

What Should the Board Ask the Auditor?

Phil Kenkel

Bill Fitzwater Cooperative Chair

Overseeing the annual audit is one of the key roles of the board of directors. Responsibility for that process falls on the audit committee. In the case of agricultural cooperatives, where board sizes are much smaller relative to corporate American, the full board often functions as the audit committee. Regardless of the composition, the audit committee has a broad set of responsibilities that go far beyond simply engaging the outside auditor and reviewing the audit report. The outside auditor is primarily interested in ascertaining that the cooperative's financial statements fairly and accurately reflect its operating results and financial condition. That goal is also an important part of the audit committee's function. The audit committee also has responsibility to review the cooperative's internal controls and analyze their effectiveness. Many cooperative audit committees limit their review of internal controls to considering if there is appropriate segregation of duties and budgetary controls. Ideally, the focus should be much broader considering controls over cyber security, safeguarding physical assets, data back up and whistleblower policies and procedures.

Given the importance of the audit committee's functions and the expanding perception of the committee's role there is a need to strengthen cooperative audit committees. This can begin by raising the bar relative to interaction with the external auditor. Some good questions to ask the auditor include:

- “Would you characterize our company's accounting policies as aggressive or conservative in comparison to other cooperatives?”
- “Where do you see our most significant areas of fraud risk?”
- “Has the scope of the audit changed from last year and is so in what areas and why?”
- “Are there any areas where our CFO or other staff could use additional training to improve internal controls or the audit trail of information?”
- “How would you rate our internal controls? What improvements would you suggest, in what priority?”

Those questions could be expanded but the key point is insuring that the audit committee is proactively exploring any potential risks or problems and not just reacting to the auditor's report. The role of an effective audit committee goes beyond their interaction with the outside auditor. I'll discuss strengthening your audit committee in my next newsletter.

12-8-2016