

Guidance on
ROTATION OF AUDITORS



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Preface

The mandatory auditor rotation requirements have been established in the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA). Jurisdictions have further enhanced the rotation requirements with the objective of enhancing the auditor independence and improving the reliability of financial reporting. When an individual is involved in an audit engagement over a long period of time, familiarity and self-interest threats might be created. The key benefits of the rotation rules include having a fresh look at the financial statements, strengthening auditor independence, improving audit quality, and increasing competition in audit markets.

The auditors in Pakistan are required to follow and comply with the rotation requirements. The mandatory auditor rotation requirements are provided in the ICAP Code of Ethics for Chartered Accountants - Revised 2019 (ICAP Code of Ethics) and legal and statutory provisions applicable to the entities.

Section 540 '*Long Association of Personnel (Including Partner Rotation) with an Audit Client*' of the ICAP Code of Ethics sets out a principle-based approach to deal with threats created due to long association with audit clients. The safeguards given by the ICAP Code of Ethics to address the familiarity or self-interest threats, include the change of external auditor or rotation of key audit partners. For the public-interest entities, the ICAP Code of Ethics mandates the key audit partner rotation and cooling-off time periods.

The legal and statutory provisions contained in the Companies Act, 2017, the Banking Companies Ordinance, 1962, the Microfinance Institutions Ordinance, 2001, the Non-Banking Finance Companies and Notified Entities Regulations, 2008, the Listed Companies (Code of Corporate Governance) Regulations, 2019, the Public Sector Companies (Corporate Governance) Rules, 2013 and the Code of Corporate Governance for Insurers, 2016 also require entities to rotate the audit partner or change their statutory audit firm after a certain period of time.

This publication '**Guidance of Rotation of Auditors**' has been prepared to facilitate members in understanding and navigating the requirements relating to change of audit firm, rotation of auditors and cooling-off periods, specified under various laws and regulations and the ICAP Code of Ethics. The publication is designed to highlight and explain the requirements contained in section 540 of the ICAP Code of Ethics and provisions of various laws and regulations.

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I. Introduction

A company is required to appoint the statutory auditor under the Companies Act, 2017 (the Companies Act). In certain cases, an entity is also obligated to consider requirements of other applicable laws and regulations (such as the Banking Companies Ordinance, 1962) relating to the auditor's eligibility and terms of appointment.

Statutory auditors are also required to consider and comply with the requirements pertaining to their appointment and engagement, including the ICAP Code of Ethics.

Various laws and regulations and the ICAP Code of Ethics contain provisions requiring the change/rotation of the statutory auditors. ICAP Code of Ethics also contains provisions for the cooling-off periods.

This publication summarizes the requirements relating to the maximum time-on period, cooling-off period, and change of an audit firm applicable and relevant to the statutory auditors of various types of entities. In this document, the term statutory auditors is interchangeably used with the term 'external auditor' and 'auditor'.

Relevant sections of the ICAP Code of Ethics and provisions of statutory laws and regulations, which are referred in this document, are also reproduced/ provided in Annexure B and Annexure C of this publication, for ready-reference.

II. Requirements for rotation of auditors under ICAP Code of Ethics 2019

Section 540 '*Long Association of Personnel (Including Partner Rotation) with an Audit Client*' of the ICAP Code of Ethics contains guidance regarding the rotation of auditor.

Section 540 explains that when an individual is involved in an audit engagement over a long period of time, familiarity and self-interest threats might be created. This section sets out requirements and application material relevant to applying the conceptual framework in such circumstances.

Section 540 also provides requirements and application material applicable to all audits. It contains specific requirements for the time-on period and cooling-off period of key audit partners of public-interest entities.

Paragraphs 540.3 A5 and 540.3 A6 of ICAP Code of Ethics set out actions / safeguards that might eliminate the familiarity and self-interest threats or reduce the same to an acceptable level. The safeguards may include the following:

- Rotation of the individual from the audit team
- Changing the role of the individual on the audit team or the nature and extent of the tasks the individual performs
- Having an appropriate reviewer who was not an audit team member review the work of the individual
- Performing regular independent internal or external quality reviews of the engagement.

Paragraph R540.4 states that an audit firm needs to determine the level of threats and the appropriate period during which the individual shall not:

- be a member of the engagement team for the audit engagement;
- provide quality control for the audit engagement; or
- exert direct influence on the outcome of the audit engagement. The period shall be of sufficient duration to allow the familiarity and self-interest threats to be addressed.

Paragraphs R540.5 to R540.20 of ICAP Code of Ethics contain specific requirements for the auditors of public interest entities.

Paragraph R540.5 of ICAP Code of Ethics provides the maximum “time-on” period and “cooling-off” period for the key audit partners of public interest entities.

What is a public interest entity

Public interest entity is defined in the ICAP Code of Ethics. It includes:

- a listed entity;
- an entity defined by regulation or legislation as a public interest entity; or
- an entity for which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities.

The Pakistan corporate law i.e. the Companies Act defines the public interest entity. It states that a public-interest company is a company which falls under the criteria as laid down in the third schedule to the Companies Act or is deemed to be such company under section 216 of the Companies Act.

The third schedule to the Companies Act categorizes the public interest companies into:

- Listed companies; and
- Non-listed public interest companies.

Under the third schedule to the Companies Act, non-listed public interest companies include: public sector companies, non-banking finance companies, modarabas, insurers, securities exchanges, commodity exchanges, central depositories, clearing houses, banking companies, microfinance banks, development finance institutions and sugar producing and selling companies.

Who are the key audit partners

ICAP Code of Ethics defines the key audit partner. It includes:

- Audit engagement partner;
- Audit engagement quality control review partner; and
- Other key audit partner on the engagement team who make key decisions or judgments on significant matters with respect to the audit of the financial statements on which the firm will express an opinion.

What is the length of time-on period

Maximum time-on period is the maximum period for which a key audit partner can serve on the audit of a public-interest entity.

In accordance with paragraph R540.5, a period of seven cumulative years applies to all key audit partners unless the law prescribes a shorter time-on period. The maximum seven-year time-on period is calculated on a cumulative basis and need not be consecutive.

In Pakistan, certain statutory laws also prescribe a requirement for mandatory rotation of audit partner or change of audit firm.

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The key audit partner after serving for maximum time-on period is required to serve a cooling-off period in accordance with the ICAP Code of Ethics.

The time-on period and mandatory rotation for different categories of entities is explained below:

(a)	<p>Auditors of public interest entities that are to be changed / rotated as per applicable statutory laws. The public interest entity should rotate the engagement partner / change the statutory auditor in accordance with specific provisions applicable to such entity.</p> <p>For example, under the corporate governance frameworks audit partners of listed, public sector and insurance companies are to be rotated after five years. Similarly, under the corporate governance framework of the listed companies auditor of a financial sector company should be changed after every five years. These statutory requirements are further discussed and analyzed in the next sections.</p>
(b)	<p>Auditors of public interest entities other than (a) above are required to serve in accordance with the requirements of paragraph R540.5 of ICAP Code of Ethics. For certain public interest entities the law does not prescribe auditor's mandatory rotation. In such case, the individual can serve as a key audit partner of public interest entity for seven cumulative years (i.e. maximum time-on period) in accordance with ICAP Code of Ethics.</p> <p>For example, audit partner of a public interest entity that is not listed and engaged in the production and sale of sugar can serve as audit partner for maximum seven cumulative years).</p>
(c)	<p>Auditors of entities other than (a) and (b) above are not required by law to be rotated after a certain period of time. Further, the ICAP Code of Ethics also does not set out a maximum time-on period for auditors of these entities.</p>

An important aspect to calculate the cumulative time-on period is the key audit partner's prior service to the audit client. ICAP Code of Ethics in paragraph R540.18 states that in determining the number of years that an individual has been a key audit partner as set out in paragraph R540.5, the length of the relationship shall, where relevant, include time while the individual was a key audit partner on that engagement at a prior firm. This provision explains that key audit partner has a continuing relationship with the audit client, the prior service would count in the determination of the partner rotation requirement.

There are some circumstances discussed in paragraphs R540.7, R540.8 and R540.9 of the ICAP Code of Ethics where certain relaxations are provided for partner's rotation requirement.

What is the cooling-off period

The cooling-off period is a period for which a partner who has served either as audit engagement partner, engagement quality control review partner or key audit partner of a public interest entity cannot serve such entity as an audit client. In other words, the individual cannot be involved in the audit of the client after serving the maximum cumulative time-on period.

What is the cooling-off period for key audit partners of public interest entities

Paragraphs R540.11 to R540.13 of ICAP Code of Ethics detail the length of cooling-off period for key audit partners of public interest entities.

The cooling-off period as per ICAP Code of Ethics is summarized below:

Key audit partner role	Cooling-off period
Engagement partner	5 years
Engagement quality control review partner	3 years
Other key audit partner	2 years

What is the cooling-off period in case of change of audit firm

The cooling-off requirement is related to the individual. Laws and regulations may require change of the audit firm after a certain period of time. The mandatory change of audit firm would be a regulatory requirement, that could result in setting a lower than seven years cumulative time-on period for the key audit partners.

ICAP Code of Ethics as well as other laws and regulations do not stipulate any cooling-off period for the audit firm. However, after change of audit firm and completion of maximum time-on period, the cooling-off requirements of the ICAP Code of Ethics would be applicable to the key audit partners.

III. Requirements for rotation of auditors under laws and regulations

Statutory provisions also contain requirements for rotation of audit partner or change of external auditor of public interest entities. For certain entities the statutory provisions require the change of external auditor i.e. audit firm is required to be changed, while in other cases only the engagement partner has to be rotated.

Below is a listing of key laws and regulations requiring rotation of audit partner or change of auditor:

Category of public interest entity	Statutory provisions for rotation of audit partner / change of auditors are provided in
Listed company	Listed Companies (Code of Corporate Governance) Regulations, 2019
Public sector companies (both listed and unlisted)	Public Sector Companies (Corporate Governance) Rules, 2013
Insurance / Takaful company	Code of Corporate Governance for Insurers, 2016
Banks/Development Financial Institutions	Notifications issued by the State Bank of Pakistan (SBP) through BSD Circular letters, under the Banking Companies Ordinance, 1962
Micro-Finance banks	Microfinance Institutions Ordinance, 2001
Non-Banking Finance Companies (NBFCs) i.e. Mutual Funds & Pension Funds	Non-Banking Finance Companies and Notified Entities Regulations, 2008
Modaraba companies	Modaraba Companies and Modaraba Rules, 1981

In case of any difference between the requirements of ICAP Code of Ethics and laws and regulations applicable to an entity, the auditor rotation/change requirements of relevant law or regulation will prevail.

The time-on and cooling-off requirements for audit partner/audit firm contained in ICAP Code of Ethics 2019 and various laws and regulations are summarized in Annexure A of this publication.

Corporate Governance Framework

The Securities and Exchange Commission of Pakistan (SECP) has issued corporate governance frameworks for different types of companies (i.e. listed, insurance, public sector).

The corporate governance framework for the listed companies is the '*Listed Companies (Code of Corporate Governance) Regulations, 2019*' (the CCG Regulations 2019).

For rotation of engagement partner and change of auditor, regulation 33 of the CCG Regulations 2019 categorizes companies into:

- (i) Financial sector listed companies

Financial sector means banks, non-banking financial companies (NBFCs), modarabas and insurance or takaful insurance companies.

- (ii) Listed companies other than in the financial sector

Type of listed company	Requirements of the CCG Regulations 2019
<i>Financial sector listed companies</i>	It is mandatory to change the external auditors every five years. Provided that all inter related companies/ institutions, engaged in business of providing financial services are also required to appoint the same firm of auditors to conduct the audit of their financial statements. <i>(Regulation 33(1) of CCG Regulations 2019)</i>
<i>Listed companies other than in the financial sector</i>	It is mandatory, at the minimum, to rotate the engagement partner after every five years. In case of a sole proprietorship, rotation of the audit firm is required after completion of five years. <i>(Regulation 33(2) of CCG Regulations 2019)</i>

The corporate governance framework requirements relating to rotation of engagement partner and change of auditor for the public sector companies and insurance companies are contained in the Public Sector Companies (Corporate Governance) Rules, 2013 and the Code of Corporate Governance for Insurers, 2016. The relevant requirements are compiled in Annexure C of this publication.

IV. Length of time-on period and cooling-off period

Length of time-on and cooling-off period for auditors of financial sector listed companies

As per the CCG Regulations 2019, the financial sector listed companies shall change their external auditor after every five years.

The maximum period for which an audit firm can serve a financial sector listed company is five consecutive years. The time-on period of five years would be applicable for the engagement partner, engagement quality control review partner and other key audit partner of such companies. The cooling-off period as per the ICAP Code of Ethics will be applicable to the key audit partners.

Role	Time-on period	Cooling-off period
Engagement partner	Maximum 5 years	5 years
Engagement quality control review partner	Maximum 5 years	3 years
Other key audit partners	Maximum 5 years	2 years

Length of time-on and cooling-off period for auditors of listed companies other than financial sector

As per the requirements of CCG Regulations 2019, it is mandatory that all listed companies other than those in financial sector shall rotate their engagement partner, at a minimum, after every five years.

For such listed companies, the time-on period for the engagement partner will be five years. (In accordance with paragraph R540.5 of the CCG Regulations, the period prescribed by law would be applicable, if such prescribed period is shorter than the time-on period of seven years).

For the individuals acting as engagement quality control review partner and other key audit partner of a listed company, the maximum time-on period of seven years would be applicable in accordance with paragraph R540.5 of the ICAP Code of Ethics. The CCG Regulations 2019 do not specify any time-on period for these partners.

Role	Time-on period	Cooling-off period
Engagement partner	Maximum 5 years	5 years
Engagement quality control review partner	Maximum 7 years	3 years
Other key audit partners	Maximum 7 years	2 years

Length of time-on and cooling-off period for auditors of public interest companies where laws or regulations do not specify any requirement for rotation of auditor

Where the laws and regulations applicable to the public interest entity do not contain specific requirement for the rotation/change of auditor, in such cases, the key audit partners have to consider the requirements of ICAP Code of Ethics.

Role	Time-on period	Cooling-off period
Engagement partner	Maximum 7 years	5 years
Engagement quality control review partner	Maximum 7 years	3 years
Other key audit partners	Maximum 7 years	2 years

No mandatory requirement for rotation of auditors in case of certain entities

The requirements for partner rotation, time-on period and cooling-off period as discussed above are provided in the ICAP Code of Ethics and the specific laws and regulations applicable to entities.

This also transpires that for certain entities and for their auditors there is no mandatory time-based requirement for rotation of audit partner or change of auditor.

The ICAP Code of Ethics provides guidance to the auditors of such entities. The audit firm has to consider the ethical requirements and safeguards given in paragraphs 540.3 and R540.4 of the ICAP Code of Ethics.

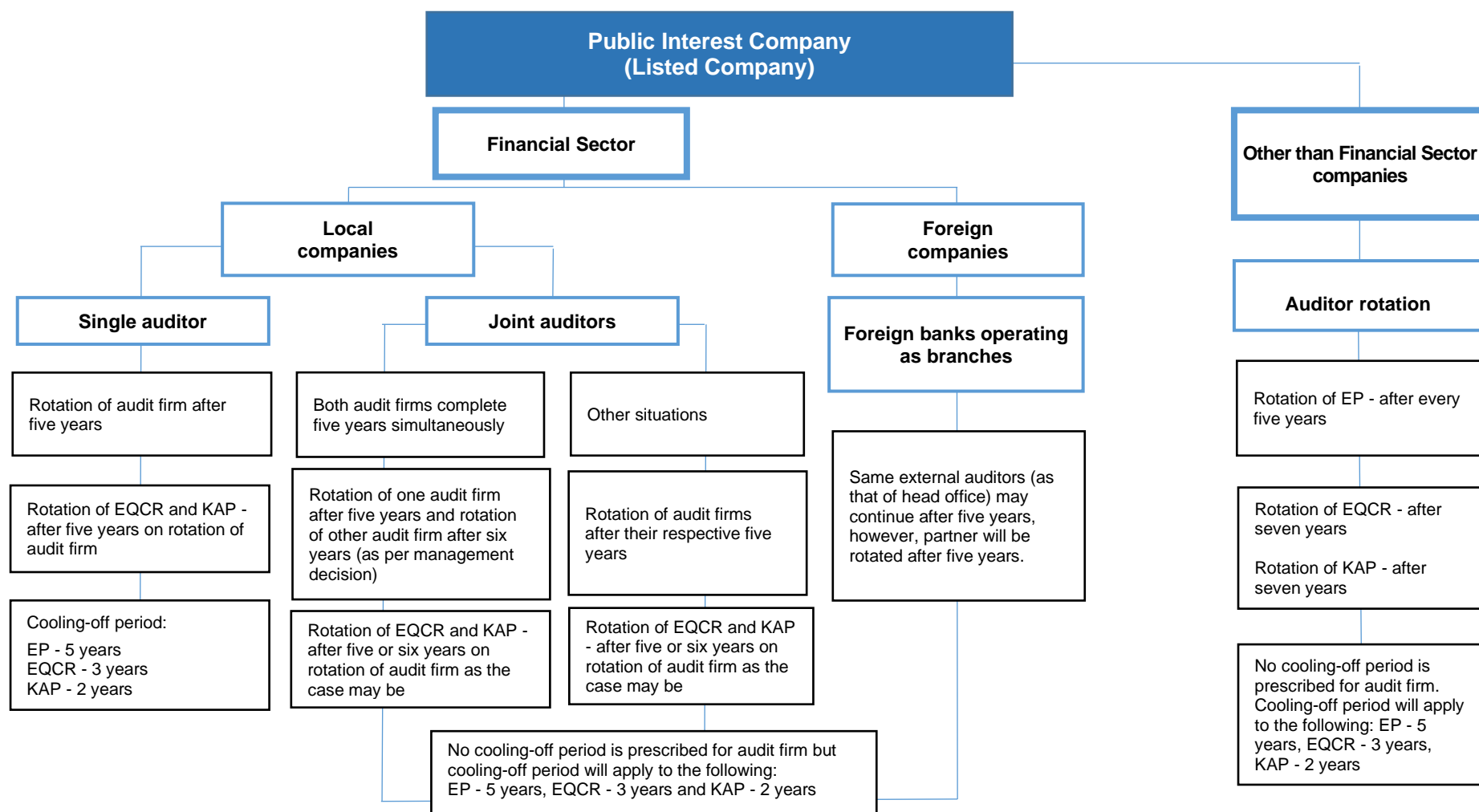
The audit firms and key audit partners have to ensure independence from the audit clients. For this, the audit firms may formulate their own policy and procedure for rotation of partner to reduce/minimize the threats to independence that are created due to long association with audit client considering the guidance given in section 540 of the ICAP Code of Ethics. The engagement partner and other key audit partners can continue serving the audit client subject to applying safeguards and other ethical requirements contained in the ICAP Code of Ethics.

Role	Time-on period	Cooling-off period
Engagement partner	No Maximum time-on period	No minimum cooling-off period
Engagement quality control review partner	No Maximum time-on period	No minimum cooling-off period
Other key audit partners	No Maximum time-on period	No minimum cooling-off period

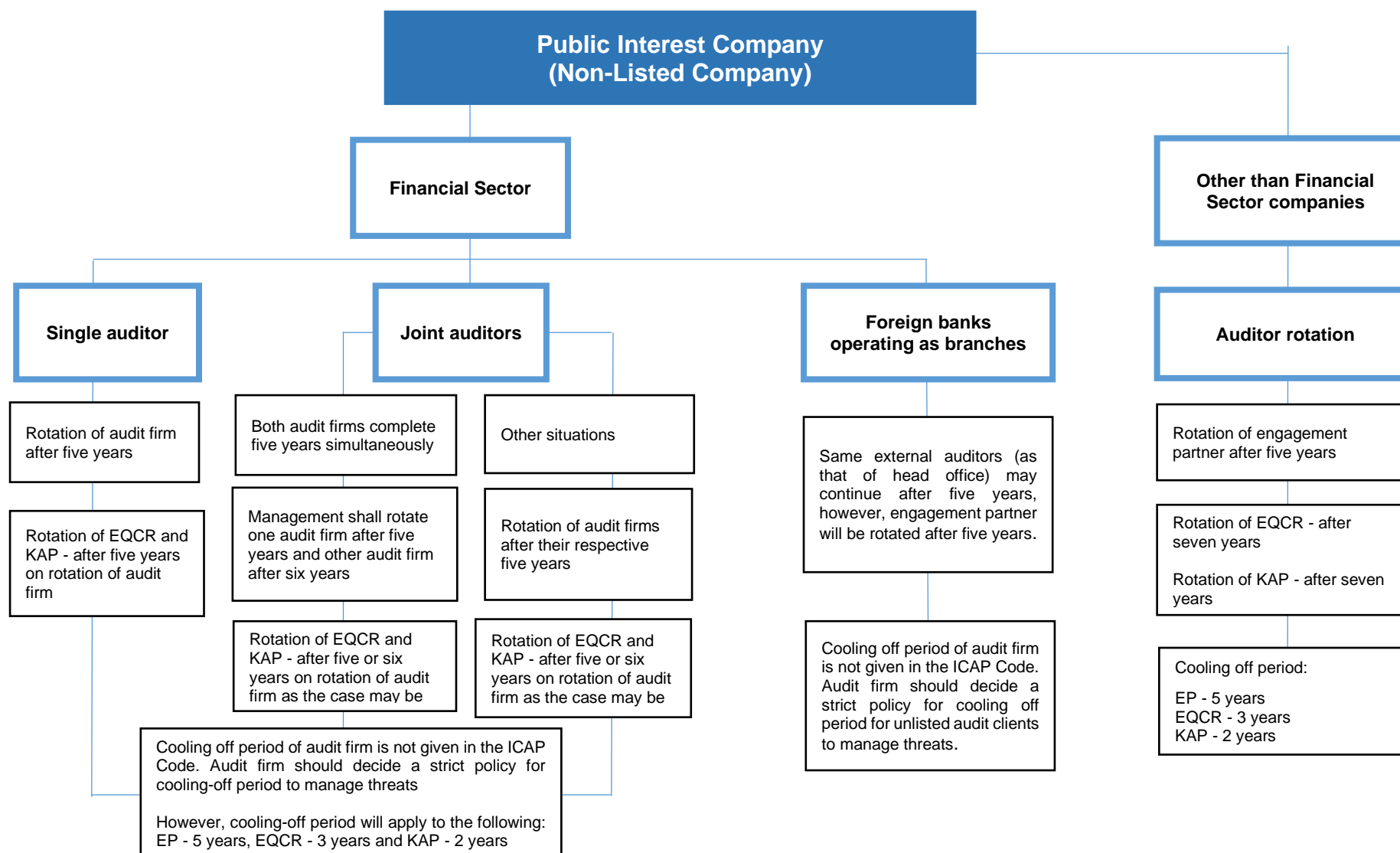
The Auditing Standards and Ethics Committee of the Institute has also issued a detailed publication *on section 540 'Long Association of Personnel (Including Partner Rotation) with an Audit Client'* of ICAP Code of Ethics 2019. The publication is in Q&As form and discusses the key areas for the consideration of auditors and members in general on rotation of auditors.

Publication can be downloaded using link: <http://www.icap.net.pk/files/pdf/ethic/qaLongassociatioclient2.pdf>

V. Decision Tree



- **Financial sector**, as defined in the CCG Regulations 2019, means banks, NBFCs, modarabas and insurance or takaful insurance companies.
- Engagement partner is written as EP. While EQCR and KAP are being used for Engagement Quality Control Reviewer and Other Key Audit Partners.



In accordance with third schedule of the Companies Act, public interest besides the listed entities also include non-listed companies which are: public sector companies, registered and/or licensed NBFs, Modarabas, Insurers, Securities Exchanges, Commodity Exchanges, Central Depositories, Clearing Houses, Banking Companies including Foreign Banking Companies, Microfinance Banks, Development Finance Institutions or Sugar Companies.

VI. Annexures

Annexure A - Time-on and cooling-off requirements for audit firm and partner in accordance with various laws and regulations and ICAP Code of Ethics 2019

Annexure B - Relevant definitions and section 540 of the ICAP Code of Ethics 2019

Annexure C - Statutory provisions specified under various laws on rotation of auditors

Annexure A - Time-on and cooling-off requirements for audit firm and audit partner in accordance with various laws and regulations and ICAP Code of Ethics 2019

Class of Company/entity	Change of audit firm/ Rotation of EP	Period of rotation of EP/Change of audit firm	Relevant law/ICAP Code reference *1	Time-on period for other audit roles (EQCR Partner & KAP)	Cooling-off period
A Listed companies in Financial Sector					
A-1	Banking companies (including Development Financial Institutions)	Firm Change of audit firm after five years. In such case time-on period of EP will also be five years. Except in case of joint auditors, where both audit firms complete five years period simultaneously, one audit firm to be rotated after five years and audit other audit firm after six years.	<ul style="list-style-type: none"> • SBP BSD Circular Letter No. 04 of 2005 dated March 15, 2005 • Listed Companies (Code of Corporate Governance) Regulations 2019 	In case of mandatory change of firm, the time-on period of EQCR partner and other KAP will be five years.	In case of mandatory rotation of audit firm, relevant laws and regulations and ICAP Code of Ethics do not specify cooling-off period for the audit firm. However, following cooling-off requirements for key audit partners shall be considered in case of mandatory rotation of audit firm: EP - five years EQCR partner - three years KAP - two years
A-2	Microfinance banks	Firm Change of audit firm after five years. In such case time-on period of EP will also be five years.	<ul style="list-style-type: none"> • Microfinance Institutions Ordinance, 2001 	In case of mandatory change of firm, the time-on period of EQCR partner and other KAP will be five years.	
A-3	Foreign banks operating as branches in Pakistan	Partner Same external auditor as appointed by the foreign bank's head	<ul style="list-style-type: none"> • BSD Circular Letter No. 08 of 2009 (dated November 		The cooling-off period for: EP - five years EQCR partner - three years

Class of Company/entity		Change of audit firm/ Rotation of EP	Period of rotation of EP/Change of audit firm	Relevant law/ICAP Code reference *1	Time-on period for other audit roles (EQCR Partner & KAP)	Cooling-off period
			<p>office or its affiliated firm(s) in Pakistan may continue after five years.</p> <p>However, EP shall be rotated by the audit firm after every five years.</p>	12, 2009)		KAP - two years
A-4	Foreign banks operating as subsidiaries in Pakistan	Partner	<p>The bank which is a majority owned subsidiary of a foreign bank, may continue with the same external auditor(s) or their affiliated firm(s) in Pakistan as of its parent foreign bank even after five years, after seeking prior clearance from SBP.</p> <p>However, the engagement partner(s) of such audit firms shall be rotated after every five years.</p>	<ul style="list-style-type: none"> • BSD Circular Letter No. 14 of 2010 (dated November 8, 2010) 	Time-on period for other audit roles, EQCR Partner and KAP, as defined in the ICAP Code of Ethics will be applicable which is seven years.	<p>The cooling-off period for:</p> <p>EP - five years EQCR partner - three years KAP - two years</p>

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Class of Company/entity		Change of audit firm/ Rotation of EP	Period of rotation of EP/Change of audit firm	Relevant law/ICAP Code reference ^{*1}	Time-on period for other audit roles (EQCR Partner & KAP)	Cooling-off period
A-5	Non-Banking Financial Companies (NBFCs), Mutual Funds, Asset Management Companies, Investment Companies, Pension Funds	Firm	Change of audit firm after five years. In such case time-on period of EP will also be five years.	<ul style="list-style-type: none"> Non-Banking Finance Companies and Notified Entities Regulations, 2008 Listed Companies (Code of Corporate Governance) Regulations 2019 	In case of mandatory change of firm, the time-on period of EQCR partner and other KAP will be five years.	<p>In case of mandatory rotation of audit firm, relevant laws and regulations and ICAP Code of Ethics do not specify cooling-off period for the audit firm.</p> <p>However, following cooling-off requirements for key audit partners shall be considered in case of mandatory rotation of audit firm:</p> <p>EP - five years EQCR partner - three years KAP - two years</p>
A-6	Insurance (including Takaful Companies)	Firm	Change of audit firm after five years. In such case time-on period of EP will also be five years. However, as provided in the Code of Corporate Governance for Insurers, 2016, an insurer after obtaining the consent of SECP, may rotate the partner in-charge of the audit engagement in place of changing the audit firm.	<ul style="list-style-type: none"> Code of Corporate Governance for Insurers, 2016 Listed Companies (Code of Corporate Governance) Regulations 2019 	In case of mandatory change of firm, the time-on period of EQCR partner and other KAP will be five years.	<p>In case of mandatory rotation of audit firm, relevant laws and regulations and ICAP Code of Ethics do not specify cooling-off period for the audit firm.</p> <p>However, following cooling-off requirements for key audit partners shall be considered in case of mandatory rotation of audit firm:</p> <p>EP - five years EQCR partner - three years KAP - two years</p>

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Class of Company/entity		Change of audit firm/ Rotation of EP	Period of rotation of EP/Change of audit firm	Relevant law/ICAP Code reference *1	Time-on period for other audit roles (EQCR Partner & KAP)	Cooling-off period
A-7	Modaraba company	Firm	Change of audit firm after five years. In such case time-on period of EP will also be five years.	<ul style="list-style-type: none"> • Modaraba Companies and Modaraba Rules, 1981 • Listed Companies (Code of Corporate Governance) Regulations 2019 	In case of mandatory change of firm, the time-on period of EQCR partner and other KAP will be five years.	<p>In case of mandatory rotation of audit firm, relevant laws and regulations and ICAP Code of Ethics do not specify cooling-off period for the audit firm.</p> <p>However, following cooling-off requirements for key audit partners shall be considered in case of mandatory rotation of audit firm:</p> <p>EP - five years EQCR partner - three years KAP - two years</p>
A-8	Public financial sector company	Firm	Change of audit firm after five years. In such case time-on period of EP will also be five years.	<ul style="list-style-type: none"> • Public Sector Companies (Corporate Governance) Rules, 2013 	In case of mandatory change of firm, the time-on period of EQCR partner and other KAP will be five years.	<p>In case of mandatory rotation of audit firm, relevant laws and regulations and ICAP Code of Ethics do not specify cooling-off period for the audit firm.</p> <p>However, following cooling-off requirements for key audit partners shall be considered in case of mandatory rotation of audit firm:</p> <p>EP - five years EQCR partner - three years KAP - two years</p>

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Class of Company/entity		Change of audit firm/ Rotation of EP	Period of rotation of EP/Change of audit firm	Relevant law/ICAP Code reference *1	Time-on period for other audit roles (EQCR Partner & KAP)	Cooling-off period
B	Listed companies other than in the Financial Sector					
B-1	All listed companies other than in financial sector	Partner	Change of EP after five years.	• Listed Companies (Code of Corporate Governance) Regulations 2019	Time-on period for other audit roles, EQCR Partner and KAP, as defined in the ICAP Code of Ethics will be applicable which is seven years.	EP - five years EQCR Partner - three years KAP - two years
B-2	Public sector company other than in financial sector	Partner	Change of EP after five years.	• Public Sector Companies (Corporate Governance) Rules, 2013		
C	Unlisted Public Interest Companies					
C-1	Banking company including Foreign banking company	Firm	Change of audit firm after five years. In such case time-on period of EP will also be five years. Except in case of joint auditors, where both audit firms complete five years period simultaneously, one audit firm to be rotated after five years and audit other audit firm after six years.	• Banking Companies Ordinance, 1962 • SBP BSD Circular Letters	In case of mandatory change of firm, the time-on period of EQCR partner and other KAP will be five years.	In case of mandatory rotation of audit firm, relevant laws and regulations and ICAP Code of Ethics do not specify cooling-off period for the audit firm. However, following cooling-off requirements for key audit partners shall be considered in case of mandatory rotation of audit firm: EP - five years EQCR Partner - three years KAP - two years

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Class of Company/entity		Change of audit firm/ Rotation of EP	Period of rotation of EP/Change of audit firm	Relevant law/ICAP Code reference *1	Time-on period for other audit roles (EQCR Partner & KAP)	Cooling-off period
C-2	Microfinance bank	Firm	Change of audit firm after five years. In such case time-on period of EP will also be five years.	<ul style="list-style-type: none"> • Microfinance Institutions Ordinance, 2001 	In case of mandatory change of firm, the time-on period of EQCR partner and other KAP will be five years.	In case of mandatory rotation of audit firm, relevant laws and regulations and ICAP Code of Ethics do not specify cooling-off period for the audit firm.
C-3	Development finance institution (DFI)	Firm	Change of audit firm after five years. In such case time-on period of EP will also be five years.	<ul style="list-style-type: none"> • Banking Companies Ordinance, 1962 • SBP BSD Circular Letters 	In case of mandatory change of firm, the time-on period of EQCR partner and other KAP will be five years.	<p>However, following cooling-off requirements for key audit partners shall be considered in case of mandatory rotation of audit firm:</p> <p>EP - five years EQCR Partner - three years KAP - two years</p>
C-4	Non-Banking Finance Companies which are Asset Management Companies, Pension Fund Managers, REIT Management Companies or Deposit Taking NBFCs	Firm	Change of audit firm after five years. In such case time-on period of EP will also be five years.	<ul style="list-style-type: none"> • Non-Banking Finance Companies and Notified Entities Regulations, 2008 	In case of mandatory change of firm, the time-on period of EQCR partner and other KAP will be five years.	<p>In case of mandatory rotation of audit firm, relevant laws and regulations and ICAP Code of Ethics do not specify cooling-off period for the audit firm.</p> <p>However, following cooling-off requirements for key audit partners shall be considered in case of mandatory rotation of audit firm:</p> <p>EP - five years EQCR Partner - three years KAP - two years</p>

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Class of Company/entity		Change of audit firm/ Rotation of EP	Period of rotation of EP/Change of audit firm	Relevant law/ICAP Code reference * ¹	Time-on period for other audit roles (EQCR Partner & KAP)	Cooling-off period
C-5	Modaraba company	Firm	Change of audit firm after five years. In such case time-on period of EP will also be five years.	<ul style="list-style-type: none"> Modaraba Companies and Modaraba Rules, 1981 	In case of mandatory change of firm, the time-on period of EQCR partner and other KAP will be five years.	In case of mandatory rotation of audit firm, relevant laws and regulations and ICAP Code of Ethics do not specify cooling-off period for the audit firm.
C-6	Insurance (including Takaful company)	Firm	<p>Change of audit firm after five years. In such case time-on period of EP will also be five years.</p> <p>However, as provided in the Code of Corporate Governance for Insurers, 2016, an insurer after obtaining the consent of SECP, may rotate the partner in-charge of the audit engagement, in place of changing the audit firm.</p>	<ul style="list-style-type: none"> Code of Corporate Governance for Insurers, 2016 	In case of mandatory change of firm, the time-on period of EQCR partner and other KAP will be five years.	<p>However, following cooling-off requirements for key audit partners shall be considered in case of mandatory rotation of audit firm:</p> <p>EP - five years EQCR Partner - three years KAP - two years</p>
C-7	Central depository	Firm	<p>Change of audit firm after five years. In such case time-on period of EP will also be five years.</p> <p>The Central Depositories (Licensing</p>	<ul style="list-style-type: none"> Central Depositories (Licensing and Operations) Regulations, 2016 Listed Companies (Code of Corporate Governance) 	In case of mandatory change of firm, the time-on period of EQCR partner and other KAP will be five years.	<p>In case of mandatory rotation of audit firm, relevant laws and regulations and ICAP Code of Ethics do not specify cooling-off period for the audit firm.</p> <p>However, following cooling-off requirements for key audit</p>

Guidance on Rotation of Auditors

Class of Company/entity		Change of audit firm/ Rotation of EP	Period of rotation of EP/Change of audit firm	Relevant law/ICAP Code reference ^{*1}	Time-on period for other audit roles (EQCR Partner & KAP)	Cooling-off period
			and Operations) Regulations, 2016 require CDC to comply with the CCG Regulations 2019, including change of the auditors.	Regulations 2019		partners shall be considered in case of mandatory rotation of audit firm: EP - five years EQCR Partner - three years KAP - two years
C-8	Clearing house	Firm	Change of audit firm after five years. In such case time-on period of EP will also be five years. The Clearing House (Licensing and Operations) Regulations, 2016 require clearing house to comply with the CCG Regulations 2019, including change of the auditors.	<ul style="list-style-type: none"> • Clearing House (Licensing and Operations) Regulations, 2016 • Listed Companies (Code of Corporate Governance) Regulations 2019 	In case of mandatory change of firm, the time-on period of EQCR partner and other KAP will be five years.	In case of mandatory rotation of audit firm, relevant laws and regulations and ICAP Code of Ethics do not specify cooling-off period for the audit firm. However, following cooling-off requirements for key audit partners shall be considered in case of mandatory rotation of audit firm: EP - five years EQCR Partner - three years KAP - two years

Guidance on Rotation of Auditors

Class of Company/entity		Change of audit firm/ Rotation of EP	Period of rotation of EP/Change of audit firm	Relevant law/ICAP Code reference ^{*1}	Time-on period for other audit roles (EQCR Partner & KAP)	Cooling-off period
C-9	Companies engaged in production and sale of sugar	Partner	The applicable law does not specify the auditor's rotation requirement. In such case, the maximum time-on period for EP will be seven years in accordance with the ICAP Code of Ethics.	<ul style="list-style-type: none"> ICAP Code of Ethics (section 540) 	Time-on period for other audit roles, EQCR Partner and KAP, as defined in the ICAP Code of Ethics will be applicable which is seven years.	For EP - five years For EQCR Partner - three years For KAP - two years
C-10	Public sector company (that are not engaged in above businesses)	Partner	Change of EP after five years.	<ul style="list-style-type: none"> Public Sector Companies (Corporate Governance) Rules, 2013 	Time-on period for other audit roles, EQCR Partner and KAP, as defined in the ICAP Code of Ethics will be applicable which is seven years.	For EP - five years For EQCR Partner - three years For KAP - two years

D	Other entities not covered above	<p>For such entities, the mandatory rotation of audit firm or EP, EQCR partner and KAP are not specified in the Companies Act, other laws and regulations and ICAP Code of Ethics.</p> <p>In such cases, the audit firms may formulate their own policy and procedure for rotation of partner to reduce/ minimize the threats to independence that are created due to long association with audit client considering the guidance given in section 540 of the ICAP Code of Ethics.</p>				
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Note:

*1: relevant requirements of laws and regulations are reproduced in Annexure C of this publication.

Annexure B - Relevant definitions and section 540 of the ICAP Code of Ethics 2019

Definitions

Audit

In Part 4A, the term “audit” applies equally to “review.”

Audit client

An entity in respect of which a firm conducts an audit engagement. When the client is a listed entity, audit client will always include its related entities. When the audit client is not a listed entity, audit client includes those related entities over which the client has direct or indirect control.

Chartered accountant in practice

As defined in the Chartered Accountants Ordinance, 1961.

The term “chartered accountant in practice” is also used to refer to a firm of chartered accountants in practice.

Cooling-off period

This term is described in paragraph R540.5 for the purposes of paragraphs R540.11 to R540.19.

Engagement partner

The partner or other person in the firm who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.

Engagement team

All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform assurance procedures on the engagement. This excludes external experts engaged by the firm or by a network firm.

The term “engagement team” also excludes individuals within the client’s internal audit function who provide direct assistance on an audit engagement when the external auditor complies with the requirements of ISA 610 (Revised 2013), Using the Work of Internal Auditors.

Firm

- (a) A sole practitioner, partnership or corporation of chartered accountants;*
- (b) An entity that controls such parties, through ownership, management or other means; and*
- (c) An entity controlled by such parties, through ownership, management or other means.*

Paragraphs 400.4 and 900.3 explain how the word “firm” is used to address the responsibility of chartered accountants and firms for compliance with Parts 4A and 4B, respectively.

Fundamental principles

This term is described in paragraph 110.1 A1. Each of the fundamental principles is, in turn, described in the following paragraphs:

Integrity R111.1

Objectivity R112.1

Professional competence and due care R113.1

Confidentiality R114.1

Professional behavior R115.1

Independence

Independence comprises:

(a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity, and exercise objectivity and professional skepticism.

(b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm's, or an audit or assurance team member's, integrity, objectivity or professional skepticism has been compromised.

As set out in paragraphs 400.5 and 900.4, references to an individual or firm being "independent" mean that the individual or firm has complied with Parts 4A and 4B, as applicable.

Key audit partner

The engagement partner, the individual responsible for the engagement quality control review, and other audit partners, if any, on the engagement team who make key decisions or judgments on significant matters with respect to the audit of the financial statements on which the firm will express an opinion. Depending upon the circumstances and the role of the individuals on the audit, "other audit partners" might include, for example, audit partners responsible for significant subsidiaries or divisions.

Listed entity

An entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body.

Public Interest Entity

(a) A listed entity; or

(b) An entity:

- (i) Defined by regulation or legislation as a public interest entity; or*
- (ii) For which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. Such regulation might be promulgated by any relevant regulator, including an audit regulator.*

Other entities might also be considered to be public interest entities, as set out in paragraph 400.8.

Safeguards

Safeguards are actions, individually or in combination, that the chartered accountant takes that effectively reduce threats to compliance with the fundamental principles to an acceptable level. This term is described in paragraph 120.10 A2.

Threats

This term is described in paragraph 120.6 A3 and includes the following categories:

Self-interest 120.6 A3(a)
Self-review 120.6 A3(b)
Advocacy 120.6 A3(c)
Familiarity 120.6 A3(d)
Intimidation 120.6 A3(e)

Time-on period

This term is described in paragraph R540.5.

Paragraphs of Section 540 of ICAP Code of Ethics 2019

Introduction

- 540.1 *Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.*
- 540.2 *When an individual is involved in an audit engagement over a long period of time, familiarity and self-interest threats might be created. This section sets out requirements and application material relevant to applying the conceptual framework in such circumstances.*

Requirements and Application Material

All Audit Clients

- 540.3 A1 *Although an understanding of an audit client and its environment is fundamental to audit quality, a familiarity threat might be created as a result of an individual's long association as an audit team member with: (a) The audit client and its operations; (b) The audit client's senior management; or (c) The financial statements on which the firm will express an opinion or the financial information which forms the basis of the financial statements.*
- 540.3 A2 *A self-interest threat might be created as a result of an individual's concern about losing a longstanding client or an interest in maintaining a close personal relationship with a member of senior management or those charged with governance. Such a threat might influence the individual's judgment inappropriately.*
- 540.3 A3 *Factors that are relevant to evaluating the level of such familiarity or self-interest threats include:*
- a. *In relation to the individual:*
- *The overall length of the individual's relationship with the client, including if such relationship existed while the individual was at a prior firm*
 - *How long the individual has been an engagement team member, and the nature of the roles performed.*
 - *The extent to which the work of the individual is directed, reviewed and supervised by more senior personnel.*
 - *The extent to which the individual, due to the individual's seniority, has the ability to influence the outcome of the audit, for example, by making key decisions or directing the work of other engagement team members.*
 - *The closeness of the individual's personal relationship with senior management or those charged with governance.*
 - *he nature, frequency and extent of the interaction between the individual and senior management or those charged with governance.*

b. In relation to the audit client:

- The nature or complexity of the client's accounting and financial reporting issues and whether they have changed.*
- Whether there have been any recent changes in senior management or those charged with governance.*
- Whether there have been any structural changes in the client's organization which impact the nature, frequency and extent of interactions the individual might have with senior management or those charged with governance.*

540.3 A4 The combination of two or more factors might increase or reduce the level of the threats. For example, familiarity threats created over time by the increasingly close relationship between an individual and a member of the client's senior management would be reduced by the departure of that member of the client's senior management.

540.3 A5 An example of an action that might eliminate the familiarity and self-interest threats created by an individual being involved in an audit engagement over a long period of time would be rotating the individual off the audit team.

540.3 A6 Examples of actions that might be safeguards to address such familiarity or self-interest threats include:

- Changing the role of the individual on the audit team or the nature and extent of the tasks the individual performs.*
- Having an appropriate reviewer who was not an audit team member review the work of the individual.*
- Performing regular independent internal or external quality reviews of the engagement.*

R540.4 If a firm decides that the level of the threats created can only be addressed by rotating the individual off the audit team, the firm shall determine an appropriate period during which the individual shall not:

- (a) Be a member of the engagement team for the audit engagement;*
- (b) Provide quality control for the audit engagement; or*
- (c) Exert direct influence on the outcome of the audit engagement.*

The period shall be of sufficient duration to allow the familiarity and self-interest threats to be addressed. In the case of a public interest entity, paragraphs R540.5 to R540.20 also apply.

Audit Clients that are Public Interest Entities

R540.5 Subject to paragraphs R540.7 to R540.9, in respect of an audit of a public interest entity, an individual shall not act in any of the following roles, or a combination of such roles, for a period of more than seven cumulative years unless the law prescribes a shorter period (the "time-on" period):

- (a) The engagement partner;*
- (b) The individual appointed as responsible for the engagement quality control review;*
or
- (c) Any other key audit partner role.*

After the time-on period, the individual shall serve a "cooling-off" period in accordance with the provisions in paragraphs R540.11 to R540.19.

R540.6 In calculating the time-on period, the count of years shall not be restarted unless the individual ceases to act in any one of the roles in paragraph R540.5(a) to (c) for a minimum period. This minimum period is a consecutive period equal to at least the

cooling-off period determined in accordance with paragraphs R540.11 to R540.13 as applicable to the role in which the individual served in the year immediately before ceasing such involvement.

R540.7 As an exception to paragraph R540.5, key audit partners whose continuity is especially important to audit quality may, in rare cases due to unforeseen circumstances outside the firm's control, and with the concurrence of those charged with governance, be permitted to serve an additional year as a key audit partner as long as the threat to independence can be eliminated or reduced to an acceptable level.

540.7 A1 For example, a key audit partner may remain in that role on the audit team for up to one additional year in circumstances where, due to unforeseen events, a required rotation was not possible, as might be the case due to serious illness of the intended engagement partner. In such circumstances, this will involve the firm discussing with those charged with governance the reasons why the planned rotation cannot take place and the need for any safeguards to reduce any threat created.

R540.8 If an audit client becomes a public interest entity, a firm shall take into account the length of time an individual has served the audit client as a key audit partner before the client becomes a public interest entity in determining the timing of the rotation. If the individual has served the audit client as a key audit partner for a period of five cumulative years or less when the client becomes a public interest entity, the number of years the individual may continue to serve the client in that capacity before rotating off the engagement is seven years less the number of years already served. As an exception to paragraph R540.5, if the individual has served the audit client as a key audit partner for a period of six or more cumulative years when the client becomes a public interest entity, the individual may continue to serve in that capacity with the concurrence of those charged with governance for a maximum of two additional years before rotating off the engagement.

R540.9 When a firm has only a few people with the necessary knowledge and experience to serve as a key audit partner on the audit of a public interest entity, rotation of key audit partners might not be possible. As an exception to paragraph R540.5, if an independent regulatory body in the relevant jurisdiction has provided an exemption from partner rotation in such circumstances, an individual may remain a key audit partner for more than seven years, in accordance with such exemption. This is provided that the independent regulatory body has specified other requirements which are to be applied, such as the length of time that the key audit partner may be exempted from rotation or a regular independent external review.

Cooling-off Period

R540.11 If the individual acted as the engagement partner for seven cumulative years, the cooling-off period shall be five consecutive years.

R540.12 Where the individual has been appointed as responsible for the engagement quality control review and has acted in that capacity for seven cumulative years, the cooling-off period shall be three consecutive years.

R540.13 If the individual has acted as a key audit partner other than in the capacities set out in paragraphs R540.11 and R540.12 for seven cumulative years, the cooling-off period shall be two consecutive years. Service in a combination of key audit partner roles.

Service in a combination of key audit partner roles

R540.14 If the individual acted in a combination of key audit partner roles and served as the engagement partner for four or more cumulative years, the cooling off period shall be five consecutive years.

- R540.15 Subject to paragraph R540.16(a), if the individual acted in a combination of key audit partner roles and served as the key audit partner responsible for the engagement quality control review for four or more cumulative years, the cooling-off period shall be three consecutive years.*
- R540.16 If an individual has acted in a combination of engagement partner and engagement quality control review roles for four or more cumulative years during the time-on period, the cooling-off period shall:*
- (a) As an exception to paragraph R540.15, be five consecutive years where the individual has been the engagement partner for three or more years; or*
 - (b) Be three consecutive years in the case of any other combination.*
- R540.17 If the individual acted in any combination of key audit partner roles other than those addressed in paragraphs R540.14 to R540.16, the cooling-off period shall be two consecutive years.*
- R540.18 In determining the number of years that an individual has been a key audit partner as set out in paragraph R540.5, the length of the relationship shall, where relevant, include time while the individual was a key audit partner on that engagement at a prior firm.*

Shorter Cooling-off Period Established by Law or Regulation

- R540.19 Where a legislative or regulatory body (or organization authorized or recognized by such legislative or regulatory body) has established a cooling off period for an engagement partner of less than five consecutive years, the higher of that period or three years may be substituted for the cooling-off period of five consecutive years specified in paragraph R540.11, R540.14 and R540.16(a) provided that the applicable time-on period does not exceed seven years.*

Restrictions on Activities During the Cooling-off Period

- R540.20 For the duration of the relevant cooling-off period, the individual shall not:*
- (a) Be an engagement team member or provide quality control for the audit engagement;*
 - (b) Consult with the engagement team or the client regarding technical or industry-specific issues, transactions or events affecting the audit engagement (other than discussions with the engagement team limited to work undertaken or conclusions reached in the last year of the individual's time-on period where this remains relevant to the audit);*
 - (c) Be responsible for leading or coordinating the professional services provided by the firm or a network firm to the audit client, or overseeing the relationship of the firm or a network firm with the audit client; or*
 - (d) Undertake any other role or activity not referred to above with respect to the audit client, including the provision of non-assurance services that would result in the individual:*
 - (i) Having significant or frequent interaction with senior management or those charged with governance; or*
 - (ii) Exerting direct influence on the outcome of the audit engagement.*

Annexure C - Statutory provisions specified under various laws on rotation of auditors

1. Terms defined in the Companies Act, 2017

2(53) **“Public Interest Company”** means a company which falls under the criteria as laid down in the Third Schedule to this Act or deemed to be such company under section 216;

Public Interest Company (as defined in the Third Schedule of the Companies Act)

- (a) Listed company
- (b) Non-listed Company which is:
 - (i) a public sector company as defined in the Act; or
 - (ii) registered and/or licensed under the Administered Legislation or Rules, or regulations made thereunder, as follows, -
 - a) Non-banking Finance Companies which are Asset Management Companies, Pension Fund Managers, REIT Management Companies or Deposit Taking NBFCs;
 - b) Modaraba Company
 - c) Insurer
 - d) Securities Exchange
 - e) Commodity Exchange
 - f) Central Depository
 - g) Clearing House; or
 - (iii) Registered, notified and/or licensed under the Banking Companies Ordinance, 1962 (LVII of 1962) or Microfinance Institutions Ordinance, 2001 (LV of 2001), as follows:
 - a) Banking Company including Foreign Banking Company
 - b) Microfinance Bank
 - c) Development Finance Institution (DFI).
 - (iv) all companies engaged in production and sale of sugar.

2(54) **Public Sector Company** means a company, whether public or private, which is directly or indirectly controlled, beneficially owned or not less than fifty-one percent of the voting securities or voting power of which are held by the Government or any agency of the Government or a statutory body, or in respect of which the Government or any agency of the Government or a statutory body, has otherwise power to elect, nominate or appoint majority of its directors and includes a public sector association not for profit, licenced under section 42:

Provided that nomination of directors by the Commission on the board of the securities exchange or any other entity or operation of any other law shall not make it a public sector company;

2. Microfinance Institutions Ordinance, 2001

16. Audit

2. The auditor or auditors shall be appointed for such terms and on such remuneration, to be paid by the microfinance institution, as the Board of Directors of such institution may fix:

Provided that the auditors once appointed shall not be removed before three years without the prior approval of the State Bank and no auditor shall serve as external auditor of a microfinance institution consecutively for more than five years.

3. Banking Companies Ordinances, 1962

BSD Circular Letter No. 04 of 2005

March 15, 2005

*The Presidents/Chief Executives
All Banks/DFIs,*

Dear Sirs / Madam,

**PRUDENTIAL REGULATION G-1 CORPORATE GOVERNANCE / BOARD
OF DIRECTORS AND MANAGEMENT**

Please refer to Prudential Regulation – G-1, whereby the banks/DFIs have been advised to follow the “Code of Corporate Governance” issued by the SECP. In terms of provision xli of the SECP’s “Code of Corporate Governance”, the external auditors are required to be changed after every five years. Accordingly, all banks/DFIs are advised to ensure that the External Auditors are rotated on expiration of five years. In case of banks/DFIs having two audit firms jointly auditing their accounts and both of them complete the 5 years period at the same time, one of them will be rotated on completion of 5 years and the other one in the next year.

2. Other instructions on the subject shall remain unchanged.

BSD Circular Letter No. 08 of 2009

November 12, 2009

*The Chief Executives/Country Heads
All Foreign Bank Branches,*

Dear Sir(s),

**PRUDENTIAL REGULATION G-1, CORPORATE GOVERNANCE/
BOARD OF DIRECTORS AND MANAGEMENT-
ROTATION OF EXTERNAL AUDITORS OF FOREIGN BANK BRNACHES**

Please refer to BSD Circular Letter No. 4 of 2005 on the captioned subject.

In this regard, it has been decided that, all foreign banks operating as branches in Pakistan may continue with the same external auditors or its affiliated firm(s) in Pakistan that has been appointed by their head offices, instead of rotating the external auditors as emphasized in the above referred circular letter. However, engagement partner(s) shall be rotated by the external audit firm(s) after every five years.

2. All other instructions on the subject shall remain unchanged.

BSD Circular Letter No. 14 of 2010	November 08, 2010
<p><i>The Presidents / Chief Executives, All banks</i></p> <p><i>Dear Sirs/ Madam,</i></p> <p><u>PRUDENTIAL REGULATION G-1, CORPORATE GOVERNANCE/ BOARD OF DIRECTORS AND MANAGEMENT - ROTATION OF EXTERNAL AUDITORS</u></p> <p><i>Please refer to BSD Circular Letter No. 04 of 2005 and BSD Circular Letter No. 08 of 2009 on the cited subject.</i></p> <p><i>2. In this regard, it has been decided that the banks which are majority owned subsidiaries of foreign bank, may continue with the same external auditor(s) or their affiliated firm(s) in Pakistan as of their parent foreign bank even after five years as required under the above regulation, after seeking prior clearance from State Bank of Pakistan. However, the engagement partner(s) of such audit firms shall be rotated after every five years.</i></p> <p><i>3. In this context, subsidiary shall have the same meaning as explained in section 3 of Companies Ordinances 1984.</i></p> <p><i>4. All other instructions on the subject shall remain unchanged.</i></p>	

4. Non-Banking Finance Companies and Notified Entities Regulations, 2008

Asset Management Services Investment Advisory Services and Collective Investment Schemes

38. Obligations of the Asset Management Company.

(2) An Asset Management Company shall,-

(h) at the establishment of the Open End Scheme or Closed End Scheme and upon any vacancy appoint an auditor, with the consent of the trustee, from the approved list of auditors circulated by the Commission, who shall be a chartered accountant and such auditor shall not be appointed for more than five consecutive years and contents of the auditor's report shall be in accordance with Schedule V;

Collective Investment Schemes Investment Company

53. Appointment of an auditor.- *An Investment Company shall appoint an auditor, from the approved list of auditors circulated by the Commission, who shall be a chartered accountant:*

Provided that the auditor so appointed shall not remain the auditor of the Investment Company for more than five consecutive years.

Voluntary Pension System

67B. Obligations as Pension Fund Manager.- A Pension Fund Manager shall,-

(viii) appoint an auditor with the consent of the trustee at the establishment of the pension fund and upon any vacancy and such auditor shall not be appointed for more than five consecutive years;

4. Modaraba Companies and Modaraba Rules, 1981

19. Appointment and removal of auditors.

(2) The terms of the appointment of auditor shall be renewed every year with the approval of the Registrar.

5. Listed Companies (Code of Corporate Governance) Regulations, 2019

33. Rotation of auditors.- (1) It is **mandatory** that all listed companies in the financial sector shall change their external auditors every five years:

Provided that all inter related companies/ institutions, engaged in business of providing financial services shall appoint the same firm of auditors to conduct the audit of their accounts.

Explanation: Financial sector, for this purpose, means banks, non-banking financial companies (NBFCs), modarabas and insurance or takaful insurance companies.

(2) It is **mandatory** that all listed companies other than those in the financial sector shall, at the minimum, rotate the engagement partner after every five years:

Provided that in case the audit firm is a sole proprietorship then after completion of five years such audit firm shall be changed.

6. Public Sector Companies (Corporate Governance) Rules, 2013

23. External Auditors.-

(6) Every Public Sector Company in the financial sector shall change its external auditors every five years. Financial sector, for this purpose, means banks, non-banking finance companies, mutual funds, modarabas, takaful companies and insurance companies. Every Public Sector Company other than those in the financial sector shall, at a minimum, rotate the engagement partner after every five years.

7. Code of Corporate Governance for Insurers, 2016

External Auditors

(lxiv) The insurer shall change its external auditors every five years. If for any reason this is impractical an insurer may at a minimum, rotate the partner in-charge of its audit engagement after obtaining the consent of the Securities and Exchange Commission of Pakistan.

8. Central Depositories (Licensing and Operations) Regulations, 2016

5. Conditions of licensing

- (1) A central depository shall, in addition to the requirements of the Act, comply with the following conditions on 2 [an] ongoing basis 3 [or within such time as the Commission may direct]:-*
- (h) comply with the code of corporate governance for listed companies to the extent consistent with the provisions of the Act, rules and regulations made thereunder;*

9. Clearing House (Licensing and Operations) Regulations, 2016

5. Conditions of licensing

A clearing house shall, in addition to the requirements of the Act, comply with the following conditions on ongoing basis or within such period(s) as the Commission may direct while granting license under these regulations:-

- (k) comply with the code of corporate governance for listed companies to the extent consistent with the provisions of the Act or these regulations;*

DISCLAIMER

All reasonable care has been exercised in developing the guidance for auditors. This publication does not amend or override the ICAP Code of Ethics and various statutory laws and regulations the text of which alone are authoritative.

Members are advised to apply professional judgment in application of this guidance for determining the auditor's rotation, change of audit firm and cooling-off requirements, after considering the relevant and specific facts, circumstances, nature of entity and nature of engagement in their cases.

The matters included in this publication are not all-inclusive, and this publication could be updated with additional and modified information. Further, in case of any specific or additional enquiry you may approach the Technical Department of the Institute of Chartered Accountants of Pakistan (the Institute).

The Institute, its staff and the Auditing Standards and Ethics Committee do not accept any liability to any party for any loss, damage or costs howsoever that may arise, whether directly or indirectly, from any action or decision taken (or not taken) as a result of relying on or otherwise using this publication or arising due to any omission in the publication.