



## OFFICE OF THE SECRETARY & CHIEF EXECUTIVE OFFICER

26<sup>th</sup> April 2019

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TO: Audit Practice Licence Holders and Other ZICA Members

### GUIDELINES ON AUDITOR ROTATION RULES

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Following numerous queries we have received regarding the tenure of office for external auditors as well as the maximum period that external auditors can be retained by the client, we wish to provide guidance as indicated in the paragraphs below, which is in compliance with the guidance of the International Federation of Accountants (IFAC).

According to the Code of Ethics for professional Accountants, there is no limit to the number of years that a client can retain an external auditor. However, *“In respect of an audit of a public interest entity, an individual [auditor] shall not be a key audit partner for more than seven years. After such time, the individual [auditor] shall not be a member of the engagement team or be a key audit partner for the client for a further two years. During that period, the individual shall not participate in the audit of the entity, provide quality control for the engagement, consult with the engagement team or the client regarding technical or industry specific issues, transactions or events or otherwise directly influence the outcome of the engagement.”* However, note must be taken that specific industry laws override the IFAC prescription.

In light of the aforementioned, the Institute wishes to indicate that, the Companies Act No. 10 of 2017 under section 257 (3) provides that:

*“an auditor shall only be reappointed continuously for a period not exceeding a total of six years.”*

Section 257 (3) of the Companies Act No. 10 of 2017 overrides the pronouncement of IFAC on the audit engagement partner rotation in relation to the continuous period an audit engagement partner can be reappointed as auditor of a company established under the Companies Act of the Laws of Zambia. The Companies Act No. 10 of 2017, enacted in June 2018, repealed and replaced the old Companies Act which did not have a limit on the continuous period an auditor could be reappointed as auditor of a company. The Institute wishes to guide that the commencement date of the 6-year rotation rule for auditors under Section 257 (3) of the Companies Act No. 10 of 2017 is 15<sup>th</sup> June 2018 the period when the new Companies Act was enacted. This position is confirmed by the letter issued to the Institute by the Patents & Companies Registration Agency (PACRA) dated 16<sup>th</sup> April 2019. **For the avoidance of doubt, the auditor referred to under section 257 (3) is the individual audit engagement partner and not the audit firm, this is confirmed by the letter issued to the Institute by the PACRA dated 16<sup>th</sup> April 2019.**

The Institute wishes to guide that the 6-year rotation rule for auditors provided for under Section 257 (3) of the Companies Act No. 10 of 2017 is subject to the provisions of the Constitution, and the Banking and Financial Services Act, 2017, and the Securities Act, 2016, which exception is provided for under Section 5 of the Companies Act No. 10 of 2017 which reads as follows:

*“Subject to the Constitution, and the Banking and Financial Services Act, 2017, and the Securities Act, 2016, where there is any inconsistency between the provisions of this Act and the provisions of any other written law, the provisions of this Act shall prevail to the extent of the inconsistency.”*

This, therefore, means that auditors who audit financial institutions under the supervisory ambit of the Bank of Zambia (BoZ) and auditors who audit companies listed or quoted on the Securities Exchange in Zambia shall be expected to observe auditor rotation rules issued by BoZ and the Securities Exchange Commission, respectively, when dealing with audits of financial institutions under the supervisory ambit of the Bank of Zambia (BoZ) or audits of companies listed or quoted on the Securities Exchange in Zambia.

The Institute also wishes to guide that the cooling off period for auditors shall be in line with IFAC rules under the Code of Ethics for professional accountants which currently stipulates this period to be at least two (2) years.

To protect public interest, in line with the Accountants Act of 2008, Council has established a Practice Review Department to audit the external auditors and ensure that they comply with International Auditing Standards and the Code of Ethics for professional Accountants.

You may contact the undersigned to clarify any matter related to the foregoing.



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