

# **KINGDOM OF SAUDI ARABIA**

## **Capital Market Authority**

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

(draft)

#### **Issued by the Board of the Capital Market Authority**

Pursuant to its Resolution Number [00- in the following classification: 000-000]

Dated [00/00/0000 H] Corresponding to [00/00/0000 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](http://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 conditioning of registration, its requirements, 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.

### 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:** Law of Certified Public Accountants issued by Royal Decree no. (M/12) dated 13/05/1412 H.
  - **Entities Subject to the Authority's Supervision:** for the purposes of these Rules, it shall mean the following:
    - 1) The Exchange.
    - 2) The Depository Center.
    - 3) Authorised persons to carry on securities business, except authorised persons to carry on advising activity.
    - 4) Investment Funds.
    - 5) listed Companies.
  - **Audit Engagement:** Auditing financial statements, prepared by the 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 and other audit engagements related services.
  - **Professional Standards:** Accounting, auditing, other standards and pronouncements adopted by the Saudi Organization for Certified Public Accountants.
  - **Accounting Firm:** The party 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:** The Certified Public accountant who carries on and who 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 certified public accountant to carry on Audit Engagement for entities subject to the Authority's supervision in accordance with the provisions of these Rules.
- **Examination:** Studying periodic data and information provided by the accounting firm and evaluating 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 Certified Public Accountant, either on an application from the applicant for registration, the Registered Accounting Firm or the Registered Certified Public Accountant or on its own initiative.

**Article 4: Right to Appeal**

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

## **Part 2: Registration**

### **Article 5 : Conditioning Registration**

- a) No person may carry on Audit Engagement for entities subject to the Authority's supervision unless it has been registered with the Authority.
- b) The Accounting Firm and Certified Public Accountant shall be registered with the Authority prior to appointing it to carry on Audit Engagement for entities subject to the Authority's supervision.

### **Article 6 : Registration Requirements**

- a) For the purpose of these Rules, the applicant for registration shall mean the accounting firm or the certified public accountant who submits the application for registration to carry on Audit Engagement for entities subject to the Authority's supervision. An applicant for registration becomes subject to these Rules from the date of submission of its application.
- b) The accounting firm shall submit its application for registration in accordance with the application form prescribed by the Authority.
- c) 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 Engagement for entities subject to the Authority's supervision, 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.
    - c. It has the necessary arrangements to provide the technical advice to its staff conducting Audit Engagement for entities subject to the Authority's supervision in such cases as may be required.
  - 3) Any other conditions specified by the Authority.
- d) The certified public accountant must submit an application for registration through the Accounting firm in accordance with the application form prescribed by the Authority.
- e) To register the certified public accountant 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 Engagement for entities subject to the Authority's supervision, including:
    - a. To have obtained the fellowship certificate in accordance with the Law of Certified Public Accountants.
    - 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 dishonesty during the five years preceding the date of application for registration with the Authority.
    - c. He has not been sentenced to removal of the name from the 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, nor subject to current cases relating to the application of any such penalties.
- d. He has not been subjected to suspension under 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 at least five years, including a period of not less than three years in working in a supervisory level over the Audit Engagement for entities subject to the Authority's supervision or for the supervision of a foreign regulatory body, that applies regulatory standards and requirements equivalent to those of the Authority or are accepted by it.
  - f. He has passed the professional tests determined by the Authority.
- 3) He is of integrity, and has sufficient skill, care and diligence.
  - 4) Any other conditions specified by the Authority.
- f) The accounting firm shall pay the fees for the registration prescribed by the Authority.

**Article 7: 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 his representative, to attend before the Authority to answer 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 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, giving reasons.
- d) If the Authority resolves to approve the application, it will add the name of the Registered Accounting Firm or the Registered Certified Public Accountant 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, it will notify the applicant in writing of the rejection and the justifications for that.

**Article 8 : Fees**

The Registered Accounting Firm must pay such fees as the Authority may prescribe.

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## **Part 3 : Continuing Obligations**

### **Article 9 : Conditions for Maintenance of Registration**

As a condition of the maintenance of registration, the Registered Accounting Firm and Registered Certified Accountant 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 standards and conditions for registration.
- 4) The Standards and Conditions specified by the Authority.
- 5) The Authority's Instructions regarding the examination and its results.
- 6) Providing the Authority promptly 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.

### **Article 10 : Transparency Report**

- a) The registered accounting firm must publish an annual transparency report which includes ,at minimum, the information required in Annex 1 of these Rules.
- b) The Registered Accounting Firm shall publish the transparency report required under paragraph (a) of this Article on its website within a period not exceeding four months from the end of its financial year.

### **Article 11 : Periodic Information**

The Registered Accounting Firm shall submit periodic statements to the Authority, on an annual basis in the form specified by the Authority, and within a period not exceeding four months from the end of its financial year.

### **Article 12 : Compliance with the Rules**

- a) The Registered Accounting firm shall ensure that its registered certified public accountants comply with the standards and conditions of registration and the continuing obligations set out in these Rules.
- b) The Registered Accounting firm shall appoint a registered certified public accountant to be in charge of communicating with the Authority, and ensure that the registered accounting firm and its registered certified public accountants comply with the standards and conditions of registration and the continuing obligations set out in these Rules.
- c) The Registered Accounting firm shall immediately notify the Authority if it became aware that any of the standards and conditions contained in these Rules are no longer fulfilled by it or by its registered certified public accountants.

### **Article 13 : Participation of Registered Certified Public Accountant**

The registered public certified accountant 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 a report has been issued in its regard, in order to ensure the quality of such engagement.



## **Part 4: Issues Affecting Registration**

### **Article 14 : Registration Cancellation and Suspension**

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

### **Article 15 : Ceasing to carry on Audit Engagement**

- a) Upon the permanently or temporarily ceasing of a registered accounting firm or any of its registered certified public accountants from carrying on Audit Engagement for entities subject to the Authority's supervision, the registered accounting firm must prepare a fair and appropriate plan for its clients of entities subject to the Authority's supervision 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 certified accountant intends ceasing to carry on Audit Engagement, the period of its cessation and the reasons thereof.
  - 2) In case the registered accounting firm ceases to carry on Audit Engagement, it shall not contract with clients that are entities subject to the Authority's supervision.
  - 3) Notify its clients of entities subject to the Authority's supervision within a reasonable period of its decision to cease to carry on Audit Engagement, the period of its cessation and the reasons thereof.
  - 4) Properly completing any remaining Audit Engagement with the registered accounting firm, or take appropriate action to serve the interests of its clients of entities subject to the Authority's supervision, 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 certified accountant shall not be exempted from the liability arising from any error, by any of them, that occurred prior to its cessation to carry on Audit Engagement for entities subject to the Authority's supervision.

## **Chapter 5: Final Provisions**

### **Article 16 : Publication and Entry into Force**

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

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## 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 firms 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. The basis for determining the remunerations of partners.
  - c. 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.
  - d. 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. 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, its results and how such results were addressed.
4. Details of any punishment, penalty, precautionary procedure or preventive measure imposed on the registered accounting firm or its registered certified public accountants by the Authority or any other supervisory, regulatory or judiciary authority.
5. Particulars 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.
6. A list of clients of the registered accounting firm of entities subject to the Authority's supervision, and the registered certified accountant who carried on Auditing Engagement for such clients.
7. Information on continuing professional training during the financial year of the staff who conduct the Audit Engagement for entities subject to the Authority's supervision.
8. The total number of working hours of auditing Engagement for entities subject to the Authority's supervision, and the percentage of those executed by the partners in the registered accounting firm.
9. Financial information, including:

No.	Financial information of the Registered Accounting Firm	Amount in Saudi Riyals
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1.	Total revenue	
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2.	Total revenue from auditing Engagement for entities subject to the Authority's supervision in the following classification:	The Exchange	
		The Depository Center	
		Authorised persons	
		Investment Funds	
		listed Companies	

3.	Total revenue from auditing Engagement for entities other than those subject to the Authority's supervision.	
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4.	Total revenues from other operations for entities subject to the Authority's supervision.	Total revenue from other operations for entities subject to the Authority's supervision which the registered accounting firm has carried on audit Engagement for, in the following classification:	The Exchange		
			The Depository Center		
			Authorised persons		
			Investment Funds		
		Total revenue from other operations for entities subject to the Authority's supervision which the registered accounting firm did not carry on audit Engagement for, in the following classification:	listed Companies	The Exchange	
				The Depository Center	
				Authorised persons	
				Investment Funds	

5.	Total revenues from other operations for entities other than those subject the Authority's supervision	Total revenue from other operations for entities other than those subject to the Authority's supervision which the registered accounting firm has carried on audit engagement for.	
		Total revenue from other operations for entities other than those subject to the Authority's supervision which the registered accounting firm did not carry on audit engagement for.	