

Fast Rural Development Program - FRDP

External Audit Policy

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External Audit Policy

Introduction

Fast Rural Development Program FRDP is committed to conduct its activities in compliance with all applicable laws, regulations of in practice in Pakistan. FRDP fully cooperates with and assists external auditors appointed to do the audit of the GSF accounts.

Applicability

This policy applies to all audits and reviews performance by external auditors for all the FRDP related activities at all levels (head office, regional offices and or field offices).

Purpose

This policy provides guidance on the provision of external audit services for the FRDP. This policy should be read in conjunction with the Internal Audit Policy, which outlines the responsibilities of the FRDP internal audit in regard to the provision of audit services.

The FRDP recognizes that the ultimate responsibility for the integrity of the FRDP's financial reporting lies with the Board of Directors (BoD). The Board of Directors via the Executive Director looks to external audit as one form of assurance that the annual accounts are free from material error and internal controls are operating effectively in all material respect in relation to financial reporting. The purpose of this policy is to define those areas the FRDP should consider in relation to the provision of external audit services.

Appointment and Removal of the External Auditor

The BoD of FRDP has been empowered to recommend to the Board the selection and, if appropriate and if required, termination of the external auditor. If the role of external auditor becomes vacant or if the BoD of FRDP otherwise considers it appropriate to do so, the FRDP will conduct a formal, selective process to hire an external auditor based on assessments on the following criteria:

- Skills and knowledge of the proposed external audit team;
- Independence of the external audit firm and more specifically the audit partner in relation to FRDP;
- Understanding of the social development sector;
- Quality and thoroughness of proposed audit coverage;
- Value for money

Performance of Auditor

The FRDP, in accordance with its charter, reviews the performance of the external auditor on an annual basis. In reviewing the performance of the external auditors the FRDP focuses on; the quality and rigour of the audit; the quality of service provided; the audit firm's reputation; and the independence of the auditor.

Where the performance of the external auditor is assessed as being unsatisfactory, the FRDP determines and recommends to the Board of Directors (BoD) the course of action, which may include:

- Discussion with the external audit firm to resolve performance issues;
- Replacement of members within the external audit team; or
- Commencement of a competitive tender process in order to select a new service provider

External Audit Policy – Fast Rural Development Program (FRDP)

Auditor Independence

The FRDP will review the independence of the external auditor annually. In evaluating auditor independence, it is important that the auditor is independent not only in fact, but also in appearance, such that a reasonable third party, having knowledge of all relevant information, would reasonably conclude that the firm's independence had not been compromised.

The external auditor is precluded from providing any services that might threaten their independence or conflict with their assurance and compliance role. Specifically, any firm providing audit services to FRDP will need to satisfy the FRDP that:

- No services will be provided that will result in a conflict of interest;
- No partner, professional member or staff of the firm holds any interest options, either directly or indirectly, in FRDP;
- Any services provided by the firm additional to that of the audit function involving non-audit services traditionally performed by accounting firms, would not have a material bearing on the audit and would not involve the firm auditing themselves;
- The firm has an appropriate and agreed audit personnel rotation policy including lead and signing partners;
- No partner or member of staff or spouse or close relative of an audit partner or member of the audit staff holds a position as a director or executive in FRDP;
- There will be no situations where the auditor assumes the role of management or where the auditor is placed in the role of advocate for FRDP

Responsibility of the external auditor

The external audit firm will maintain a quality control system that provides assurance that its independence will not be impaired. The external auditor semi annually provides a letter to the FRDP's Executive Director on their independence within the meaning of relevant legislation and professional standards.

Audit Delivery and Reporting

Each year as part of the external audit assignment the external auditors, after discussions with management will issue an external audit plan for review and discussion with the FRDP. The audit plan should outline the standard combination of control and substantive based procedures to be completed.

The plan should also include additional audit procedures, based on the external auditor's analysis and understanding of developments during recent months, which require additional emphasis during the audit. The external audit plan will apply materiality to assist in determining when the external auditors would expect to involve the FRDP, should it become necessary, in order to resolve an audit or accounting issue. It also affects the extent to which the external auditors perform detailed procedures on smaller account balances in the financial records. All audit differences in excess of a set limit each year are to be brought to the attention of management for further consideration and action as appropriate. On completion of the annual audit, the Auditors provide the FRDP with a Report and an audit opinion. The report will confirm the audit findings and highlight any of these audit differences that have not been addressed by management and the potential impact on the accounts. The audit opinion will indicate the auditor's conclusion as to the integrity of the financial statements.

Review of this Policy

This policy shall be reviewed on need basis.

Finalized on 10 December 2010