

## Social Accountability Standards (SAS) 7

### Appointment and Independence of Auditors and Evaluators

#### OBJECT

**07.01** The main objective of this draft standard is to provide guidance on the policy and procedure of appointment and use of services of auditors and external evaluators.

#### EXPLANATORY STATEMENT

**07.02** The ethics committee of International Federation of Accountants (IFAC) has issued in January, 2002, a new independence standard as a part of its code of ethics. Independence of auditor is considered as a crucial factor in determination of the quality of audit. The factors which can affect the independence are as under:

- Self interest
- Self review
- Advocacy
- Intimidation

**07.03** A direct financial interest in a client would create a self-interest threat. Preparation of the original data used to generate financial statements would create a self-review threat. Acting as an advocate on behalf of an audit client in litigation would create an advocacy threat. A member of the audit team having an immediate family member who is a director of the audit client would create a familiarity threat. Threat of replacement of the auditor over a disagreement would create an intimidation threat.

**07.04** Further certain activities which the auditor or evaluator should refrain from undertaking are (i) authorising, executing or consummating a transaction on behalf of

---

the client or having the authority to do so. (ii) Determining which recommendation should be implemented. (iii) Reporting, in a management role, to those charged with governance or systems failure. (iv) Evaluation of matters material to the financial statements which involve a significant degree of subjectivity.

#### RECOMMENDED PRACTICES

**07.05** The statutory auditors of the NGOs should be normally appointed as per the provisions of the constitution of the NGO. The following persons should not be appointed as statutory auditors :

- A person who is a relative of the board members or the CEO of the NGO.
- A person who is engaged in providing services pertaining to organisational financial systems (including preparation of books of accounts) or any other nature which is beyond the mandate of a professional auditor.
- The person should not himself be a part of the management of the NGOs.
- The person should not be the chief functionary of any other NGO.

**07.06** In case of appointment of auditor for externally funded projects it is recommended that there should be a tripartite agreement between the donor, partner and the auditor.

**07.07** The auditor should be remunerated adequately, preferably, as per the guidelines issued by the Institute of Chartered Accountants of India.

**07.08** The appointment or the removal of the auditor should be done only through a special resolution of the general body or the board as the case may be. It is desirable that a clause for unanimous resolution is kept for such decisions.

**07.09** The statutory auditor should not be engaged for internal audit or control functions.

**07.10** The appointment of evaluator should consider the following :

- The evaluator should be culturally sensitive and appropriate for the communities where evaluation would be done.
-

- The evaluator should have experience and expertise in assessing on going sustainable procedures committed to effective and efficient delivery of service.

**07.11** The guidelines in *para 21.04 to 21.08* shall also apply to external evaluators with necessary modifications.

---