



Alkharashi Certified Accountants & Auditors
Member of  MAZARS

Al-Kharashi - KSA IQAR feedback

Date of closing meeting: 19/09/2013



Executive Summary

Constitutional Form	Absolute monarchy
Area	2,149,690 km ² - 13 th in the world
Population	28.1 million - 46 th in the world
GDP (US\$)	669.5 billion (2011) - 19 th in the world
Oil reserve (barrels)	264.5 billion - 2 nd in the world
Capital	Riyadh (4.7 million people)
Other main cities (million people)	Jeddah (3.2), Mecca (1.5), Medina (1.1), Ad Dammam (0.9)
Official language	Arabic
National currency	Saudi Riyal (SR)
King	King Abdullah bin Abdulaziz Al Saud
Main International Organizations	UN, WTO, FAO, OPEC, IBRD, IMF, G20, GCC
Religions	Muslim (100%)
Ethnic groups	Arab (90%), Afro-Asian (10%)

Source: CIA, IMF, OPEC, World Bank

- IQAR review of the firm Al-Kharashi Certified Accountants, Correspondent of Mazars in the Kingdom of Saudi Arabia, took place in Riyadh, from 16/9/2013 to 19/9/2013, by Jean-Luc Barlet and Bassel Berjaoui
- Processes were reviewed by interview and tested through the engagements files review
- Main contacts were Suleiman Al-Kharashi, managing partner of Al-Kharashi Certified Accountants, Member of Mazars, and Nadj Al-Kharashi, partner of Al-Kharashi Certified Accountants
- Other contacts were Abdullah Al-Msned, partner of Al-Kharashi Certified Accountants, Amr Al-Manadily, Director, Ibrahim Taher, Manager and Mohamed Saudi, Senior
- Key figures: around 50 people including the partners, with offices in Riyadh and Jeddah, and office creation in process in Khobar (near Dhahran and Damman)
- Good level of Saudi staff (28%, firm rated green, 11 on 49 according last Gosi certificate)

Executive Summary

- **AUDIT REQUIREMENTS**

- Companies are required to have annual independent audits. LLCs and JSCs must appoint at least one independent auditor whereas banks and insurance companies are required to have two independent joint auditors.
- Joint stock companies are also required, by the Capital Market Authority, in addition to the annual audit, to have their quarterly financial statements reviewed. The firm auditing these companies have to rotate every 5 years.
- The regulations require that financial statements should include auditor's report, balance sheet, statements of income, cash flows and changes in the shareholders' equity and notes to the financial statements.
- **Filing with MoCI** - All publicly-held and limited liability companies are required to file copies of the board of directors' report and audited financial statements with the MoCI within six months after their financial year-end. In addition, manufacturing entities are required to file a performance report including financial and operational ratios.
- **Filing with DZIT** - All incorporated entities operating within Saudi Arabia, regardless of ownership, are required to file a tax and zakat return at the DZIT and pay any taxes/zakat due.

Executive Summary

- **SAUDI ARABIAN GAAP VS. IFRS**

- Saudi Arabian accounting and audit standards have progressively been converging with the International Financial Reporting Standards (IAS/IFRS) even if few differences remain (Tax, R&D costs ...).

- **SAUDI ARABIAN GAAP AND GAAS, AND OVERSIGHT**

- The Saudi Organization of Certified Public Accountants (SOCPA), in charge of issuing the standards and of the conversion plan, adopted a large part of the International Standards to create the Saudi GAAP and GAAS. Note that the conversion plan is still in progress and that further evolutions may occur.
- SOCPA is also issuing guidance and tools (e.g. evaluation forms for the audit staff, acceptance forms, ...) and monitoring the quality control system of the firm, including the training of the Certified Accountants and staff.
- Additional accounting standards have been issued by the other two main regulators, CMA and SAMA, which regulate all listed companies and, all banks and insurance companies, respectively.

Executive Summary

Compliance with IFAC standards (1 to 4)	2013 IQAR	2012 REQAR/IQAR	2011 REQAR/IQAR
ISQC1	Level 2	Level 3	Level 3
Ethics	Level 1	Level 2	Level 2
ISA	Level 2	Level 2	Level 2

- The firm Al-Kharashi Certified Accountants made good achievements as compared with the previous IQAR review:
 - Ethics:
 - The firm's procedures are certainly in conformity with the IFAC Code of Ethics and with the additional provisions of the CCOI, due to the local law, SOCPA guidance, and the organisation and activities of the firm, as only Tax and Drafting of the Financial Statements, connected to the audit services, are provided by the firm.
 - An updated list of all the Firm's clients and all types of engagements available to the risk management function, as it was stated in the 2012 reporting to SOCPA on the Action Plan implementation.
 - IQAR files reviews confirm that the firm is properly applying SOCPA rules and procedures relating to independence, as SOCPA Acceptance Forms are generally available in the files.
 - Audit standards and methodology:
 - SOCPA adopted a large part of the International Standards to create the Saudi GAAS. Note that the conversion plan is still in progress and that further evolutions may occur. SOCPA is also issuing guidance and tools (e.g. evaluation forms for the audit staff, acceptance forms, ...).
 - Quality control:
 - The engagement quality control review (independent review) is performed by the SOCPA regulators who annually review a selection of audit files.
 - No litigation has been declared in the last SOCPA annual report.

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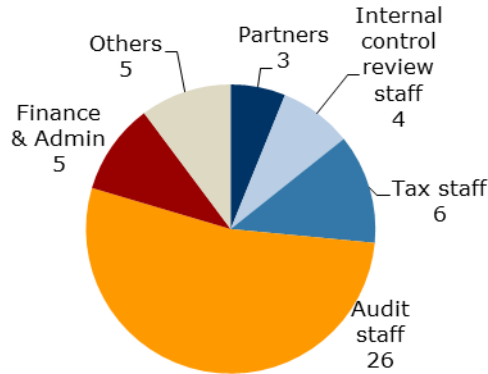
- Nevertheless the firm could improve the following areas:
 - Ethics:
 - Independence declarations should be more systematically filled and documented in the files
 - Audit standards and methodology
 - Some audit methodology practices are only applied on key engagements (use of working programs and questionnaires, supervisor review, ...).
 - The firm should apply audit methodology practices to all its engagement files
 - A training could be organized and provided by MAZARS in Saudi Arabia, on the key steps of the MAZARS Audit Manual Methodology, i.e. Risk Based Approach and Approach Memorandum, Analytical Review and Summary Conclusion Memorandum.
 - Quality control:
 - Internal quality control performs little engagement files reviews
 - A wider scope of review should be selected in order to provide a deep objective assessment of the professional judgments made and of the opinion issued
 - Moreover there could be benefit of a more regular virtuous cycle of effective supervision, quality controls, training taking into consideration findings and the actions decided in the improvement plan.

Key figures

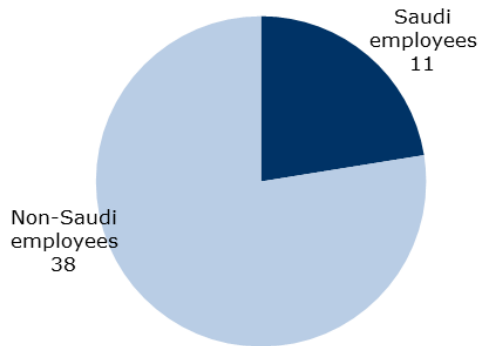
- Turnover (global, by service line)
 - Not communicated

- Staff

Al-Kharashi - Staff distribution



Al-kharashi - employees nationalities



- Other figures

Al-Kharashi - Customers breakdown

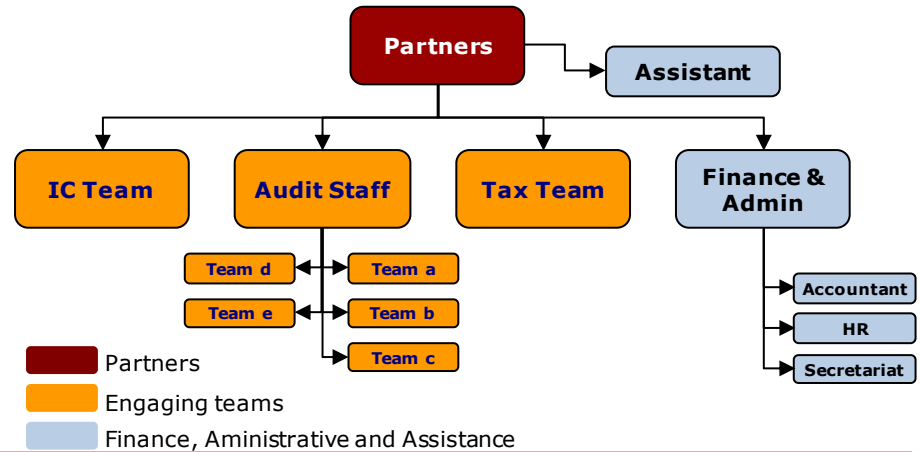
Number of audit files	n/c
Main audit clients	n/c
Number of transnational files	19
Number of PIE files (listed)	2

- IQAR selected files

Al-Kharashi - IQAR selected files

kSAR	Fees
Saudi Industrial Export Company (listed)	79
Saudi Hotels and Resorts Areas Company	88
Areva T&D	30
Six Construct Company Ltd	48
NV Besix SA	48
Saudi Arabia Agencies Limited	337

- Organization chart



PROCEDURES REVIEW (SAQCS)

ISQC1 – Ethics and acceptance

Responsible: Najd Al-Kharashi, Partner

- Independence declarations by all team members including the signing partner are normally signed at each engagement
- Independence declarations used are standard forms delivered by SOCPA
- ➔ Absence of independence declarations in some reviewed engagements
- SOCPA acceptance form is filled by the signing partner

ISQC1 – Quality control

Responsible: Najd Al-Kharashi, Partner

- Al-Kharashi filled the quality control questionnaire of MAZARS (eAssure) and the one of SOCPA (yearly reporting)
 - An updated list of all the Firm's clients and all types of engagements is available to the risk management function, as it was stated in the 2012 reporting to SOCPA on the Action Plan implementation in order to start the implementation of quality controls
- Due to lack in staff numbers assisting the responsible, no engagement has been reviewed recently in the internal quality control process
 - ➔ However regularly SOCPA performs quality control reviews
- 3 partners have the ability to certify accounts
 - ➔ All IQAR selected engagements are certified by the managing partner
- The follow-up of time allocation is done through paper time sheets
 - ➔ Pending task
 - ➔ Monthly process of compilation of time sheets

ISQC1 - HR

Responsible: Suleiman Al-Kharashi, Managing partner

– Recruitment

- Announcements are published in Egyptian and other regional recruitment agencies
- Interviews are only performed by the managing partner
- Contracts are fixed termed for a duration of 2 years

→ Candidate files are not documented/archived

→ Little follow-up of staff exists at HR level

→ There isn't any defined process to determine recruitment needs

– Evaluation

- Al-Kharashi Certified Accountants uses SOCPA evaluation forms which assess (i) the technical knowledge, (ii) the deliverable quality and (iii) the communication skills

→ No completed evaluation was found in all reviewed engagements

→ No benchmark with other audit firms is done: promotion and salary decisions are only taken by the managing partner

→ Absence of allocation of adequate experience and knowledge to each auditor grade

ISQC1 - Training

Responsible: Najd Al-Kharashi, Partner

- SOCPA encourages a minimum hours of training per year:
 - Minimum of 20h per non-CPA employee
 - Minimum of 40h per CPA employee
- SOCPA is monitoring yearly the training of the Certified Accountants and staff, via a training credits reporting system

- ➔ Lack of training was identified mainly on the following topics:
 - ➔ Audit methodology (risk approach, analytical review, summary memorandums on work done, ...)
 - ➔ Roles and expectations per auditor grade
- ➔ Need to prepare the transition to IFRS on January 1st, 2017 i.e. organize with Mazars UK a proper training on transition to IFRS

Audit files reviewed :

- Saudi Industrial Export Company (*listed*)
- Saudi Hotels and Resorts Areas Company
- Areva T&D Saudi Arabia Company Limited (Alstom Group)
- Branches of Six Construct Co Ltd and NV Besix SA
- Saudi Arabia Agencies Limited (SARA)

ENGAGEMENT FILE REVIEW

Saudi Industrial Export Company (1/2)

- Client description:
 - Import and export company, logistics and trade finance
 - Listed on Tadawul (Saudi stock exchange)
 - Engagement team: team b

 - QC team reviewed the audit file
 - Fees = 79 kSAR

 - Positive points:
 - Very formalized and organized General annual file
 - initiation, approach and audit closure phases are documented
 - Independence declarations and acceptance questionnaire are completed and signed
 - Use of a good audit methodology
 - Work program, leads and tests are performed per section
 - The audit trail permits to understand tests (use of cross index, existence of confirmations, ...)
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Saudi Industrial Export Company (2/2)

- Area for improvement:
 - Absence of alternative procedures for non-received bank confirmations
 - Absence of analytical reviews and summary memorandum concluding on work done
 - Some tests justified using accounting or management documentation

Saudi Hotels and Resorts Areas Company (1/2)

- Client description:
 - Operations and management of hotels, real estate and tourism properties
- Engagement team: team b
- QC team reviewed the audit consolidation and subsidiaries files
- Fees = 87.5 kSAR
- Positive points:
 - Organized files
 - Existence of auditor notes and comments per section

Saudi Hotels and Resorts Areas Company (2/2)

- Area for improvement:
 - Absence of General Annual file (approach, work program, materiality, ...)
 - Light audit methodology
 - Absence of a risk approach
 - Absence of an audit trail
 - Between consolidation accounts and statutory accounts
 - Between trial balance and sections
 - Absence of cross references between documents
 - Absence of summary and per section memorandum concluding on work done
 - Absence of convincing justifications (actual justifications using accounts or management analysis)
 - Absence of alternative procedures for non-received confirmations (bank, receivables, payables)
 - Certain difficulties to differentiate between auditor documents and client documents

Areva T&D Saudi Arabia Company Limited

- Client description:
 - Inactive company, with only limited office costs re-invoiced
- Engagement team: team a
- QC team reviewed the audit file
- Fees = 30 kSAR
- Positive points:
 - Even for this small inactive company, basic file exists
 - Intra-group transactions are checked and documented (current account used as bank account)
- Area for improvement:
 - Absence of summary memorandum concluding on work done
 - No supervisor review of the engagement files documented

Branches of Six Construct Co Ltd and NV Besix SA (1/2)

- Client description:
 - Construction activities, one with active construction of a plant in progress and the second one with more limited Branch office costs
 - Engagement team: team a
 - QC team reviewed the audit files
 - Fees = 47.5 kSAR (Sic Construct) & 47.5 kSAR (Besix)
 - Positive points:
 - Even for those 2 small branches in Saudi Arabia, files exist
 - Intra-group transactions are checked and documented (current account used as bank account)
 - Bank reconciliation, and intra-group and related parties transactions are checked and documented
 - Investments in Fixed Assets are audited and documented
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Branches of Six Construct Co Ltd and NV Besix SA (2/2)

- Area for improvement:
 - Absence of summary memorandum concluding on work done
 - No supervisor review of the engagement files documented

Saudi Arabia Agencies Limited (SARA) (1/3)

- Client description:
 - Several entities linked to Chinaware, Retail and Hotel & Restaurant bath and fittings businesses
 - Three main locations: Riyadh, Jeddah and Khobar
 - Engagement team: team a
 - QC team reviewed 3 of 10 audit files, as well as the General Annual file
 - Fees = 337 kSAR
 - Positive points:
 - Files tidy, indexed and well organized
 - Tests performed, with headings including client's name, auditor's name, date and subject ; tests are annotated and concluded
 - Bank reconciliation, and intra-group and related parties transactions are checked and documented
 - Pending points
 - Effective time allocated extracted for the HR/accounting department
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Saudi Arabia Agencies Limited (SARA) (2/3)

- Areas for improvement (1/2)
 - General Annual file
 - Some documents seem to have been added after the IQAR selection (i.e. audit approach)
 - Missing elements
 - Part of the audit approach (audit materiality, budget, preliminary analytical review)
 - Work programs
 - Missing audit trail to reconcile between “consolidated” figures and audited general ledgers by Division and location
 - Management comments on the management letter
 - Independence declaration for one of the auditor
 - Maintenance of the audit engagement
 - Missing evaluations of team members
 - Questionnaires not reviewed/signed by partner/responsible
 - Absence of summary and per section memorandums concluding on work done

Saudi Arabia Agencies Limited (SARA) (3/3)

- Areas for improvement (2/2)
 - Engagement files
 - Audit methodology - absence of:
 - Work program per section
 - Memorandum per section, allowing for findings/issues/comments to be escalated to the summary memorandum
 - Audit trail (leads, cross index)
 - Light tests (justifications of figures using accounting extractions, missing justifications for some test selections, some tests with no objective)
 - Some positive conclusions while anomalies found
 - No supervisor review of the engagement files documented

TAX REVIEW

■ Tax IQAR questionnaire (1/5)

Question	Response
<p>Please explain briefly how the tax practice is structured. Does the tax practice form a separate and distinct service line (and/or legal entity), or is it part of another service line e.g. audit, outsourcing?</p>	<p>As per SOCPA, audit and tax services are compatible: The Firm has thus one partner and a team of 6 persons dedicated to tax services and advisory in the same legal entity as the audit teams</p>
<p>If you have a separate tax service line is it responsible for all taxation services or are some tax functions undertaken in other service lines (e.g. corporate tax compliance may be undertaken by the audit practice, although tax advisory services are provided through the tax service line).</p>	<p>Usually, tax engagements are handled by the tax team. Not all audit clients need the assistance in Zakat (tax for Saudi companies) nor in Tax (for foreign companies, mandatory for turnover >1MSAR)</p>
<p>For tax engagements, are standard engagement terms used? If so, what model is used?</p>	<p>A typical engagement letter exists and is used for all clients. Some adjustments could be added to adapt it to some client extents</p>
<p>Approximately what proportion of the tax turnover is generated from tax compliance work and what proportion is generated from tax advisory services?</p>	<p>80% from annual completed service (tax calculation and preparation of declaration) and 20% from reports (appeals/objections/consulting/...)</p>
<p>Is an appropriate liability cap adopted for tax engagements? What is the procedure for identifying the liability cap?</p>	<p>No</p>
<p>Do you have any specialist dedicated tax teams e.g. expatriate, indirect tax, transfer pricing, property taxes, high net worth individuals etc. If so, please provide brief details including the size of the teams.</p>	<p>No. Only a 30-year experienced consultant is part of the team</p>
<p>Do you have your own tax compliance manual? If yes, please provide a copy</p>	<p>Not internally, the team follows the DZIT law (department of Zakat and income tax)</p>

■ Tax IQAR questionnaire (2/5)

Questions	Yes or No or N/A	If no, please provide details briefly explaining the reason why the procedure is not followed, and any alternative procedures which are adopted instead.
Risk Management Functions		
Is the tax client acceptance procedure in accordance with the procedure described in the Tax Compliance Manual?	n/a	The Firm is a correspondant
For tax engagements, are standard engagement terms used? If so, what model is used?	yes	There is a model which has been created locally
Are separate letters of engagement issued for each tax compliance and tax advisory engagement?	yes	Each year, a new engagement letter is sent to the client for approval
Is an appropriate liability cap adopted for tax engagements? What is the procedure for identifying the liability cap?	n/a	
Is written evidence retained on file of the acceptance of each new tax engagement?	n/a	Acceptance is based on unoffical inside information from the DZIT
Are controls operated to ensure that the acceptance of a tax engagement does not conflict with independence as auditors for audit clients?	n/a	Audit and tax are compatible as per the SOCPA
Is there a tax client continuance procedure in in place? If so please describe/provide copy	No	There are no written procedures, but the team assesses the continuance before each engagement
Is there a procedure for withdrawing from engagements and ceasing to act for clients in place? If so please describe/provide copy	No	No written procedures, but the team assesses the continuance before each engagement

■ Tax IQAR questionnaire (3/5)

Questions	Yes or No or N/A	If no, please provide details briefly explaining the reason why the procedure is not followed, and any alternative procedures which are adopted instead.
<i>Performance of compliance engagements</i>		
Is an up to date list of all compliance clients maintained?	Yes	
Is a system in place for tracking the progress of tax return completion?	Yes	Tracking using an Excel file
Is a system in place to monitor relevant tax deadlines for the submission of returns and making of claims and elections?	Yes	Only for foreign companies which have 180 days to submit the tax declaration
Is a process in place to reconcile tax payments made by clients against their final liability?	Yes	The Firm requests a payment for its clients to accompany the declaration when submitting it to DZIT
Is a system in place to identify tax returns under enquiry and to monitor deadlines by which replies must be provided to the relevant tax authority?	Yes	
Are all tax returns reviewed by a person (other than the preparer) with a suitable level of experience?	Yes	The consultant
Is a tax permanent file maintained to ensure key client information is retained (base costs of assets, gross wealth, trust deeds, relevant contracts etc)?	Yes	
<i>Handling tax advisory engagements</i>		
Do advisory engagement letters clearly set out the scope of work we have been asked to advise on, the relevant background facts and clearly identify areas outside the scope of the engagement?	yes	
When planning advisory engagements, is consideration given to whether we have the skills and technical knowledge to undertake the assignment?	n/a	
Is there a formal review procedure in place for all tax advisory work (and any tax work in which we express an opinion)? If so please describe/provide a copy	No	There is no written procedure

■ Tax IQAR questionnaire (4/5)

Questions	Yes or No or N/A	If no, please provide details briefly explaining the reason why the procedure is not followed, and any alternative procedures which are adopted instead.
Documentation and filing		
Do tax files contain a complete trail of the work we have performed for the client and document how we have arrived at positions we have taken in tax returns or our opinion on advisory assignments?	Yes	
Are tax files retained for a period that extends beyond the latest opportunity possible for the tax authority to make enquiries into the tax filings?	yes	Tax files are kept for at least 5 years (DZIT requirements) then they are archived
Are written records maintained of all oral advice given at meetings or by telephone?	No	
Are separate permanent files maintained containing information of continuing importance to a client? If so, what is the policy	Yes	
Human resources		
Does the firm have a formal tax training process in place to ensure that all tax staff are kept up to date on changes in legislation and practice?	n/a	No process is available. However the firm follows SOCPA trainings and forums of DZIT each year
Does the firm have a talent management system in place for tax professionals to identify high performers?	No	Limited team

■ Tax IQAR questionnaire (5/5)

Questions	Yes or No or N/A	If no, please provide details briefly explaining the reason why the procedure is not followed, and any alternative procedures which are adopted instead.
<i>Tax monitoring and quality control requirements</i>		
Which partner is nominated as having overall responsibility for tax standards in the country?		Abdullah Al-Msned
Who is responsible for undertaking tax quality control assessments in the country?		Abdullah Al-Msned and the Consultant
Is a formal review procedure in place to ensure that all aspect of tax work (on a sample basis) in all offices in the country is reviewed at least every three years?	No	There is no written procedure
Does this review procedure include, at a minimum, a review to ensure that internal procedures have been complied with, a review of individual client files to ensure that work is technically correct and well documented?	n/a	
Following a tax monitoring review is a quality control action plan prepared giving a summary of the overall result of the review and an action plan with timeframe for any corrective action required?	n/a	
Please briefly explain any significant issues which have been identified as a result of the tax monitoring process in the country?	n/a	No significant issue has ever been noted

Thank you for your collaboration



إلى اللقاء