[[1]](#footnote-1)\*

[[2]](#footnote-2)\*\*



LEGISLATIVE DECREE NO. (26) OF 1996

 WITH RESPECT TO AUDITORS

We, **Isa Bin Sulman Al Khalifa,                          Amir of the State of Bahrain,**

having reviewed the Constitution,

and Amiri Order No.(4) of 1975,

and Legislative Decree No. 23 of 1973 promulgating the Law Establishing the Bahrain Monetary Agency,

and Legislative Decree No.(28) of the Year 1975 with respect to Promulgating the Commercial Companies Law, as amended,

and Legislative Decree No. 3 of 1983 with respect to Treatment of Gulf Co-operation Council Nationals as regards Economic Activities in Bahrain, as amended,

and Legislative Decree No. 19 of 1995 with respect to Evaluating Academic Qualifications,

and upon the submission of the Minister for Commerce,

and having sought the opinion of the Consultative Council,

and with the approval of the Council of Ministers,

HEREBY DECREE THE FOLLOWING LAW:

Conditions for Engaging in the Auditors' Practice

Article 1

No person may practise as an auditor in accordance with the provisions of this Law whether for his own account or at audit firms, unless his name is registered in the auditors register which is maintained for this purpose at the Ministry of Commerce.

 Excluded from the provision in the preceding paragraph shall be the persons under training at auditors firms as provided for in Article 13 of this Law.

 Article 2

A person who is registered in the Auditors Register shall fulfill the following conditions:

 1)     He shall be a Bahraini national.

2)     He shall be of full legal and civil qualifications.

3)     He shall be of good repute and shall not have been finally convicted for a penalty of a breach of trust or a crime affecting his honor or integrity or if he has been convicted for a crime involving a breach of professional ethics, unless he has been reinstated, or if three years pass since the date of the final judgment for the disciplinary offense.

4)     He shall be a holder of a B.Sc. degree in accounting or business administration with specialisation in accounting from one of the universities or high institutes recognised by the relevant authority or any equivalent certificate recognised by such authority.  In this case, the period of study shall not be less than three years.

5)     He shall have a period of practical experience of no less than seven years  in one of the audit firms in the State of Bahrain or outside it shall be involved in audit work.

6)     He shall be working on a full-time basis employment in this practice and may not carry on any business activity nor get  work in the government or private sector.

The registration shall be renewed on an annual basis upon payment of the prescribed fee, unless there is any reason barring such renewal.

Article 3

1)     An exemption from the application of Sub-clause (1) of the preceding Articl shall be enjoyed by non-Bahrainis who practise in accordance with the provisions of Article (21) of the Commercial Companies Law promulgated by Legislative Decree No. 28, as amended by Legislative Decree No.(13) of 1980  and the  Implementing Regulations thereof.  Members of the internationally recognised chartered accountants which are determined by an Order of the Minister for Commerce, shall be exempted from implementing sub-Articles 1,4,and 5.

2)     There shall be exempted from the provision Article 2 (4) everyone who practices as an auditor on the effective date of this Law, provided that he shall have engaged in this profession for ten consecutive years, either for his own account or in an auditing firm in the State of Bahrain.

Article 4

Auditors who audit accounts of banks, insurance companies and public shareholding companies shall be required to be members of one of the internationally recognised societies of chartered accountants.

Article 5

The provisions of this Law shall not be applicable to:

 1)     Those who undertake accounting and audit duties in their capacities as civil servants or in public organisations and institutions.

2)     Those who undertake accounting and audit duties as part of their duties as employees in the private sector.

Article 6

The audit practice may not be undertaken except through an office.  Audit offices shall be licensed to be opened pursuant to the following conditions:

 1)     An applicant for a licence shall fulfill the conditions set forth in Article (2) of this Law.

2)     A period of five years shall have elapsed from the date of his registration in the Auditors Register at the Ministry of Commerce and shall have practised for his           own account as an auditor at any licensed audit firm or shall be a member of internationally recognised societies of chartered accountants and shall have a twelve-year experience in the audit field inside or outside the State of Bahrain.

 Licences of audit offices shall be renewed annually upon payment of the prescribed fee subject to Articles 10 and 11.

Article 7

If an audit office is a corporation, it shall be in the form of a professional simple partnership.

 In the case of licensed foreign audit offices, each of them shall have an operational office in Bahrain under the responsibility of one of the partners who is registered in the Auditors Register at the Ministry of Commerce.

Article 8

Auditors, who fulfill the conditions for practice in pursuance of the provisions of this Law shall, within three months following the effective date of this Law, file their applications for registration in the Register maintained at the Ministry of Commerce.

Owners of the audit firms and the managers in charge of such firms taking the form of professional simple partnerships and the foreign audit offices which fulfil the conditions for opening audit offices in accordance with the provisions of this Law shall, within three months following the effective date of this Law, file their applications with the Ministry of Commerce for licences to open their offices in the Register maintained at the Ministry of Commerce.

Article 9

Applications for registration in the Auditors Register and applications for licences for opening audit offices shall be submitted along with the following documents and particulars:

 1)     Name of applicant for registration, surname, nationality, age, residential address, mailing address and date of the application.

2)     Details of the academic qualifications or a Photo stat copy or an official certificate thereof and the date of obtaining them.

3)     A certificate of the previous experience gained at the audit office.

4)     Details of the professional societies of which the auditor is a member and the membership certificate thereof.

5)     In case of being licensed before the effective date of this Law, there shall be furnished in addition to the above a copy of the licence to practise issued by the relevant authority.

Article 10

Subject to the approval of the Council of Ministers, the Minister for Commerce shall issue the necessary orders for determining the fees which shall be payable for applying for registration in the Auditors Register, applications for opening audit offices and for the renewal of such applications.

Article 11

The Directorate of Commerce and Company Affairs, at the Ministry of Commerce, shall decide upon the applications for registration in the Auditors Register and with respect to applications for opening audit firms within fifteen days from the date of submitting an application.

 It shall give notice to the applicant with respect to the decision adopted by virtue of a registered letter within fifteen days from the date of adopting such   decision.

 In the case of rejecting the application, the applicant shall be notified of the reasons for adopting such decision and the lapse of sixty days without receiving the reply of the Directorate of Commerce and Company Affairs, shall be considered as a rejection thereon.

 Anyone whose application has been rejected may challenge the rejection decision before the High Civil Court within sixty days following the date of being given notice with respect to the rejection decision of the application being considered rejected.

 Previous decisions adopted concerning the applications for renewing the licence in the auditors register or the licences to open audit offices, shall be valid.

Article 12

The Directorate of Commerce and Companies Affairs, at the Ministry of Commerce shall issue the licensee for registration with an approved certificate containing the name, nationality, number and date of registration or licence.

Article 13

The Minister for Commerce shall issue an order organising the affairs of trainee auditors who are being trained in audit firms, training period and other conditions and procedures with respect to training.

 The training period shall be included in calculating the period of experiance in accordance with the provisions of Articles 2 and 6 of this Law.

Auditors' Duties and Responsibilities

Article 14

Auditors shall comply with and adhere to  the internationally recognised auditing practices, principles and standards issued by the International Accounting Union which include complying with the professional ethics and  the recognised technical rules and practices shall enforce the regulations issued with respect to his duties whether from the Ministry of Commerce, Bahrain Monetary Agency or other relevant authorities and shall observe the  rules of honesty and integrity  pursued in the auditing practice.

Article 15

Auditors shall include in their annual audit reports that are presented to general meetings of joint stock companies all the fundamental irregularities that they come across whilst preparing such audit reports.

 They shall immediaatly inform the senior officials of the companies and establishments of any serious violations which appear to them in the course of carrying out their duties.

Article 16

Anyone who has been registered in the Auditors Register or is licensed to open an office may not engage in another profession except for the professions which are related to the auditing practice such as financial and economic consultancies and studies. In such a case, a licence shall be obtained for this purpose from the Minister for Commerce.

Article 17

Everyone who has obtained a licence to open an office, whether an individual or a company, shall practice through his office within one year from the date of obtaining the licence, otherwise the licence shall be deemed null and void.

 He shall within a period not exceeding thirty days, notify the relevant authority of any change of the office address or any other changes related to the licence.

 Further, he shall indicate the name of the office and licence number in all the correspondence, certificates, balance sheets and reports signed by him and such other documents relating to the practice.

 The office shall undertake audit for the account of third parties upon a written contract to be concluded with them setting forth the rights and obligations of both parties, particularly the audit duties and the scope and nature of the audit operations and subject to the contract and the fees,  all of which shall not conflict with the provisions of this Law.

Article 18

No auditor nor any office manager who learns through his practice about an event or who obtains information shall not divulge such information even after the termination of his duties unless such action is intended to prevent the committing of a crime or felony or reporting the occurrence thereof.

In addition, an auditor may not be instructed to give testimony in respect of a dispute related to his business except after obtaining  permission from the firm employing him.

Article 19

The owner of an audit firm shall sign personally the audit reports issued by his office in case of being an individual, but if he practices through a company it shall be sufficient that such reports shall be signed by one of the partners.

 Moreover, reports may be signed under the professional name of the company, provided that such signature shall be made by one of the partners  who is an authorised signatory.

Article 20

An auditor shall not be a partner, chairman or member of the board of directors of a company for which he undertakes the audit of its accounts nor shall he act as a managing director or be entrusted with any management duty therein nor shall he be a relative up to the second degree of relationship  to a member of its directors or  supervisor of its accounts.

 He shall not be permitted, during the audit period,  to buy nor sell the shares of the company  the accounts of which he audits.

 The Minister for Commerce may issue any Orders relating to other conditions and requirements issued by the International Chartered Accountants Union in this respect.

Article 21

An auditor shall maintain the integrity of the profession and shall not  acquire any business in a manner which shall be considered a  breach of professional integrity.

Article 22

The Directorate of Commerce and Company Affairs, at the Ministry of Commerce,  may request auditors to provide reports supported by documents about joint stock companies for which they audit their accounts. This authority may make the comments it deems appropriate concerning such reports. As for financial and banking firms, such task shall be co-ordinated with the Bahrain Monetary Agency.

Article 23

In case an auditor ceases to practise, he shall maintain the records, files and details relating to his customers for a period of no less than ten years from the date of the most recent financial report, unless such registers, reports and details have any relationship with cases being heard before the law courts, in which case they shall be kept until such cases are resolved.

Article 24

An owner of an audit firm shall give a written notice to the customer should he wish to give up the work mutually agreed upon and shall continue to perform such work until the appropriate time without causing damages to the customer.

Article 25

An owner of an audit firm shall be liable for payment of a compensation for the damages suffered by a customer or a third party by reason of professional errors made by him in the course of carrying out his duties. In case more than one office is involved, the responsibilities of the audit firm owners and their  partners shall be joint.

 The owner of the audit office shall arrange to have an insurance cover to meet the consequences of such errors.

Article 26

There shall be formed at the Ministry of Commerce a board to be called " Auditors Disciplinary Board" to be presided over by the Undersecretary of the Ministry of Commerce or whoever acts on his behalf during his absence and with the membership of  representatives from the Ministry of Commerce, Ministry of Finance and National Economy, Bahrain Monetary Agency, Bahrain Chamber of Commerce and Industry and Bahraini Accountants Association.

The Minister for Commerce shall issue an order with respect to the membership of the aforesaid Board and the appointment of its Secretary.

The Board shall give its opinion and advise on the ethics of the  profession to be complied with to protect the auditing profession, the accounting standards and principles and the auditing criteria to be followed.

DISCIPLINARY ACTION

Article  27

There shall be formed at the Ministry of Commerce  an auditors disciplinary board under the chairmanship of a judge of the High Civil Court to be elected by the Minister for Justice and Islamic Affairs and with the membership of two professional auditors to be nominated by the Minister for Commerce.

The Minister for Commerce and Agriculture shall issue an order with respect to the formation  of the aforesaid Board, terms of reference, term of office and procedures for convening its meetings.

Article 28

The Minister for Commerce shall refer an auditor to the disciplinary board should he be charged with violating this Law or if he commits an act which prejudices the responsibilities assigned thereto or if he commits a breach of the rules, principles and ethics of the practice or if he perpetrates an act which is detrimental to the professional integrity or to the integrity of those who practise or if he does an act which is contrary to the requirements of honour or integrity or if it is proved that he forfeits any of the conditions provided for in Article 2 of this Law, or if he fails to provide an insurance cover in pursuance of Article 25 (2).

Article 29

The disciplinary penalties which may be inflicted by the disciplinary board are are as follows :

 1)     Reprimand.

2)     Warning.

3)     Suspension of the the practice for a period of three years.

4)     Striking off the name from the  Auditors Register.

Article 30

A disciplinary legal action shall be commenced by an order of the  Minister for Commerce.  The board shall rule in respect of the disciplinary action after giving a fifteen day notice to the auditor for appearing before the board at the hearing to be held for this purpose. This notice shall be served by a registered letter with a note of delivery containing the details of the charge brought against him, the date and place of the hearing.

Article   31

The disciplinary board shall hold its hearings at the offices of the Ministry of Commerce or at any other place decided by the board chairman and the disciplinary cases shall be heard at public sessions  unless otherwise the board decides that they shall be held behind closed doors.

 The award of the disciplinary board shall be substantiated.

 The board shall issue the regulations which set down as the  procedures to be followed  for the hearings.

Article  32

An auditor may appeal against the award of the disciplinary board before the High Civil Court of Appeal within 45 days from the date of passing the award if it is delivered in his presence or from the date of giving him a notice thereof by a registered letter with a note of delivery if the award is delivered in his absence.

Article   33

If the disciplinary board finds in the course of hearing the disciplinary action that penal measures must be adopted against the auditor, the board shall refer all the papers relating to the disciplinary action to the Public Prosecution while continuing to hear the case.

Article  34

Without prejudice to a severer penalty provided for in the Penal Code promulgated by Legislative Decree No.(15) of the Year 1976, as amended , and the Commercial Companies Law promulgated by Legislative Decree No.(28) of the year 1975, as amended, a penalty of imprisonment for a period of no less than one month and no more than one year, or a fine of no less than BD2,000 and no more than BD10,000, or both penalties, shall be inflicted upon the following:

 1)     Any person who practises as an auditor without obtaining a licence to practise in pursuance of this Law, including the practise during the period of suspending his operation or after striking off his name from the Auditors Register.

2)     Any person who opens an auditing office without obtaining a licence which act shall involve opening the office after forfeiting one of the necessary conditions for its opening.

3)     Any person who states false details in any report, accounts or document that he has prepared in the course of his professional practice.

4)     Any person who prepares a report that denies the facts or endorses facts which are contrary to the truth in any document which must be issued legally or by reason of the professional practice.

5)     Any person who approves financial statements which contain details about the distribution of false or untrue profits.

In the case provided for in Sub-Article (2),  the court shall pass a judgment for closure of the office in addition to the prescribed penalty.

Article  35

The Minister for Commerce shall issue the necessary ministerial  orders for implementing the provisions of this Law.

Article  36

The Ministers, each in his respective capacity, shall implement this Law which shall come into effect as from the first day of the month after three months from the date of its publication in the Official Gazette.

Signed:

**Isa Bin Sulman Al Khalifa,**

**Amir of the State of Bahrain.**

Issued at Rifaa Palace on: 11th Rabie Al Awwal, 1417 Hijra,

Corresponding to: 27th July, 1996 AD.

1. \* This copy is translated by Bahrain Economic Development Board (EDB) as per the provisions in force up to January 2019. [↑](#footnote-ref-1)
2. \*\*This is an unofficial translation and in the event of any conflict or discrepancy between the English text and the Arabic text, the Arabic text shall prevail. [↑](#footnote-ref-2)