Financial Controls 7: Audits

Audits are a **default**. Although there is some flexibility, the *Cooperative Association Act* starts with the idea that all co-ops should be audited, including housing co-operatives.

Audits provide an external review of co-op financial reports and provide verification about a co-op's assets and financial position. This should provide comfort and clarity to members, and to external organizations that may work with the co-op.

Operating and funding agreements with BC Housing and CMHC mandate that co-ops submit audited financial statements. Some lenders may also make this a requirement, and that's also true of some leases.

After operating agreements end, some co-ops may think they can bypass audits and the associated costs. Legally, this may be technically possible under Section 109 of the *Cooperative Association Act* if there are no other contractual obligations. A co-op may, by means of a **special resolution** of members, waive an audit for a period of **one year**.

However, there are advantages to continuing with audits. They help prevent or minimize member concerns about transparency, and they are still considered a best practice and promote financial accountability from co-op boards. Although external review is no guarantee against fraud, audits can make financial irregularities easier to detect and they may act as a deterrent to bad behaviour.

Your co-op will have to review any obligations it has with other partners to see if there are special reporting requirements. There may also be some flexibility in *how* to conduct an audit. In some cases, a co-op may decide an **engagement** audit is sufficient. However, the cost difference between a review engagement and a full audit is often not that much, perhaps 25%. Although a full audit will often turn up material and immaterial errors, review engagements are much less likely to do so due to the reduced scope of work. (They both look at financial numbers, but only the full audits confirm them with other evidence like invoice vouching.)

If your co-op decides not to have an auditor, make sure the co-op follows the requirements of the Act and the co-op's Rules. It is very important to recognize that a future need for audited statements may trigger a *retroactive* review of previous financial years. This can prove challenging and expensive.

Recommendations

- Even in the absence of an operating agreement, active loan, or lease obligation, CHF BC generally recommends continuing the practice of annual audits.

Excerpts from the Co-op Act (with emphasis added)

- s.108(1): Subject to section 109(1), **every association must have an auditor**.
- s.108(3): Subject to section 109(1), an association, at **each annual general meeting**, must appoint an auditor by ordinary resolution to hold office until the close of the next annual general meeting, but if an appointment is not made at that meeting, the auditor in office continues as auditor until a successor is appointed.
- s.109(1): An association that is not a reporting association **may waive** the appointment of an auditor (a) by a **special resolution** of members, and
- s.109(2): A resolution referred to in subsection (1) is **effective for one** financial year of the association.

Self-Test Checklist

Indicator	**Yes/ True**	**No/ False**	**Don't know**
The co-op understands its legal obligations regarding **audits.**			
The co-op **obtains external opinions** about its financial performance through an auditing process.			
Members have the **chance to ask questions** of the auditor to ensure their understanding of the audit reports.			
Auditors are regularly and meaningfully **reviewed.**			
Committee, individual, management company, etc., is tasked with **obtaining information** about auditors periodically (i.e. the responsibility for this work is clear).			
Only if relevant: If the co-op ever attempts to waive an audit, it follows the requirements of the *Cooperative Association Act.*			

Further Words on Fraud

Fraud is rare in housing co-operatives, but co-ops aren't entirely immune. The most dramatic case in BC saw a co-op president defraud their non-profit housing co-op of over $2 million over a five-year period.

Effective financial controls help detect fraud, and awareness of their presence may deter those who might be tempted to misappropriate funds.

Check for any agreements your co-op may have to determine whether the co-op must report fraud or potential fraud to other partners. This was an obligation under operating agreements with government.

With or without external obligations, co-ops need to communicate with members when dealing with fraudulent activity, even when there are just allegations.

Recommendations

- Develop a strategy to prevent and detect fraud. This will usually include regular financial reporting to boards (discussed above) and annual audits. While the board has the ultimate oversight over the financial management of the co-op, having independent parties like a management company or auditor reduces the risk of fraud.
- Develop procedures in reporting and disclosing allegations of fraud.
- Strictly respect separation of duties (see *Authorizations*).
- Consider term limits for board members.
- Budget for education to support those with a financial role at the co-op.
- Ensure the co-op is adequately protected with appropriate insurance.
- Remind members of their role in financial oversight. Auditors report to members and members can ask them questions. The value of members taking a good look at auditor's statements and ensuring they understand them is hard to overstate.

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