Oklahoma Credentialed Cooperative Director
Advanced Session
“What to Ask the Auditor”
November 17, 2004

Let's Review Some of Previous Sessions

- 2002
  - The Role of An Audit Committee
  - The Board Should Have Known
  - Director's Role and Responsibility for the Annual Audit - Planning and Implementing an Effective Audit
  - Critical Questions for the Auditor

- 2003
  - A New Era for Cooperative Directors, Officers, and Managers
  - The New Fraud Standard SAS 99
  - Accounting & Auditing Standard are Changing and will Affect Cooperatives
Should We Form an Audit Committee?

Yes, whether you have an audit committee or not the responsibilities and duties to the board still exist. The duties in most cases can be better performed by a committee of the board rather than the full board. The days when all the duties & responsibilities of a director can be fulfilled by just attending the monthly board meeting are in the past. The Audit Committee highlights the board’s commitment to its trustee responsibilities.

What are some of the Functions of the Audit Committee?

• On-going liaison with the External Auditor
• Determine the scope of the Audit during pre-audit meetings. At this meeting identify possible problems and issues concerning the audit.
• Follow up on needed changes to record keeping or controls systems identified during the audit.

What are some of the Functions of the Audit Committee?

• Review with Management the Cooperative’s major financial risk exposures and the steps management has taken to monitor and control such risk exposures.
• Recommend the appointment of the independent auditor, which is ultimately accountable to the Audit Committee and the Board.
What are some of the Functions of the Audit Committee?

- Review with management major issues regarding accounting principles and auditing practices that could significantly affect the Cooperative’s financial statements.
- Review with management the adequacy of internal controls that could significantly affect the Cooperative’s financial statements.
- Perform or monitor the procedures deemed necessary to compensate for the lack of separation and segregation duties that exit at your cooperative.

What must be present for Fraud to Occur?

- The Fraud Triangle
- The **Lack of Internal Controls** creates opportunity.

  ![Pressure Triangle](image)

  - Pressure
  - Opportunity
  - Rationalization

What is Meant by the term “Lack of Internal Controls”?

- For internal controls to function properly, no individual should have access to both the physical assets and the related accounting records or to all phases of a transaction.
- This means there is not a separation or segregation of duties to prevent or detect material unintentional of fraudulent misstatements.
What is Meant by the term “Lack of Internal Controls”?

- Due to the size of your cooperative and the need to operate as lean as possible, separation and segregation of duties may not be possible. The cost of the needed control out weighs the benefits. This must be determined by management and the board.
- Also the board must recognize that controls may be in place, but are subject to Management override.

What are some of the procedures the Board could consider to compensate for weakness in Internal Controls?

- Approve all new accounts & vendors
- Periodically review listing of all checks written.
- Periodically review monthly bank reconciliations
- Periodically review monthly bank statements
- Consider requiring dual signatures for check over a predetermined amount
- Require monthly units statements to be included as part of the monthly financial statements presented to the Board.

- Require all Employee accounts be review periodically by management and report made to the Board
- The general manager’s account should be review periodically by the Board other persons appointed by the Board.
- Require that all grain accounts be confirmed annually including zero accounts.
What are some of the procedures the Board could consider to compensate for weakness in Internal Controls?

- Meet at least annually with the auditor in a separate executive session.
- Consider meeting with the controller at least annually in a separate executive session.
- Establish procedures for the receipt, retention and treatment of complaints received by the cooperative regarding accounting, internal controls, or auditing matters, and the confidential, anonymous submission by employees of concerns regarding questionable accounting entries or auditing matters.

Each employee needs to be instructed on what to do if a superior asks the employee to do something illegal or unethical.
- Establish a method of communication where employees can be confident of being anonymous.
- Our experience to date is that employees feel that they would be treated adversely if they reported a suspicion that turned out to be false.
- Ask your employee where they believe your internal controls are weak.
- Consider an exit interview with employees who leave to cooperative employment.

What to ask the Auditor?

- Any question you ask the auditor about the cooperative’s financial statements is a question you should ask the General Manager and or Controller.
- All questions are important and there are no dumb question.
- The Auditor can not answer a question that is never asked.
What is this?

“A MUSHROOM DIRECTOR”

What is a Mushroom Director?

- "A mushroom director is one who is kept in the dark and has a lot of manure dumped on him.
- MUSHROOM DIRECTORS are the worst kind.
- What kind of director are you going to be?"
Important Words

- Trust But Verify

Other Question or Comments?

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