AUDIT COMMITTEE REGULATION IN INSURANCE AND/OR REINSURANCE COMPANIES
PART 1: INTRODUCTION

First: Purpose

Second: Definitions

Third: Scope

Fourth: Compliance requirements

Fifth: Non-Compliance

PART 2: GENERAL PROVISIONS

First: Board of Directors Responsibilities

Second: Board of directors Obligations

PART 3: SPECIAL PROVISIONS

First: Scope of Authority

Second: Confidentiality

Third: Conflict of Interests

Fourth: Financial Transactions with the Company

PART 4: AUDIT COMMITTEE FORMATION AND ORGANIZING ITS ACTIVITIES

First: Committee Formation

Second: Member Appointment and Term

Third: Membership Organization

Fourth: Appointing the Chairman and the Secretary of the Committee

Fifth: Committee Members’ Remuneration

Sixth: Committee’s Tasks

Seventh: Committee’s Responsibility

Eighth: Committee’s Meetings

Ninth: Committee’s Decisions

Tenth: Committee’s Meetings Attendance

Eleventh: Audit Committee Action Plan

Twelfth: Committee Connection with External Auditors
Part 1: Introduction

First: Purpose

1. This Regulation enumerates SAMA's requirements in terms of organizing Audit Committees' activities in Insurance and/or Reinsurance Companies.

2. The objective of this Regulation is to compel Insurance and/or Reinsurance Companies to apply high standards to Audit Committees' activities.

3. Insurance and/or Reinsurance Companies shall comply with this Regulation in conjunction with the Supervision of Cooperative Insurance Companies Control Law promulgated by Royal Decree M/32 dated 2/6/1424 H and its Implementing Regulations, and the Insurance Corporate Governance Regulations and the Requirement for Appointments to Senior Positions in Financial Institutions Supervised by the Saudi Arabian Monetary Authority and relevant Laws, Regulations, Instructions and Decisions.

Second: Definitions

4. Without prejudice to the provisions of article one of the Implementing Regulations of Supervision of Cooperative Insurance Companies Control Law, the following terms used in this Regulation shall have the meanings shown below unless the context otherwise requires:

a. **SAMA**: Saudi Arabian Monetary Authority.
b. **Regulation**: The Audit Committee Regulation in Insurance and/or Reinsurance Companies.

c. **Company or Companies**: Insurance and/or Reinsurance Companies.

d. **Board of directors**: Board of Directors of the Insurance and/or Reinsurance Company.

e. **Senior Management**: the Managing Director, Chief Executive Officer, General Manager, and their deputies; Chief Financial Officer; Managers of key departments; and officers of Risk Management, Internal Audit, and Compliance Departments, and in addition to occupants of any other positions determined by SAMA.

f. **Audit Committee (The Committee)**: an independent committee that reports directly to the Company's Board. The committee's mandate includes monitoring the performance and implementation of the internal control systems of the Company, ensuring the effectiveness and efficiency of those systems, verifying the implementation of internal control decisions and actions, and ensuring compliance with the Supervision of Cooperative Insurance Companies Control Law and its Implementing Regulations, other applicable Laws, Regulations, and Instructions in addition to the requirements set forth in this Regulation.

(ب) اللائحة: لائحة لجان المراجعة في شركات التأمين و/أو إعادة التأمين.

(ج) الشركة أو الشركات: شركات التأمين و/أو إعادة التأمين.

(د) مجلس الإدارة: مجلس إدارة شركة التأمين و/أو إعادة التأمين.

(ه) الإدارة العليا: العضو المنتدب والرئيس التنفيذي والمدير العام ونوابهم، والمدير المالي، ومديرو الإدارات الرئيسية، والمسؤولون عن وظائف إدارة المخاطر والمراجعة الداخلية والالتزام في الشركة، ومن في حكمهم، وشاغلوا أي مناصب أخرى تحددها المؤسسة.

(و) لجنة المراجعة (اللجنة): لجنة مستقلة ترتبط مباشرةً بمجلس إدارة الشركة وتختص بمراقبة أداء وتطبيق أنظمة الرقابة الداخلية في الشركة والتأكد من كفاءة وفعالية الأنظمة والتحقق من تنفيذ القرارات المتعلقة بالرقابة الداخلية، وضمان الالتزام بتطبيق نظام مراقبة شركات التأمين التعاوني ولائحته التنفيذية والأنظمة واللوائح والتعليمات الأخرى ذات العلاقة. إضافةً إلى الاختصاصات الواردة في هذه اللائحة.
g. **Compliance Control Department (Compliance Department):** an independent department that reports to the Audit Committee and administratively to the Chief Executive Officer (CEO). Its mandate is to ensure the Company’s compliance with the laws, regulations, instructions issued by SAMA and the other Regulatory Bodies. The department submits, to the audit committee, reports on the company’s violations of the Laws, Regulations, and Instructions. This definition applies to the Compliance Officer.

h. **Internal Audit Department:** an independent department that reports to the Audit Committee and administratively to the Chief Executive Officer (CEO). Its mandate is to set the audit action plan for the Company, to monitor the Company’s performance through evaluating and verifying the operations to ensure that there are no financial or non-financial violations of the Company’s bylaws, to ensure the compliance with the internal control systems, to ensure effectiveness and efficiency of those systems, and to verify the implementation of internal audit decisions. The department submits its reports to the Audit Committee. This definition applies to the Internal Auditor.

**Third: Scope**

5. This Regulation applies to Insurance and/or Reinsurance Companies and SAMA is entitled to compel any Insurance Service Providers to abide by this Regulation when it is necessary.
Fourth: Compliance requirements

6. Companies must establish written procedures for internal control to ensure and monitor compliance with this Regulation. Companies shall also ensure compliance of contracted parties with this Regulation.

7. Companies must maintain adequate records to demonstrate compliance with this Regulation, including but not limited to, the Audit Committee’s minutes of meetings, reports and recommendations.

Fifth: Non-Compliance

8. Non-compliance with the provisions set forth in this Regulation will be deemed a breach of the Law on Supervision of Cooperative Insurance Companies and its Implementing Regulation and the licensing terms and may subject the Company to regulatory penalties.
Part 2: General Provisions

First: Board of Directors Responsibilities

9. The Board of Directors is fully responsible for the Audit Committee’s businesses in pursuance of the regulations and instructions under which the Company operates.

10. The Board of Directors is responsible for ensuring the efficiency and effectiveness of the controls and financial reports and for safeguarding the assets of the Company.

Second: Board of Directors’ Obligations

Taken into consideration that the Audit Committee formed by the Board of Directors and delegated to carry out specific actions, therefore, the Board of Directors obligations shall include but not be limited to the following:

11. The Board of Directors and senior management of the Company shall provide all that is required from them in order to facilitate the work of the Audit Committee, Internal Audit Department and Compliance Control Department.

12. The Board of Directors shall ensure that the Company has in place an appropriate organizational structure, internal policies and regulations that must be periodically reviewed, and the system and methodology for reporting within the company on the different issues that fall within the remit of the Audit Committee.
13. The Board of Directors shall formulate the responsibilities and functions of the Audit committee and incorporate them in the minutes of a board meeting, including the authority to investigate any activity within its terms of reference and have access to any information it may need.

14. The Board of Directors shall select the Audit Committee members in accordance with Selecting Procedures of the Audit Committee’s members, manner in which the Audit Committee monitors its activities and the duration of the Audit Committee issued by the General Assembly upon a recommendation of the Board. In addition, the Board of Directors shall fix their duration terms, schedule their rotations and ensure their meetings are held on a sufficient periodic basis.

15. The Board of Directors shall follow up the Audit Committee’s work, ensure that it performs its assigned responsibilities and duties and discuss relevant issues with it, including reports prepared by the Audit Committee. The Board shall also ensure that the Audit Committee follow up with the local and international developments in accounting standards.

16. The Board of Directors shall ensure that the Audit Committee plays an oversight and supervisory role and does not exercise executive functions or make administrative decisions.

First: Scope of Authority

17. The Audit Committee is entitled to contact directly the Board of Directors, senior management of the Company, all employees, committees, and legal advisors, internal and external auditors in the Company's Head Office and/or branches and other parties related to the Company. It may also review all private and confidential records and documents necessary to perform its activities. The Audit Committee also has the right to seek the assistance of any external consultant to do specific tasks in order to assist it in performing its work.

Second: Confidentiality

18. All Audit Committee’s members shall maintain the confidentiality of all the topics related to the Audit Committee’s activities, even after he/she vacates the Audit Committee membership.

Third: Conflict of Interests

19. An Audit Committee’s member shall not have any direct or indirect interest in the Company’s business and contracts concluded by it.

20. An Audit Committee’s member shall not take part in any business that might compete with the Company or trade in the activities performed by the Company. The Company has the right to claim indemnification for any losses caused by such business or act.

Audit Committee Regulation in Insurance and/or Reinsurance Companies
Fourth: Financial Transactions with the Company

21. The Company shall not issue or renew any insurance policy for any of the Audit Committee’s members or parties related thereto before the full payment of the due premium. If any of the Audit Committee's members submits a request for the payment of a claim under a policy issued to him or her by the Company, the claim should be treated in accordance with procedures and rules set forth by the company without any exception or preference. The Compliance Officer should be notified of any payment due to the member.
Part 4: Setting up the Audit Committee and Organizing its Activities

First: Committee Formation

22. The Audit Committee shall be formed in accordance with Audit Committee’s Selecting Procedures, the duration of its term and the monitors of its activities that issued by the General Assembly upon a recommendation of the Board.

Second: Member Appointment and Term

23. The Board of Directors, after obtaining SAMA’s written non-objection, shall appoint the Audit Committee’s Chairman and members for a three-year term.

24. The Board may renew the term of the Audit Committee or a member thereof for another three-year term for one time only.

25. The Board may appoint new Audit Committee members in case of electing a new Board of Directors after obtaining SAMA’s written non-objection.

26. SAMA is entitled to withdraw its non-objection of any member or members of the Audit Committee in case of any violation by any of them of the provisions of this Regulation, the Supervision of Cooperative Insurance Companies Control Law and its Implementing Regulation and any relevant Regulations or Instructions, and take actions it deems appropriate against the Company and the persons concerned.
27. The Board of Directors, after obtaining SAMA's written non-objection, may dismiss an Audit Committee member if he or she ceases to satisfy membership terms or violates the provisions of this Regulation, the Supervision of Cooperative Insurance Companies Control Law and its Implementing Regulation or any relevant Regulations and Instructions.

28. An Audit Committee member has the right to resign, after providing the resignation request to the Board one month before its resignation becomes effective. The Company shall notify SAMA in writing of the resignation of a member of the Audit Committee and the reasons thereof and provide SAMA with a copy of the resignation request within five (5) working days from the date of the resignation.

29. An Audit Committee member shall be deemed resigned if he or she fails to attend any meetings of the Audit Committee for more than three consecutive times without presenting an excuse acceptable to the Board.

30. If there is a vacant seat in the Audit Committee during the membership term, the Board, after obtaining SAMA's written non-objection, shall appoint another member within a month of the vacancy date to fill the vacant position. The new member shall complete his or her predecessor's term.

31. The membership of an Audit Committee member shall terminate automatically upon the occurrence of any change that would breach the membership's terms set forth in this Regulation or any other Regulations, Instructions or Decisions issued by SAMA. The Audit Committee member shall immediately inform the Company in writing upon the occurrence of such a change and he/she shall not attend any meeting of the Audit Committee held after the date of the change.
Third: Membership Organization

32. The Audit Committee shall consist of at least three members and at most five members, the majority of which shall be from outside the Board.

33. The Audit Committee members shall not include the Company’s executives, employees, or consultants.

34. The Audit Committee members shall not include board members, executives, employees, consultants, representatives of any parties connected to the Company, including but not limited to:
   a. Major shareholders and founders.
   b. External auditors.
   c. Suppliers.
   d. The Company's customers.
   e. The legal persons who have first-degree relationships with the Company’s Board of Directors or executives or have any financial or business relationship therewith.

35. An Audit Committee member shall not be a member of a Board or an Audit Committee of any other company operating in the insurance sector in the Kingdom of Saudi Arabia.
36. The Audit Committee member shall not be one of the executive members of the Board.

37. The Audit Committee member nominated for membership shall be independent.

38. No Audit Committee Member shall simultaneously serve on the audit committees of more than four public companies.

39. The Board shall ensure that the members of the Audit Committee are appropriately qualified to discharge their responsibilities. At least two Audit Committee members, including the AC Chairman, have recent and relevant accounting or financial management expertise or experience.

Fourth: Appointing the Chairman and the Secretary of the Committee

40. The Board of Directors shall, after obtaining SAMA’s written no-objection, shall appoint one of the Audit Committee’s members as a Chairman thereof.

41. The Chairman of the Board shall not be a member or Chairman of the Audit Committee.

42. The Chairman of the Audit Committee shall not be related to the other members of the Board or have any financial or business relationship with any members of the Board.
43. The Chairman of the Audit Committee of the Board shall not have a relationship with Senior Management of the company that could affect his independence.

44. The Audit Committee shall appoint a Committee Secretary from the Company’s staff to handle its administrative tasks, prepare meeting minutes and ensure that its Chairman signs these minutes, and schedule the Audit Committee’s meetings in coordination with its Chairman.

45. The Audit Committee Secretary must document and keep meeting minutes in a special register.

46. The Secretary of the Audit Committee shall not be a Secretary of any other board committee.

5th: Committee Members’ Remuneration

47. Every member of the Audit Committee shall be eligible for remuneration for each Committee meeting attended. The amount of such remuneration shall be determined under a policy approved by the Board of Directors and shall be reasonable in comparison with the board members’ remuneration.

48. The Secretary of the Audit Committee shall be eligible for remuneration for carrying out his or her functions for each Committee meeting. The amount of such compensation shall be determined by a decision issued by the Board of Directors.

Fifth: Committee Members’ Remuneration

47) يتحقق عضو لجنة المراجعة مكافأة حضور عن كل جلسة من جلساتها. وتحدد قيمة المكافآت بموجب سياسة معتمدة من مجلس الإدارة بحيث تكون مقبولة بالمقارنة مع مكافآت أعضاء مجلس الإدارة.

48) يتحقق سكرتير لجنة المراجعة مكافأة عن إنجاز مهامه لكل جلسة من جلساتها. وتحدد قيمة المكافأة بقرار يصدره مجلس الإدارة.
Sixth: Committee’s Tasks

49. The tasks of the Audit Committee shall include but not be limited to the following:

a. Recommending to the Board to approve the appointment or reappointment of external auditors. This may include ensuring that the nominated external auditors have the necessary experience in auditing Insurance and/or Reinsurance Companies.

b. Appointing or dismissing the head of the Compliance Control Department or the Compliance Officer after obtaining SAMA’s written non-objection.

c. Appointing or dismissing the head of the Internal Audit Department or the Internal Auditor after obtaining SAMA’s written non-objection.

d. Ensuring the independence of external auditors from the Company, the Board members and the senior management of the Company.

e. Ensuring the independence of the internal audit department or the internal auditor in performing their tasks, and ensuring that there are no restrictions on their scope of work or any impediments that might negatively affect their work.

f. Ensuring the independence of the Compliance Control Department or the Compliance Officer in performing their tasks, and ensuring that there are no restrictions on their scope of work or any impediments that might negatively affect their work.

Audit Committee Regulation in Insurance and/or Reinsurance Companies
g. Discussing the annual and interim quarterly financial statements with the external auditors and the Company's Senior Management before the issuance thereof.

h. Reviewing and auditing annual and interim quarterly financial statements and making recommendations thereon for the Board.

i. Reviewing the audit plan of the internal and external auditors.

j. Reviewing, approving, and monitoring the implementation of the compliance plan.

k. Reviewing critical accounting policies and procedures as well as the modifications that might be introduced thereto.

l. Coordinating between internal and external auditors.

m. Reviewing the external auditors' reports and making recommendations thereon for the Board.

n. Reviewing the reports of the Internal Audit Department or the Internal Auditor and submitting the related recommendations to the Board.

o. Reviewing the reports of the Compliance Control Department or the Compliance Officer and making recommendations thereon for the Board.

p. Assessing the efficiency, effectiveness and objectivity of work performed by the external auditors, the Internal Audit Department or the Internal Auditor, and the Compliance Control Department or the Compliance Officer.
q. Reviewing the comments of SAMA and other relevant supervisory and control entities related to any regulatory violations or corrective actions requested and making recommendations thereon for the Board.

r. Reviewing the internal and external auditors' assessment of internal control procedures.

s. Reviewing intra-group transactions and related parties transactions.

t. Reviewing the Actuary reports and making recommendations thereon for the Board.

u. Ensuring the Company's compliance with the Actuary's proposals and recommendations, where these are mandatory and required by Regulations or SAMA's instructions.

v. Following-up the reports issued by SAMA and other relevant supervisory and control entities and making recommendations thereon for the Board.

w. Determining the monthly salary, bonus and other remuneration of the Internal Audit Department or the Internal Auditor in accordance with the Company's internal by-laws approved by the Board.

x. Determining the monthly salary, bonus and other remuneration of the Compliance Control Department or the Compliance Officer in accordance with the Company's internal by-laws approved by the Board.
y. Ensuring the Company has a written code of conduct duly approved by its Board of Directors to ensure that the Company’s activities are conducted in a fair and ethical manner.

z. Following-up on the important lawsuits filed by or against the Company and submitting periodic reports thereon to the Board.

aa. Ensuring the optimal use and controls of information technology necessary to generate accurate and reliable information and data are in place.

Seventh: Committee’s Responsibility

50. The Audit Committee members are accountable to SAMA, the Company’s shareholders and the Board for implementing the provisions of this Regulation and executing the Audit Committee’s action plan issued by a Board’s decision.

51. The committee members should, while performing their tasks, give priority to the company’s interest against any other considerations that might affect their work or decisions.
Eighth: Committee’s Meetings

52. The Audit Committee meetings shall not be held without the presence of at least half of its members.

53. The Audit Committee shall meet at least six times a year, include an annual meeting with the Board of Directors. The Audit Committee is entitled, if the need arises, to hold other meetings in response to any of the following cases including but not limited to:

a. Upon the request of the Chairman of the Board.

b. Cases in which the External Auditor, Internal Auditor, Compliance Officer or Actuary requests a Committee meeting due to reason that requires so.

c. Meetings on other issues such as:

- Financial and audit issues
- Compliance issues
- Conflicts of interest
- Professional and ethical codes of conduct

Ninth: Committee’s Decisions

54. The Audit Committee’s decisions shall be determined by the majority of the members’ votes. In case of equal votes, the Committee’s Chairman shall have the casting vote, provided that the Audit Committee’s Secretary shall record the views of all sides in the meeting minutes.
55. Voting on the Audit Committee’s decisions on behalf of, or by proxy from, any other member is not allowed.

56. The Audit Committee is entitled to invite, if the need arises, whomever it deems relevant from inside or outside the Company to attend its meetings.

57. The Audit Committee shall develop its charter that shall be approved by the Board’s decision. This charter shall include the Audit Committees’ rules, responsibilities and obligations. In addition, the Audit Committee shall develop a detailed annual action plan that includes the key topics to be discussed during the year and meeting dates.

58. The relevant issues between the Audit Committee and the external auditors shall include as a minimum:

a. Key amendments made by the Company to its accounting policies.

b. Material conflicts with the management regarding any issue pertaining to the safeguarding of invested assets.

a. انتخاب الأعضاء والمراقبين الخارجيين باللجنة.

b. الخلافات الجوهرية مع الإدارة بشأن أي مسألة تتعلق بحماية الموجودات المستثمرة.

c. التعديلات الرئاسية التي تجريها الشركة على سياساتها المحاسبية.

اقرأ: حضور اجتماعات اللجنة لجنة المراجعة دعوة من تراه من داخل الشركة أو خارجها.

حادثة عشرة: خطة عمل لجنة المراجعة السنوية مفصلة تتضمن المواضيع الرئيسية التي ستقوم ببحثها خلال السنة وموعيد اجتماعاتها.

يجب على لجنة المراجعة وضع دليل عمل لها معتمد بقرار من مجلس الإدارة يتضمن قواعد ومسؤوليات والتزامات لجنة المراجعة. كما يجب على لجنة المراجعة وضع خطة عمل سنوية مفصلة تتضمن المواضيع الرئيسية التي ستقوم ببحثها خلال السنة وموعيد اجتماعاتها.

تستقبل التدابير التي تجربها الشركة على سياساتها المحاسبية.

تتضمن المواضيع ذات العلاقة بين لجنة المراجعة والمراقبين الخارجيين بعد أدلى الآتي:

a. التعديلات الرئاسية التي تجريها الشركة على سياساتها المحاسبية.

b. الخلافات الجوهرية مع الإدارة بشأن أي مسألة تتعلق بحماية الموجودات المستثمرة.

Audit Committee Regulation in Insurance and/or Reinsurance Companies
c. Violations of Laws, Regulations and Instructions issued by the supervisory and control entities or non-compliance with the Company’s policies and procedures.

d. Comments of other auditors (of external, non-Saudi Arabian, branches) on accounting procedures, reports and professional conduct.

e. Deficiencies in the general structure and performance of internal control systems.

f. Material errors in financial statements.

g. Management decisions and the basis on which the external auditors relied to validate critical accounting estimates, such as technical provisions and reserves.

h. Accounting principles and standards and disclosure decisions related to extraordinary transactions.

i. Adequacy of technical provisions and reserves set by the Actuary.

j. Actuary’s Reports relevant to the Financial Statements.

k. Any major problems in dealing with the management that affected the working of the audit.

l. Internal control and the assessment of the Company’s assets and solvency.

m. Any other issues that the committee is aware of and falls within its responsibilities.
n. Any amendments introduced to the audit scope and the reasons thereof.

o. Reviewing letters to management prepared by the external auditors and the Company’s management comments thereon.