

KINGDOM OF SAUDI ARABIA

Capital Market Authority

Rules for Registering Auditors of Entities Subject to the Authority's Supervision

**English Translation of the Official Arabic Text
Issued by the Board of the Capital Market Authority
Pursuant to its Resolution Number 1-135-2018
Dated 12/4/1440 H Corresponding to 19/12/2018 G
Based on the Capital Market Law
Issued by Royal Decree No. M/30 dated 2/6/1424H**

Arabic is the official language of the Capital Market Authority

Important Notice: The current version of these Rules, as may be amended, can be found at the Authority website: www.cma.org.sa

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Part 1: General Provisions

Article 1 : Preliminary

- a) The purpose of these Rules is to set out the standards and conditions required for the auditors of the entities subject to the Authority's supervision, including the mandating of registration, its conditions, procedures and the continuing obligations on registered auditors.
- b) These Rules shall have no prejudice to the provisions of the other related laws, and the obligations set out by the Saudi Organization for Certified Public Accountants under the Law of Certified Public Accountants.

Article 2 : Definitions

- a) Any reference to the “Capital Market Law” in these Rules shall mean the Capital Market Law issued by the Royal Decree No. M/30 dated 2/6/1424H.
- b) Without prejudice to paragraph (c) of this Article, expressions and terms in these Rules have the same meaning which they bear in the Capital Market Law and the Glossary of Defined Terms used in the Regulations and Rules of the Capital Market Authority, unless the context indicates otherwise.
- c) For the purpose of implementing these Rules, the following expressions and terms shall have the meaning they bear as follows, unless the context indicates otherwise:
 - **Law of Certified Public Accountants:** the Law of Certified Public Accountants issued by Royal Decree no. (M/12) dated 13/05/1412 H.
 - **Entities Subject to the Authority's Supervision (ESAS):** for the purposes of these Rules, it shall mean the following:
 - 1) The Exchange.
 - 2) The Depository Center.
 - 3) Authorised persons licensed to carry on securities business, except authorised persons licensed to carry on arranging or advising activities.
 - 4) Investment Funds.
 - 5) Listed Companies.
 - **Audit Engagements:** Audit of financial statements, prepared by an entity, in accordance with the auditing standards adopted by the Saudi Organization for Certified Public Accountants for the purpose of expressing an opinion as to whether such financial statements present fairly the financial position of the entity at a specific date, and the results of its operations for a specific financial period, or review of the interim financial statements, prepared by the entity, to determine if significant amendments are needed for the interim financial statements to be in agreement with the accounting standards adopted by the Saudi Organization for Certified Public Accountants.
 - **Professional Standards:** Accounting and auditing standards, the professional code of ethics and other standards and pronouncements adopted by the Saudi Organization for Certified Public Accountants.
 - **Accounting Firm:** The entity which carries on audit engagements in accordance with the provisions of the Law of Certified Public Accountants, whether it is an individual or professional firm.
 - **Certified Public Accountant (CPA):** The natural person who carries on and is responsible for audit engagements, its performance, and signing of

audit reports issued by the accounting firm in accordance with the provisions of the Law of Certified Public Accountants.

- **Registration:** Registration of the accounting firm or the CPA to carry on audit engagements for ESAS in accordance with the provisions of these Rules.
- **Inspection:** Analyzing periodic data and information provided by the accounting firm and inspecting and assessing the quality control system and the degree of compliance with it.
- **Quality Control System:** Policies and procedures approved by the accounting firm in order to reasonably verify the compliance of the firm's employees with the professional standards and related laws governing their performance in carrying on audit engagement, including the professional code of ethics approved by the Saudi Organization for Certified Public Accountants.

Article 3 : Waivers

The Authority may waive a provision of these Rules in whole or in part as it applies to an applicant for registration, a registered accounting firm or a registered CPA, either upon a request from the applicant for registration, the registered accounting firm or the registered CPA or on its own initiative.

Article 4 : Right to Appeal

Any person subject to these Rules may appeal to the Committee for the Resolution of Securities Disputes in respect of any decision or action that the Authority takes under these Rules.

Part 2: Registration

Article 5 : Mandating the Registration

- a) No person may carry on audit engagements for ESAS unless it has been registered with the Authority¹.
- b) The accounting firm and CPA must be registered with the Authority prior to being appointed to carry on audit engagements for ESAS.

Article 6 : Registration Procedures

- a) For the purpose of these Rules, the applicant for registration shall mean the accounting firm or the CPA who submits the application for registration to carry on audit engagements for ESAS. An applicant for registration becomes subject to these Rules from the date of submission of its application.
- b) The accounting firm must submit its application for registration in accordance with the application form prescribed by the Authority.
- c) The CPA must submit his application for registration through the accounting firm in accordance with the application form prescribed by the Authority.
- d) The accounting firm must pay the fees for registration as prescribed by the Authority.

Article 7 : Accounting Firm Registration Conditions

To register the accounting firm with the Authority, the following conditions must be satisfied:

- 1) It is licensed to practice the profession of account auditing in accordance with the Law of Certified Public Accountants.
- 2) It is fit and proper to carry on audit engagements for ESAS, including:
 - a. No judicial decision has been issued against it as a result of an offence involving fraud or any act involving a lack of integrity or dishonesty during the five years preceding the date of application for registration with the Authority.
 - b. It has adequate indemnity insurance for the risks of professional failures.
- 3) Any other conditions specified by the Authority.

Article 8 : CPA Registration Conditions

To register the CPA with the Authority, the following conditions must be satisfied:

- 1) He is licensed to practice the profession of account auditing in accordance with the Law of Certified Public Accountants.
- 2) He is fit and proper to carry on audit engagements for ESAS, including:
 - a. To hold the Fellowship Certificate in accordance with the Law of Certified Public Accountants.²
 - b. No judicial decision has been issued against him as a result of an offence involving fraud or any act involving a lack of integrity or

¹ The Board of The Capital Market Authority has Issued its Resolution no. (1-135-2018) dated 12/4/1440H corresponding to 19/12/2018G for paragraph (a) of Article (5) of the Rules for Registering Auditors of Entities Subject to the Authority's Supervision to enter into force starting from 30/6/2019G

² The Board of The Capital Market Authority has Issued its Resolution no. (1-135-2018) dated 12/4/1440H corresponding to 19/12/2018G for subparagraph (a) of paragraph (2) of Article (8) of the Rules for Registering Auditors of Entities Subject to the Authority's Supervision to be effective starting from 20/12/2021G

dishonesty during the five years preceding the date of application for registration with the Authority.

- c. He has not been sentenced to removal of his name from the Certified Public Accountant Register, imprisonment or fines under the Law of Certified Public Accountants within the five years preceding the date of application for registration with the Authority.
 - d. He has not been subjected to suspension under the Law of Certified Public Accountants, during the two years preceding the date of the application for registration with the Authority.
 - e. He has practiced the profession of account auditing after obtaining the license in accordance with the Law of Certified Public Accountants for a period not less than five years, including a period of not less than three years working in a supervisory level over the audit engagements for ESAS, the entities accepted by the Authority, or entities under the supervision of a foreign regulatory body that applies regulatory standards and requirements equivalent to those of the Authority or are accepted by it.
- 3) He is of integrity, and has sufficient skill, care and diligence.
 - 4) Any other conditions specified by the Authority.

Article 9 : Procedures and powers of the Authority in relation to an application for Registration

- a) In considering an application for registration, the Authority may:
 - 1) Carry out any enquiries that it considers appropriate;
 - 2) Require the applicant for registration, or its representative, to attend before the Authority to answer any questions and explain any matter the Authority considers relevant to the application for registration;
 - 3) Require to provide additional information; and
 - 4) Verify the accuracy of any information furnished by the applicant for registration.
- b) The Authority will aim to consider the application for registration within 30 days of receiving all information and documents that it considers pertinent.
- c) The Authority may, after considering the application for registration, take any of the following actions:
 - 1) Approve the application for registration;
 - 2) Approve the application for registration subject to such conditions and limitations as it considers appropriate;
 - 3) defer making a decision for such period as may be necessary to carry out further investigation or to allow for the provision of additional information; or;
 - 4) Reject the application for registration and give grounds for the rejection.
- d) If the Authority resolves to approve the application for registration, it will add the name of the registered accounting firm or the registered CPA to the register that the Authority shall maintain for this purpose, and shall notify the applicant of such approval.
- e) If the Authority resolves to reject the application for registration, it will notify the applicant in writing of the rejection and the grounds for the rejection.

Article 10 : Fees

The registered accounting firm must pay such fees as the Authority may prescribe for the maintenance of the registration.

Part 3: Continuing Obligations

Article 11 : Conditions for Maintenance of Registration

As a condition of the maintenance of registration, the registered accounting firm and the registered CPA must comply at all times with the following:

- 1) The Law of Certified Public Accountants and its Regulations.
- 2) The Capital Market Law and Its Implementing Regulations.
- 3) The registration conditions.
- 4) Any Standards and Conditions specified by the Authority.
- 5) The Authority's instructions regarding the inspection and its results.
- 6) Providing the Authority immediately of all information and documents that the Authority may require for the purpose of implementing the provisions of Capital Market Law and Its Implementing Regulations.
- 7) Establishing the necessary arrangements to provide the technical consultation to the staff of the registered accounting firm, who conduct the audit engagements for ESAS, where such consultation is required.

Article 12 : Notification Requirements

- a) The registered accounting firm must notify the Authority in writing within 7 days of the date of any changes in the information provided to the Authority in the application form for registration of the accounting firm, in regards of the registered accounting firm's name, address, website, e-mail or partners names.
- b) The registered accounting firm must immediately notify the Authority in writing upon a lawsuit being filed against the registered accounting firm or any of its partners, executive managers or audit managers, if the subject of the lawsuit relates to the firm's business or the practice of the profession of account auditing.
- c) Upon receiving a notification in accordance with paragraphs (a) or (b) of this article, the Authority may:
 1. Require the registered accounting firm to provide any additional information that the Authority deems necessary to properly assess the subject matter of such notification.
 2. Impose any other conditions, restrictions or requirements that the Authority reasonably deems necessary to address the actual or potential effects of the subject matter of the notification.

Article 13 : Transparency Report

The registered accounting firm must publish an annual transparency report on its website within a period not exceeding four months from the end of its financial year, which includes, at minimum, the information required in Annex 1 of these Rules.

Article 14 : Periodic Information

The registered accounting firm shall submit periodic information to the Authority, in the form specified by the Authority, and within a period not exceeding four months from the end of its financial year.

Article 15 : Compliance with the Rules

- a) The registered accounting firm must ensure that its registered CPAs comply with the conditions of registration and the continuing obligations set out in these Rules.

- b) The registered accounting firm must appoint a registered CPA to be in charge of communicating with the Authority and ensuring that the registered accounting firm and its registered CPAs comply with the conditions of registration and the continuing obligations set out in these Rules.
- c) The registered accounting firm must immediately notify the Authority if it becomes aware that any of the registration conditions set out in these Rules are no longer fulfilled by it or by any of its registered CPAs.

Article 16 : Participation of the Registered CPA

The registered CPA must participate for a sufficient amount of the working hours allocated for each audit engagement for an entity subject to the Authority's supervision which he issued a report in its regard, in order to ensure the quality of such engagement.

Part 4: Issues Affecting Registration

Article 17 : Registration Cancellation and Suspension

The Authority may suspend or cancel the registration of any registered accounting firm or registered CPA if it has violated any of the provisions of the Capital Market Law or its Implementation Regulations.

Article 18 : Ceasing to Carry on Audit Engagements

- a) Upon the permanent or temporary ceasing of a registered accounting firm or any of its registered CPAs to carry on audit engagements for ESAS, the registered accounting firm must prepare a fair and appropriate plan for its clients of ESAS including, at minimum, the following:
 - 1) Notifying the Authority in advance and in writing of the date on which the registered accounting firm or the registered CPA intends to cease to carrying on audit engagements, the period of its ceasing and the reasons thereof.
 - 2) In case the registered accounting firm ceases to carry on audit engagements, it shall not contract with clients of ESAS to carry on audit engagements.
 - 3) Notify its clients of ESAS within a reasonable period of its decision to cease carrying on audit engagements, the period of its ceasing and the reasons thereof.
 - 4) Properly completing any remaining audit engagements with the registered accounting firm, or taking appropriate action to serve the interests of its clients of ESAS, without prejudice to other relevant laws.
 - 5) Submission of a report to the Authority regarding the actions taken to implement this plan.
- b) The registered accounting firm or the registered CPA shall not be exempted from the liability arising from any mistake, by any of them, that occurred prior to its ceasing to carry on audit engagements for ESAS.

Chapter 5: Final Provisions

Article 19 : Publication and Entry into Force

These Rules shall become effective in accordance to its approval resolution.

Annex (1)
Information Required in the Transparency Report

The registered accounting firm must publish an annual transparency report which includes, at minimum, the following information:

1. A description of the registered accounting firm's legal structure, including the firm's network that the registered accounting firm is a member of, or that are members of the registered accounting firm, and the relevant legal arrangements.
2. Statement on the governance of the registered accounting firm, including the following:
 - a. Description of the organizational structure including the name of the owner of the registered accounting firm or its partners, managers and senior executives, and a description of the committees formed in the registered accounting firm, including the name of the committee and its duties during the financial year (if any).
 - b. Name of the registered CPA, who works at the registered accounting firm, and who is a member of the board of directors of any of the ESAS, or in the committees of any of the ESAS, with the names of these entities.
 - c. The basis for determining the remunerations of partners.
 - d. A description of the independence policies applied by the registered accounting firm, and an acknowledgement that such policies have been properly prepared and implemented effectively.
 - e. A description of the quality control system applied by the registered accounting firm, and an acknowledgement that such system has been properly developed and implemented effectively.
3. The jobs nationalization percentage at the registered accounting firm.
4. Information on the latest internal inspection of the quality control system implemented within the registered accounting firm, including the date of conducting such inspection, how it was implemented, a description of its results and how such results were addressed.
5. Details of any punishment, penalty, precautionary measure or preventive restriction imposed on the registered accounting firm or its registered CPAs by the Authority or any other supervisory, regulatory or judiciary authority during the last financial year.
6. Details of any litigation or claim (including any litigation pending or threatened) or any ongoing investigations which may have a material effect on the registered accounting firm's business, during the last financial year.
7. A list of the clients of the registered accounting firm that are of the ESAS, and the registered CPA who carried on audit engagements for such clients during the last financial year.
8. Information on continuing professional education during the last financial year of the staff who conduct the audit engagements for ESAS.
9. The total number of working hours of audit engagements for the ESAS, and the percentage of those executed by the partners in the registered accounting firm, during the last financial year.
10. Financial information of the last financial year, including the following:

No.	Financial Information of the Registered Accounting Firm	Amount in Saudi Riyals	
1.	Total revenue		
2.	Total revenues from audit engagements for ESAS		
3.	Total revenues from other services for ESAS	Total revenues from other services for ESAS that are audited by the registered accounting firm	
		Total revenues from other services for ESAS that are not audited by the registered accounting firm	
4.	Total revenues from audit engagements for entities other than ESAS³		
5.	Total revenues from other services for entities other than ESAS⁴	Total revenue from other services for entities other than ESAS that are audited by the registered accounting firm	
		Total revenue from other services for entities other than ESAS that are not audited by the registered accounting firm	

³ Guiding paragraph

⁴ Guiding paragraph