



AUDITORS AND ACCOUNTING STANDARDS MODULE



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MODULE	AU: Auditors and Accounting Standards
CHAPTER	AU-A: Introduction

AU-A.1 Purpose

AU-A.1.1 This Module presents requirements that have to be met by conventional bank licensees with respect to the appointment of external auditors. This Module also sets out certain obligations that external auditors have to comply with, as a condition of their appointment by conventional bank licensees.

AU-A.1.2 This Module is issued under the powers given to the Central Bank of Bahrain (“CBB”) under Decree No. (64) of 2006 with respect to promulgating the Central Bank of Bahrain and Financial Institutions Law 2006 (“CBB Law”). It supplements Article 61 of the CBB Law, which requires licensees to appoint an external auditor acceptable to the CBB.

Legal Basis

AU-A.1.3 This Module contains the CBB’s Directive (as amended from time to time) relating to auditors and accounting standards used by conventional bank licensees, and is issued under the powers available to the CBB under Article 38 of the CBB Law. The Directive in this Module is applicable to all conventional bank licensees.

AU-A.1.4 For an explanation of the CBB’s rule-making powers and different regulatory instruments, see Section UG-1.1.



MODULE	AU: Auditors and Accounting Standards
CHAPTER	AU-A: Introduction

AU-A.2 Module History

AU-A.2.1 This Module was first issued as Module AU (Audit Firms) in July 2004, as part of the first release of Volume 1 (conventional banks) of the CBB Rulebook. It was subsequently reissued in full in July 2006 (and renamed ‘Auditors and Accounting Standards’).

AU-A.2.2 The reissued Module was one of several Modules modified to reflect the introduction of the CBB’s new integrated license framework. Although the new framework did not change the substance of the requirements contained in this Module, the Module was re-issued in order to simplify its drafting and layout and align it with equivalent Modules in other Volumes of the CBB Rulebook.

AU-A.2.3 This Module is dated July 2006. Pages that are subsequently changed in this Module are updated with the end-calendar quarter date in which the change was made: Chapter UG-3 provides further details on Rulebook maintenance and version control.

AU-A.2.4 When the CBB replaced the BMA in September 2006, the provisions of this Module remained in force. Volume 1 was updated in October 2007 to reflect the switch to the CBB; however, new calendar quarter dates were only issued where the update necessitated changes to actual requirements.

AU-A.2.5 A list of changes made to this Module is provided below:

Module Reference	Change Date	Description of Changes
Whole Module	July 2006	Module renamed as Module AU (Auditors and Accounting Standards). Text redrafted but substance of requirements left unchanged.
AU-A.1	10/2007	New Rule AU-A.1.3 introduced, categorising this Module as a Directive.
AU-1.2	10/2007	Rule AU-1.2.3 redrafted to clarify reporting obligation.
AU-1.5	10/2007	Paragraphs AU-1.5.4 and AU-1.5.6 updated to reflect CBB Law requirements on auditor independence.
AU-3.1	01/2009	Paragraph AU-3.1.1 updated in respect of agreed upon procedures report for review of PIR by external auditors.
AU-5	01/2009	New Chapter inserted for the role of the reporting accountant.
AU-5.1	10/2009	Clarification of fee arrangements for reporting accountants.
AU-A.1.3	01/2011	Clarified legal basis.
AU-1.1, AU-1.2, AU-1.5, AU-2.1, AU-3 and AU-5	01/2011	Various minor amendments made for consistency in formatting
AU-3.5	01/2011	Added new Section on report on material differences to be in line with Volume 2.



MODULE	AU: Auditors and Accounting Standards
CHAPTER	AU-A: Introduction

AU-A.2 Module History (continued)

AU-A.2.5 (continued)

Module Reference	Change Date	Description of Changes
AU-3.3.2	04/2011	Added cross reference to Module FC and clarified due date of report.
AU-3.5.1	04/2011	Corrected name of return.
AU-3.2	10/2011	Clarification of existing requirement for the Agreed Upon Procedures Report and setting a deadline for the submission of the report.
AU-5	10/2011	Chapter amended and content moved to Section BR-6.5 and retitled as Role of the Appointed Expert.
AU-2.2.1	04/2012	Corrected cross reference.
AU-1.3.1	07/2013	Removed potential exemption regarding audit partner rotation.
AU-3.2.1	07/2013	Removed potential exemption for external auditor to review published financial disclosures prior to their publication.
AU-3.3.1	07/2013	Clarified that an approved consultancy firm can also provide the report on compliance with financial crime rules required under Section FC-4.3.
AU-4.1.2	07/2013	Corrected typo.
AU-4.1.3	07/2013	Changed Guidance to Rule.
AU-3.6	01/2014	New Section added dealing with the report on compliance with remuneration rules.
AU-3.5.1	04/2014	Removed reference to monthly statements of assets and liabilities.
AU-3.7	04/2014	New Section added on the Report on Eligible Accounts for the Deposits/Unrestricted Investment Accounts Protection Funds.
AU-1.1.1A	07/2014	Added guidance clarifying the information required when seeking the CBB's approval for appointment or re-appointment of the external auditor.
AU-3.6	07/2014	Where a conventional bank licensee has no approved persons or material risk-takers whose total annual remuneration is in excess of BD100,000, the report on compliance with remuneration rules need not be completed by the external auditor.
AU-1.5.4	10/2014	Clarified wording of guidance.
AU-3.1.3	04/2015	Existing exemptions in respect of PIR review will cease as at 31st December 2014 for all Bahraini conventional bank licensees.
AU-3.6.1	07/2015	Clarified that the external auditor or an approved consultancy firm can also provide the report on the bank's compliance with the remuneration Rules outlined in Chapter HC-5.
AU-3.2.4	01/2016	Aligned as per the requirements of Module BR.
AU-3.2.3	07/2017	Amended agreed upon procedures report submission deadline .
AU-1.5.1	04/2019	Deleted Paragraph on Financial Transactions with Auditor.
AU-B.1.2	04/2020	Amended Paragraph.
AU-1.1.4	04/2020	Amended Paragraph.
AU-1.5.5	04/2020	Amended Paragraph.
AU-3.2.1	04/2020	Amended Paragraph.
AU-4.1.1	04/2020	Amended Paragraph.
AU-3.3.2	07/2021	Amended Paragraph.



MODULE	AU: Auditors and Accounting Standards
CHAPTER	AU-B: Scope of Application

AU-B.1 Conventional Bank Licensees

AU-B.1.1 The contents of this Module – unless otherwise stated – apply to all conventional bank licensees.

AU-B.1.2 The contents of Chapters AU-1 to AU-4 apply to both Bahraini conventional bank licensees and branches of foreign bank licensees.



MODULE	AU: Auditors and Accounting Standards
CHAPTER	AU-B: Scope of Application

AU-B.2 Auditors

AU-B.2.1 Certain requirements in this Module indirectly extend to auditors, by virtue of their appointment by conventional bank licensees. Auditors appointed by conventional bank licensees must be independent (cf. Sections AU-1.4 and AU-1.5). Auditors who resign or are otherwise removed from office are required with their licensees to inform the CBB in writing of the reasons for the termination of their appointment (cf. Sections AU-1.2). Other requirements are contained in Sections AU-1.3 (Audit partner rotation) and AU-3 (Auditor reports).



MODULE	AU: Auditors and Accounting Standards
CHAPTER	AU-1: Auditor Requirements

AU-1.1 Appointment of Auditor

AU-1.1.1

Conventional bank licensees must obtain prior written approval from the CBB before appointing or re-appointing their auditor.

- AU-1.1.1A When seeking the CBB's approval for the appointment or re-appointment of the external auditor, the request for approval should specify the name of the audit firm, the name of the responsible partner, as well as the year which the responsible partner was initially appointed by the conventional bank licensee.
- AU-1.1.2 As the appointment of auditors normally takes place during the course of the firm's annual general meeting, conventional bank licensees should notify the CBB of the proposed agenda for the annual general meeting in advance of it being circulated to shareholders. The CBB's approval of the proposed auditor does not limit in any way shareholders' rights to subsequently reject the Board's choice.
- AU-1.1.3 The CBB, in considering the proposed (re-) appointment of an auditor, takes into account the expertise, resources and reputation of the audit firm, relative to the size and complexity of the licensee. The CBB will also take into account the track record of the audit firm in auditing conventional bank licensees within Bahrain; the degree to which it has generally demonstrated independence from management in its audits; and the extent to which it has identified and alerted relevant persons of significant matters. Finally, the CBB will also consider the audit firm's compliance with applicable laws and regulations (including legislative Decree No. 26 of 1996; the Ministry of Industry and Commerce's Ministerial Resolution No. 6 of 1998; and relevant Bahrain Stock Exchange regulations).
- AU-1.1.4 In the case of branches of foreign bank licensees, the CBB will also take into account who acts as the auditor of the parent firm. As a general rule, the CBB does not favour different parts of a banking firm or group having a different auditor.



MODULE	AU: Auditors and Accounting Standards
CHAPTER	AU-1: Auditor Requirements

AU-1.2 Removal or Resignation of Auditor

AU-1.2.1

Conventional bank licensees must notify the CBB as soon as they intend to remove their auditor, or if their auditor intends to resign, with an explanation of their decision, or as soon as their auditor resigns.

AU-1.2.2

Conventional bank licensees must ensure that a replacement auditor is appointed (subject to the CBB approval as per Section AU-1.1), as soon as reasonably practicable after a vacancy occurs, but no later than three months.

AU-1.2.3

In accordance with the powers granted to CBB under Article 63 of the CBB Law, auditors of conventional bank licensees and their licensees must inform the CBB in writing, should they resign or their appointment as auditor be terminated, within 30 calendar days, of the event occurring, setting out the reasons for the resignation or termination.



MODULE	AU: Auditors and Accounting Standards
CHAPTER	AU-1: Auditor Requirements

AU-1.3 Audit Partner Rotation

AU-1.3.1

Conventional bank licensees must ensure that the audit partner responsible for their audit does not undertake that function more than five years in succession.

AU-1.3.2

Conventional bank licensees must notify the CBB of any change in audit partner.



MODULE	AU:	Auditors and Accounting Standards
CHAPTER	AU-1:	Auditor Requirements

AU-1.4 Auditor Independence

AU-1.4.1

Article 61(d) of the CBB Law imposes conditions for the auditor to be considered independent. Before a conventional bank licensee appoints an auditor, it must take reasonable steps to ensure that the auditor has the required skill, resources and experience to carry out the audit properly, and is independent of the licensee.

AU-1.4.2

For an auditor to be considered independent, it must, among other things, comply with the restrictions in Section AU-1.5.

AU-1.4.3

If a conventional bank licensee becomes aware at any time that its auditor is not independent, it must take reasonable steps to remedy the matter and notify the CBB of the fact.

AU-1.4.4

If in the opinion of the CBB, independence has not been achieved within a reasonable timeframe, then the CBB may require the appointment of a new auditor.



MODULE	AU: Auditors and Accounting Standards
CHAPTER	AU-1: Auditor Requirements

AU-1.5 Licensee/Auditor Restrictions

~~Financial Transactions with Auditor~~

AU-1.5.1

[This Paragraph was deleted in April 2019].

Outsourcing to Auditor

AU-1.5.2 Section OM-3.7 generally prohibits conventional bank licensees from outsourcing their internal audit function to the same firm that acts as their external auditor. However, the CBB may allow short-term outsourcing of internal audit operations to a conventional bank licensee's external auditor, to meet unexpected urgent or short-term needs (for instance, on account of staff resignation or illness). Any such arrangement will normally be limited to a maximum period of one year and is subject to the CBB prior approval.

Other Relationships

AU-1.5.3

Conventional bank licensees and their auditor must comply with the restrictions contained in Article 217 (c) of the Commercial Companies Law (Legislative Decree No. (21) of 2001), as well as in Article 61(d) of the CBB Law.

AU-1.5.4 Article 217(c) of the Commercial Companies Law prohibits an auditor from (i) being the chairman or a member of the Board of Directors of the company he/she audits; (ii) holding any managerial position in the company he/she audits; and (iii) acquiring any shares in the company he/she audits, or selling any such shares he/she may already own, during the period of his audit. Article 61 (d) of the CBB Law prohibits an auditor from (i) being the chairman or a member of the Board of Directors of the company he/she audits; (ii) holding any managerial position in the company he/she audits; and (iii) acquiring any shares in the company he/she audits, or selling any such shares he/she may already own, during the period of his audit. Furthermore, the auditor must not be a relative (up to the second degree) of a person assuming management or accounting duties in the company.

AU-1.5.5 The restrictions in Paragraph AU-1.5.3 apply to branches of foreign bank licensees as well as Bahraini conventional bank licensees.

AU-1.5.6

A partner, Director or manager on the engagement team of auditing a conventional bank licensee may not serve on the Board or in a controlled function of the licensee, for two years following the end of their involvement in the audit, without prior authorisation of the CBB.



MODULE	AU:	Auditors and Accounting Standards
CHAPTER	AU-1:	Auditor Requirements

AU-1.5 Licensee/Auditor Restrictions (continued)

AU-1.5.7 [This Guidance was deleted in January 2011].

Definition of 'Auditor'

AU-1.5.8

For the purposes of Section AU-1.5, 'auditor' means the partners, Directors and managers on the engagement team responsible for the audit of the conventional bank licensee.



MODULE	AU: Auditors and Accounting Standards
CHAPTER	AU-2: Access

AU-2.1 CBB Access to Auditor

AU-2.1.1

Conventional bank licensees must waive any duty of confidentiality on the part of their auditor, such that their auditor may report to the CBB any concerns held regarding material failures by the conventional bank licensee to comply with the CBB requirements.

AU-2.1.2

The CBB may, as part of its on-going supervision of conventional bank licensees, request meetings with a licensee's auditor. If necessary, the CBB may direct that the meeting be held without the presence of the licensee's management or Directors.



MODULE	AU: Auditors and Accounting Standards
CHAPTER	AU-2: Access

AU-2.2 Auditor Access to Outsourcing Providers

AU-2.2.1

Rule OM-3.5.1 (c) on outsourcing agreements between conventional bank licensees and outsourcing providers requires licensees to ensure that their internal and external auditors have timely access to any relevant information they may require to fulfil their responsibilities. Such access must allow them to conduct on-site examinations of the outsourcing provider, if required.



MODULE	AU: Auditors and Accounting Standards
CHAPTER	AU-3: Auditor Reports

AU-3.1 Review of Quarterly Prudential Information Returns

AU-3.1.1

Conventional bank licensees must arrange for their auditor to review the licensee's quarterly Prudential Information Returns to the CBB, unless otherwise exempted in writing by the CBB. The review must be made in the form of an Agreed Upon procedures Report (as outlined in BR-3).

AU-3.1.2

Conventional bank licensees are required to submit a quarterly Prudential Information Return (PIR). Conventional bank licensees may apply in writing to CBB for an exemption from the requirement that the PIR be reviewed by the licensee's external auditor: this exemption would normally only be given where the licensee had established a track record of accurate and timely reporting, and there were no other supervisory issues of concern. Further details on the CBB's reporting and related requirements, including the precise scope of the auditor's review and attestation, are contained in Module BR (CBB Reporting).

AU-3.1.3

For Bahraini conventional bank licensees, all existing exemptions in respect of PIR review as at 31st December 2014 will cease.



MODULE	AU: Auditors and Accounting Standards
CHAPTER	AU-3: Auditor Reports

AU-3.2 Review of Financial Disclosures

AU-3.2.1 Conventional bank licensees that are required to publish financial disclosures in accordance with Chapters PD-2 and PD-3 must arrange for their external auditor to review these prior to their publication.

AU-3.2.2 Chapter PD-2 requires branches of foreign bank licensees operating as retail banks to publish on a semi-annual basis summary information on their balance sheet and profit and loss account, in the same format as their annual audited accounts. Chapter PD-3 requires all locally incorporated conventional bank licensees to publish quarterly financial statements, in accordance with International Accounting Standard 34 (Interim Financial Reporting).

AU-3.2.3 Locally incorporated banks must arrange for their external auditor to review the annual disclosures required in Module PD, Section PD-1.3 and Chapter PD-6, prior to their submission to the CBB or their publication. This review must be in the form of an agreed-upon procedures report (see also PD-A.2.4). The report must be submitted to the CBB within 4 months of the year end of the concerned bank (see also Paragraph BR-1.1.3).

AU-3.2.4 Locally incorporated banks must arrange for their external auditor to review the disclosures in the half-yearly financial statements required by Module PD, Paragraph PD-3.1.6 prior to their submission to the CBB or their publication. This review must be in the form of an agreed upon procedure report. This report must be submitted to the CBB within 2 months of the end of the half-year reporting period of the concerned bank (see also Section BR-2.2).



MODULE	AU: Auditors and Accounting Standards
CHAPTER	AU-3: Auditor Reports

AU-3.3 Report on Compliance with Financial Crime Rules

AU-3.3.1 Conventional bank licensees must arrange for their external auditor or a consultancy firm approved by the CBB as per Paragraphs FC-4.3.2 and FC-4.3.2A, to report on the licensee's compliance with the requirements contained in Module FC (Financial Crime), at least once a year.

AU-3.3.2 The report specified in Rule AU-3.3.1 must be in the form agreed by the CBB, and must be submitted to the Compliance Directorate at the CBB by the 30th of **June** of the following year (See Paragraph FC-4.3.5).

AU-3.3.3 The context to the above requirement can be found in Section FC-4.3.



MODULE	AU: Auditors and Accounting Standards
CHAPTER	AU-3: Auditor Reports

AU-3.4 Review and Validation of Internal Models

- AU-3.4.1** Conventional bank licensees seeking the CBB approval for their use of internal models for the calculation of regulatory capital requirements, must arrange for their external auditor to validate the soundness of the model concerned. This external review must be undertaken at least once a year, unless otherwise exempted in writing by the CBB.
- AU-3.4.2 Before granting its approval for Bahraini conventional banks to use internal models for the measurement of market risk in the context of regulatory capital calculations, the CBB requires such models to be validated by both the internal and external auditors of the bank (see Chapter CA-9). The CBB will review the validation procedures performed by the internal and external auditors, and may independently carry out further validation procedures.
- AU-3.4.3 The specific requirements and procedures for external validation of models are contained in Section CA-9.8.
- AU-3.4.4 Exemptions from the external validation requirement are normally only given where a track record of satisfactory validations has been developed over several years, and where the CBB has no other material supervisory concerns regarding the licensee concerned.



MODULE	AU: Auditors and Accounting Standards
CHAPTER	AU-3: Auditor Reports

AU-3.5 Report on Material Differences

AU-3.5.1

Conventional bank licensees must arrange for their external auditor to provide to the CBB explanations for any material differences in data reported in the bank's audited or reviewed accounts and in the Prudential Information Returns (PIR).



MODULE	AU: Auditors and Accounting Standards
CHAPTER	AU-3: Auditor Reports

AU-3.6 Report on Compliance with Remuneration Rules

AU-3.6.1 Unless specifically excluded in accordance with Paragraph AU-3.6.3, conventional bank licensees must arrange for their external auditor or a consultancy firm approved by the CBB as per Paragraph BR-4A.3.2, to report on the bank's compliance with the requirements contained in Chapter HC-5, at least once a year.

AU-3.6.2 The report specified in Rule AU-3.6.1 must be in the form agreed by the CBB, and must be submitted by the bank to the supervisory point of contact at the CBB when the audited financial statements are submitted, i.e. within 3 months of the bank's year end (See Section BR-4A.3).

AU-3.6.3 Where a conventional bank licensee has no:

- (a) Approved persons; or
- (b) Material risk-takers

whose total annual remuneration (including all benefits) is in excess of BD100,000, Paragraph AU-3.6.1 does not apply. In this instance, an annual notification must be sent to the CBB once it is determined that this situation applies.



MODULE	AU: Auditors and Accounting Standards
CHAPTER	AU-3: Auditor Reports

AU-3.7 Report on Eligible Accounts for the Deposits/Unrestricted Investment Accounts Protection Funds

AU-3.7.1

Conventional bank licensees must arrange for their external auditor to confirm the accuracy of the data reported on the Eligible accounts report for the deposits/unrestricted investment account protection funds (Appendix BR-16) as required under Paragraph BR-1.4.2.

AU-3.7.2

The report from the external auditor required under Paragraph AU-3.7.1 must be submitted to the CBB at the same time as the due date for Appendix BR-16, that is, two months after the financial year end.



MODULE	AU: Auditors and Accounting Standards
CHAPTER	AU-4: Accounting Standards

AU-4.1 General Requirements

AU-4.1.1 Conventional bank licensees must comply with International Financial Reporting Standards / International Accounting Standards.

AU-4.1.2 Branches of foreign bank licensees that do not, at the parent company level, apply IFRS/IAS are still required under Paragraph AU-4.1.1 to produce pro-forma accounts for the Bahrain branch in conformity with these standards. Where this requirement is difficult to implement, the overseas conventional bank licensee should contact the CBB in order to agree a solution.

AU-4.1.3 Paragraph AU-4.1.1 requires conventional bank licensees that maintain Islamic ‘windows’ or units to apply relevant AAOIFI Financial Accounting Standards, depending on the type of Islamic finance contracts entered into. In particular, attention is drawn to AAOIFI Financial Accounting Standard 18, ‘Islamic Financial Services Offered by Conventional Financial Institutions’.



MODULE	AU: Auditors and Accounting Standards
CHAPTER	AU-5: Role of External Auditor as Appointed Expert

AU-5.1 General Requirements

AU-5.1.1 In accordance with Articles 114 and 121 of the CBB Law, the CBB may appoint appointed experts to undertake on-site examinations or report by way of investigations on specific aspects of a bank's business. External auditors may be called upon to be appointed experts and should be aware of their role in that capacity by referring to Section BR-6.5.

[The Rules and Guidance in this Section were moved to Section BR-6.5 in October 2011].



MODULE	AU: Auditors and Accounting Standards
CHAPTER	AU-5: Role of External Auditor as Appointed Expert

AU-5.2 The Required Report

[The Rules and Guidance in this Section were moved to Section BR-6.5 in October 2011].



MODULE	AU:	Auditors and Accounting Standards
CHAPTER	AU-5:	Role of External Auditor as Appointed Expert

AU-5.3 Other Notifications to the CBB

[The Rules and Guidance in this Section were moved to Section BR-6.5 in October 2011].



MODULE	AU: Auditors and Accounting Standards
CHAPTER	AU-5: Role of External Auditor as Appointed Expert

AU-5.4 Permitted Disclosure by the CBB

[The Rules and Guidance in this Section were moved to Section BR-6.5 in October 2011].



MODULE	AU:	Auditors and Accounting Standards
CHAPTER	AU-5:	Role of External Auditor as Appointed Expert

AU-5.5 Trilateral Meeting

[The Rules and Guidance in this Section were moved to Section BR-6.5 in October 2011].