%	Valuation of AUC – Equity as per guidelines
		50%	Valuation of AUC – Debt as per guidelines
		10%	Deviations, if any.
15	Disclosure	100%	Portfolio Disclosure
		100%	Half Yearly Financial statement
		100%	Annual report
16	Periodical returns to Authority/ Trust	100%	Timely submission
		100%	Accuracy of data
		100%	Procedure of generation of data and report
		100%	procedure for capturing Down grading of investment
17	Compliances	100%	Compliance to clauses of Tripartite Agreement
		100%	Compliance to Guidelines and Guidance note
		100%	Compliance to Internal Guidelines, Operational manual
		100%	Adequacy and efficacy of Internal Control system and procedures
18	Internal Audit/ Custodian/ Scheme Audit		To see the exceptions of audit & compliance there of

Note: The above list of scope is only indicative and not exhaustive. Custodian/ auditor may include more parameters based on their requirements.

Annexure – B'

On the letter head of Audit Firm
Half Yearly Certificate for Internal Audit

To
Board of Custodian of Securities

.....
We have examined the relevant books of accounts, records and documents maintained by
..... ('Custodian of Securities) for the Half
Year ended on of FY

The purpose of this audit is to examine that the processes, procedures followed and the operations carried out by the Pension Fund Manager, are in compliance with Investment Management Agreement (IMA) signed by the Custodian of Securities with the NPS Trust.

We have conducted the audit as per PFRDA (internal auditor of custodian of securities) GUIDANCE NOTE - 2015

Further our procedures covered all the areas listed in scope of work stipulated in **Annexure A** of the above Guidance Note. (Enclosed, duly signed by us under reference to this certificate.)

Based on our scrutiny of the books of accounts, records and documents maintained by the Custodian of Securities, we certify that the Custodian of Securities has complied, in all material respect, with the relevant clauses of tripartite agreement, Guidelines / Regulations / Circulars of NPS Trust/ PFRDA and Investment Policy of the PFM to the extent covered by the scope of work stipulated in Annexure A and any additional Scope of work agreed with the Pension Fund Manager.

We declare that we do not have any direct/ indirect interest in or relationship with shareholders/ directors of Custodian of Securities.

In our opinion and to the best of our information and according to the explanation given to us by the Custodian of Securities, the internal audit report provided by us as per Annexure and subject to our observations contained therein, covers the entire scope of the Audit and is true and correct.

Yours truly

For
..... (Name of Firm)
Chartered Accountants
Firm Regn No...

..... (Name of
Partner) Partner
Membership
No: Place:
Date: