

IFIAR 2020 Member Profile – CMA

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| 1. Jurisdiction | 1.1 Insert the name of the jurisdiction in English: Kingdom of Saudi Arabia. |
| 2. Member¹ | 2.1 Insert the name of the Member, both in the local language and in English: Capital Market Authority هيئة السوق المالية |
| | 2.2 Include relevant contact information, including postal address, telephone numbers, a link to the website and other relevant information: CMA Head Office - King Fahad Road P.O. Box 87171 Riyadh 11642 Tel.: +966 11 205 3000 Website: https://cma.org.sa/en/Pages/default.aspx |
| | 2.3 Include the basis for establishment of the Member, as well as the legislation or regulations which provide the Member the authority/mandate with respect to audit regulation. Please describe with an appropriate level of detail the mission and responsibilities of the Member with respect to audit regulation: <p>The Capital Market Authority (CMA) was established under the Capital Market Law (CML) pursuant to Royal Decree No. (M/30) dated 31/7/2003, as the independent regulator of the capital market in Saudi Arabia. The CMA has a legal personality, financial and administrative autonomy, and it reports directly to the President of the Council of Ministers.</p> <p>CMA is the agency responsible for issuing regulations, rules and instructions, and for applying the provisions of the CML. Sub-paragraph (9) of Paragraph (a) of Article (6) of the CML provides CMA the right to establish standards and conditions required for the auditors who audit the books and records of the Exchange, the Depository Center, brokerage companies, investment funds and joint stock companies listed on the Exchange (commonly referred to as "Entities Subject to Authority's Supervision" or "ESAS".) Paragraph (c) of Article (5) of the CML provides CMA the right to carry on inspections of audit firms. Pursuant to the CML, CMA adopted the Rules for Registering Auditors of Entities Subject to the Authority's Supervision (the "Rules"), which encompass the required</p> |

¹ In the case where there are two or more regulators from the same jurisdiction that have been approved according to Section 2.3 of the IFIAR Charter, they together are considered as one Member. In that case, regulators are requested to include information for both organizations in the Member Profile.

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| | <p>standards and conditions to be met by the ESAS auditors, including for initial and continuing registration with the CMA in order to conduct ESAS audit engagements, as well as the requirements, procedures and obligations for such registration.</p> <p>2.4 Have there been any major changes to the Member’s organization or to the governing legislation since completing last year’s Member Profile?</p> <p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>If yes, please describe these changes with an appropriate level of detail:</p> <p>The CML was amended by Royal Decree No. (M/16) dated 18/09/2019.</p> <p>The amendments aim to enhance the role of the CMA in investor protection, in addition to keeping up with the developments in the international capital markets and contribute in developing the operating institutions in the capital market. The amendments will aid in developing capital market infrastructure institutions and reducing risks, in addition to enabling new classes of securities and attracting foreign investment to the capital market by granting the CMA the power to authorize the capital market infrastructure institutions, which include the Exchange, the Depository Center and the Clearing Center, in addition to regulating the securities clearing center and activating its role in performing its duties and obligations within the capital market infrastructure institutions.</p> <p>The amendments will also help the development of the mechanisms for the compensations of affected investors in the Capital Market by developing the mechanism of the class action suit and activate the affected investors’ compensation funds, and facilitating the provision of the affected persons with the due compensations and expedite the procedures in this regard. The amendments will enhance the efficiency and attractiveness of the Capital Market and raise the level of its soundness and integrity. The amendments will also aim towards achieving fairness in securities transactions, by amending some of the penalties stipulated in the Capital Market Law and granting the Authority some additional powers to address violations in a manner that will enhance the efficiency of deterrence.</p> |
| <p>3. Governing Body Composition and members</p> | <p>3.1 Describe with an appropriate level of detail the current composition of the Member’s governing body, including the ratio between Board members who are independent from the audit profession and those who are not². The audit profession includes, for</p> |

² An individual is independent of the profession even if he is a CPA, Chartered Accountant, or holder of another equivalent qualification, as long as this individual is not employed by or affiliated to a registered audit firm, nor

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| | <p>example: audit firms, professional accountancy bodies and bodies or entities associated with the audit profession.</p> <p>The CMA Board consists of five (5) full-time Commissioners and all are independent from the audit profession.</p> <p>The CMA Board Commissioners are as follows:</p> <ul style="list-style-type: none"> • His Excellency Mr. Mohammed bin Abdullah Elkuwaiz, Chairman • Mr. Youssef Hamad Al-Bilhid, Vice Chairman • Mr. Ahmed Rajeh Al-Rajeh, Member • Mr. Khalid Abdulaziz Al-Homoud, Member • Mr. Khalid Mohammed Al-Solai, Member |
| | <p>3.2 What are the eligibility criteria / requirements and composition requirements for the members of the governing body?</p> <p>The Board consist of 5 Commissioners, who are appointed by Royal Order and shall be natural Saudi Arabian persons, working on a full-time basis, and professionally qualified. The Royal Order shall specify from the Board members the chairman and deputy chairman who will replace the chairman in his absence.</p> <p>Furthermore, the term of membership of the Board shall be five years renewable once. The member shall remain in his office on the termination of his membership term until a successor is appointed.</p> |
| | <p>3.3. Is each member of the governing body independent from the audit profession? The audit profession includes, for example: audit firms, professional accountancy bodies and bodies or entities associated with the audit profession.</p> <p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p> |
| | <p>3.4 If the answer to question 3.3 is “No”, is the majority of the members of the governing body non-practitioner?</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p style="text-align: right;">N/A</p> |
| | <p>3.5 If the answer to question 3.3 is “No”, which safeguards are in place to provide for the Member’s overall independence from the audit profession?</p> <p style="text-align: right;">N/A</p> |
| | <p>3.6 Is there a restriction or recusal process that is applicable to members of the governing body of the Member who are current or former auditors/practitioners?</p> |

employed by or affiliated to of a professional accountancy body, nor employed by or affiliated to bodies or entities associated with the audit profession.

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| | <p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>Does this include a “cooling-off” period for former auditors?</p> <p><input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>If yes to either of the above, please describe:</p> <p>No Commissioners are current auditors/practitioners.</p> <p>All commissioners work on a full-time basis and are restricted to engage in any other profession or job. Although there are no restriction or recusal process that is applicable to former auditors, all Commissioners are subject to the CMA Board Regulation, which, in alignment with the CML, determines the Board governance framework. The CMA Board Regulation provides conflicts of interest rules which - among other things - stipulate that if any Commissioner has a conflict of interest in a subject listed on the Board's agenda, he must disclose it before beginning the discussion of the topic. This must be recorded in the minutes of the meeting. In this case, he should not attend the discussion of that topic, participate in its discussion, nor vote on it.</p> |
| | <p>3.7 Other than the governing body, are members of the profession involved in the Member’s organization (including in any inspections, committee or panel role)?</p> <p><input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>If yes, please describe their role with an appropriate level of detail, including the ratio between those who are independent and those who are not in the relevant function and whether such role includes decisional or control authority:</p> |
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| <p>4. Funding Arrangements</p> | <p>4.1 Describe the main funding arrangements of the Member, including the setting and approval of the budget and the fees, if any:</p> <p>The financial resources of the CMA consist of the following:</p> <ul style="list-style-type: none"> a) Fees for services and commissions charged by the CMA in accordance with the provisions of the CML and the regulations and instructions issued in pursuance thereof, b) Charges against using its facilities, return on its funds, and proceeds of the sale of its assets, c) Fines and financial penalties imposed on violators of the provisions of the CML, d) Funds provided by the government to the CMA, and e) Any other resource determined by the CMA board. |

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| | <p>As part of paragraph (a) above, registered accounting firms pay such fees as prescribed by the CMA for initial registration and continuation as such. The fees are proportionate to the size of each registered audit firm.</p> <p>The CMA has a separate annual budget that is submitted to the Minister of Finance and gets approved in accordance with applicable regulations. Surplus funds collected by the CMA shall be remitted to the Ministry of Finance after deducting all current and capital expenses needed. However, the CMA maintains general reserve equal to the double of its expenditures as reported in previous annual budget.</p> <p>4.2 Is the funding free from undue influence by the profession?</p> <p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>Please describe with an appropriate level of detail the safeguards in place to prevent undue influence by the profession:</p> <p>The profession has no role in determining the fee level or the budget. The fees are set out by the CMA Board.</p> |
| <p>5. Inspection System</p> | <p>5.1 Does the Member have the responsibility for recurring inspections of audit firms undertaking audits of public interest entities (PIEs)?</p> <p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>5.2 Is this responsibility undertaken directly or through oversight of inspection conducted by another organization?</p> <p><input checked="" type="checkbox"/> Directly <input type="checkbox"/> Through Oversight</p> <p>If through oversight of another organization, please describe with an appropriate level of detail the other organization, its relation to the Member, its role, and the arrangements for oversight:</p> <p>CMA, through Audit Supervision Department, is directly responsible for the Inspection of auditors registered with CMA to carry on ESAS audits. The inspection includes both samples of audit files and quality control system. The selection of audit firms subject to inspection is prepared on annual basis based on a risk-based approach.</p> <p>5.3 Please describe with an appropriate level of detail the requirements and practices regarding the frequency of inspections:</p> <p>A risk-based approach inspection plan is prepared and updated on annual basis. The plan will take several risk factors into consideration, including the size of audit firms and industry risk considerations. Inspections of the largest audit firms are undertaken every 1-2 years. Inspections of smaller</p> |

| | audit firms are undertaken on a sliding scale of up to every five years depending on size. | | | | | | | | | | | | |
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| 6. Audit and Financial Market | <p>6.1 Provide the number of audit firms subject to inspections. Include an indication of the number of public interest audits (PIEs) and other audits that fall under the Member’s oversight or mandate.</p> <p>Based on 2018 data, the number of audit firms that audit ESAS amounted to 31 firms. Following is an indication of the number of ESAS:</p> <table border="1" data-bbox="544 723 1355 949"> <thead> <tr> <th>Entity</th> <th>Number</th> </tr> </thead> <tbody> <tr> <td>Listed Companies</td> <td>184</td> </tr> <tr> <td>Authorised Persons</td> <td>96</td> </tr> <tr> <td>Investment Funds</td> <td>542</td> </tr> <tr> <td>Saudi Stock Exchange (Tadawul)</td> <td>1</td> </tr> <tr> <td>Securities Depository Center Company (Edaa)</td> <td>1</td> </tr> </tbody> </table> <p>6.2 What are the sizes and market shares of each of the largest audit firms in the Member’s jurisdiction?</p> <p>Overall, 3 of the big 4 audit firms cover about 51% of the listed companies audit engagements, and the second-tier audit firms cover about 39% of the listed companies audit engagements</p> | Entity | Number | Listed Companies | 184 | Authorised Persons | 96 | Investment Funds | 542 | Saudi Stock Exchange (Tadawul) | 1 | Securities Depository Center Company (Edaa) | 1 |
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| 7. Main Other Responsibilities of the Member <u>within</u> the area of Audit Oversight | <p>7.1 Please indicate whether the Member has responsibility for tasks other than Inspections within the area of Audit Oversight:</p> <p> <input checked="" type="checkbox"/> Registration/Licensing <input type="checkbox"/> Audit and/or Ethics Standard Setting <input type="checkbox"/> Permanent Education of Auditors <input checked="" type="checkbox"/> Enforcement <input type="checkbox"/> Other: _____ </p> <p>7.2 If the Member has the responsibility for <u>Registration/Licensing</u>, please indicate whether this responsibility is undertaken directly or through oversight of Registration/Licensing conducted by another organization?</p> <p> <input checked="" type="checkbox"/> Directly <input type="checkbox"/> Through Oversight </p> <p>If directly, please describe the responsibility with an appropriate level of detail. If through oversight, please indicate the name of the other organization and its composition (i.e. whether practitioners from the audit profession are involved in decision-making). Also give a description of the powers of the other organization and procedure applied, as well as the role of the Member in these procedures.</p> <p>CMA registers audit firms and CPAs undertaking the audits of ESAS. ESAS are not allowed to engage with an audit firm or a CPA unless the firm and</p> | | | | | | | | | | | | |

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| | <p>the CPA are registered with the CMA. To be registered, the audit firm and the CPA need to fulfill registration requirements specified in the Rules for Registering Auditors of Entities Subject to the Authority's Supervision.</p> <p>7.3 If the Member has the responsibility for <u>Audit and/or Ethics Standard Setting</u>, please indicate whether this responsibility is undertaken directly or through oversight of Audit and/or Ethics Standard Setting conducted by another organization?</p> <p><input type="checkbox"/> Directly <input type="checkbox"/> Through Oversight</p> <p>If directly, please describe the responsibility with an appropriate level of detail. If through oversight, please indicate the name of the other organization and its composition (i.e. whether practitioners from the audit profession are involved in decision-making). Also give a description of the powers of the other organization and procedures applied, as well as the role of the Member in these procedures.</p> <p style="text-align: center;">N/A</p> <p>7.4 If the Member has the responsibility for <u>Permanent Education of Auditors</u>, please indicate whether this responsibility is undertaken directly or through oversight of Permanent Education of Auditors conducted by another organization?</p> <p><input type="checkbox"/> Directly <input type="checkbox"/> Through Oversight</p> <p>If directly, please describe the responsibility with an appropriate level of detail. If through oversight, please indicate the name of the other organization and its composition (i.e. whether practitioners from the audit profession are involved in decision-making). Also give a description of the powers of the other organization and procedures applied, as well as the role of the Member in these procedures.</p> <p style="text-align: center;">N/A</p> <p>7.5 If the Member has the responsibility for <u>Enforcement</u>, please indicate whether this responsibility is undertaken directly or through referral to other organization(s)?</p> <p><input checked="" type="checkbox"/> Directly <input type="checkbox"/> Through Referral</p> <p>If through referral, please indicate the name of the other organization and its composition (i.e. whether practitioners from the audit profession are involved in decision-making). Also give a description of the enforcement powers of the other organization and procedures applied, as well as the role of the Member in these procedures.</p> <p>CMA, through Investigation Department, is directly responsible for all enforcement matters related to auditors registered with CMA to carry on ESAS audits.</p> <p>7.6 If the Member has the responsibility for other tasks within the area of Audit Oversight, please describe with an appropriate level of detail:</p> <p style="text-align: center;">N/A</p> |
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| <p>8. Main Other Responsibilities of the Member <u>outside</u> the area of Audit Oversight</p> | <p>8.1 Please describe with an appropriate level of detail whether the Member has responsibility for tasks outside the area of audit oversight such as Supervision of Financial Reporting or Securities Regulation:</p> <p>The CMA is entrusted with the following duties:</p> <ul style="list-style-type: none"> • Regulate and develop the exchange, seek to develop and improve methods of systems and entities trading in securities, and develop the procedures that would reduce the risks related to securities transactions. • Regulate the issuance of securities and monitor securities and dealing in securities. • Regulate and monitor the works and activities of parties subject to the control and supervision of the authority. • Protect citizens and investors in securities from unfair and unsound practices involving fraud, deceit, cheating or manipulation. • Seek to achieve fairness, efficiency and transparency in securities transactions. • Regulate and monitor the full disclosure of information regarding securities and their issuers, the dealings of informed persons and major shareholders and investors and define and make available information which the participants in the market should provide and disclose to shareholders and the public. • Regulate proxy and purchase requests and public offers of shares. • License the establishment of special purposes entity, and regulate and control its business, uses, issuance of securities, the registration in its registry established by the authority and the provisions of its articles of incorporation, and regulate the provisions of the registration of funds transferred to it, including documentation of the rights thereof and its legal standing against others, and the issuance of rules governing thereof. • Regulate the pledge of securities and its enforcement. |
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| <p>9. Major Events and Activities</p> | <p>9.1 Describe any recent major events and activities:</p> <p>On April 8, 2019, the CMA Board approved the 2019 inspection plan and in the 3rd quarter of 2019, the CMA started its first inspection cycle.</p> |