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Ministry of Agriculture, Forestry and Fisheries

General Directorate of Agriculture

Department of Agricultural Cooperative Promotion



Japan International Cooperation

Agency

Concept  
on  
Agricultural Cooperative Audit  
for Supervisory Committee

Prepared by: Project for Establishing Business-Oriented Agricultural Cooperative Models (BPAC)

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**Concept on Agricultural Cooperative Auditing for Supervisory Committee**

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The project for Establishing Business-oriented Agricultural Cooperative Models (BPAC)

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## I. What is supervisory committee?

- The supervisory committee is the permanent internal monitoring body of agricultural cooperatives (ACs), which is tasked with monitoring the activities of board of directors and the executive manager, ensuring accountability to members of the agricultural cooperative. The supervisory committee member shall be elected by the General Meeting for a term of 5 years. The chairman of the supervisory committee shall be elected from among members of the committee.
- The supervisory committee is composed of three (03) to five (05) members who shall not be spouses, biological parents, parents-in-law, or biological children of any members of board of directors and not-be paid staff of the agricultural cooperative. **(Article 50 of Law on Agricultural Cooperative)**

### 1. Rights and Duties of Supervisory Committee

The supervisory committee has rights and duties as follow: **(Article 52 of Law on Agricultural Cooperative)**

- Check or order the checking of the agricultural cooperative's accounting books
- Check inventory list and balance sheet as required
- Shall inform board of directors of its notice and findings and incorporate them into the annual report of supervisory committee to submit to the General Meeting
- In the event that there is an urgent issue, or most members of board of directors are unable to carry out their duties and obligations, the supervisory committee shall request the chairman of the board of directors to call for a meeting or an Extraordinary General Meeting in order to settle down the issue.

### 2. What is audit of agricultural cooperative?

Audit of agricultural cooperative is an inspection and advice provided to agricultural cooperative focusing on economic activities, the accounting books, and business activities of agricultural cooperative.

## II. Objectives of Audit

- To ensure transparency and reliance of financial information
- To ensure the compliance with the Law, regulations and procedures approved by the General Meeting.

This guidebook is prepared to introduce the auditing procedures of supervisory committees in accordance with the Law on Agricultural Cooperative.

### 1. Duties and Auditing activities of Supervisory Committee:

Members of supervisory committee assigned by the majority in General Meeting carry out the role as auditors of AC by monitoring the general management, financial task, and business performance and reporting the auditing result to the General Meeting for approval.

- Supervisory Committees are supposed to audit activities implemented by board of director.
- Members of Supervisory Committee shall receive business report, balance sheet, profit and loss statement, appropriation plan as well as other supplementary lists so that they are able to audit these documents and submit auditing report to Chairman of board of director.
- Members of Supervisory Committee shall observe all documents that Chairman of board of director shows at the General Meeting
- Members of Supervisory Committee are able to call for board's meeting in urgent case that they find faults during auditing.
- Members of Supervisory Committee shall find necessary documents related to business operation and request Chairman of board of director to explain in case of necessity.
- In case of necessity, Members of Supervisory Committee may request business report from concerned institutions and request Chairman of board of director to explain.
- Members of supervisory committee shall not be paid. However, the General Meeting may set aside a portion of the budget for mission expenses and allowance for members. **(Article 53 of Law on Agricultural Cooperative)**

## **2. Auditing Plan**

- Supervisory Committee shall make an auditing plan, decide date and prioritize the audit.
- Supervisory Committee shall conduct audit routinely and periodically once a year.

When auditors make the plan, they shall consider the following points:

(1) When shall audit be implemented?

Auditing shall be implemented at the end of fiscal year, 31<sup>st</sup> December.

(2) Which sector shall audit be implemented?

According to Law on Agricultural Cooperative in Cambodia, auditors shall check accounting books and inventory list and balance sheet (Article 52).

(3) Assigning tasks: shall assign someone to carry out this audit effectively.

(4) What kind of auditing procedure shall be adopted?

For example, for account receivables, outside confirmation shall be implemented for inventory assets.

(5) When and how many days shall audit be implemented?

One day or two days shall usually be selected and not be far from date of closing annual entry.

### 3. Example of auditing plan

Auditing reference date: December 31, 2014 (Date of closing entry)

Auditing schedule

	Morning of 1st day	Afternoon of 1st day	Morning of 2nd day	Afternoon of 2nd day
Auditor A	Concretely check cash and savings and bank deposit	Outside loans, loan provision and balance of credit business	Balance sheet	Feedback on the results of audit
Auditor B	Concretely check inventory list, accounts payable of supply business	Account receivable, balance of supply business	Profit & loss statement	Feedback on the results of audit
Auditor C	Organizational structures and management	Accounts payable and receivable of marketing and other businesses	Profit & loss statement	Feedback on the results of audit

## III. How is supervisory committee supposed to audit?

### 1. Concrete practice on auditing

#### 1.1 General management audit

- In accordance with the compliance of the Law on Agricultural Cooperative: It is required to have statutes and internal regulations for AC to comply with. **(Article 26 of the Law on Agricultural Cooperative)**

#### a. Auditing organizational structures and management

##### ➤ Membership

- Does the amount of membership fee in the accounting list at the auditing reference date (31<sup>st</sup> December 2014) correspond to the amount in membership ledger?  
For example: In December 31<sup>st</sup>, 2014, there are 100 members, and total membership fees are 1,000,000 riel and the amount in membership ledger is 1,000,000 riel.
- Are there any members who have not yet subscribed shares? (Is there a deadline?)
- Auditors shall review the membership ledger to check whether there is ineligible person to become a member.

➤ **Share capital**

- Does the total amount of share capital at the auditing reference date correspond to the amount in the share ledger?
- Auditors shall review the share ledger to check whether there is a member whose shares exceed the limitation in statute and who has not paid share capital.
- When share capital decreased, auditors shall ask the reason of this decrease.

➤ **Reserve fund and training fund**

- Auditors shall check reserve fund and training fund whether they have been accumulated correctly every year following Law on Agricultural Cooperative by checking the appropriation plans approved by the General Meeting.

➤ **Fix assets**

- Auditors shall review whether each land in AC's list has certificate and check whether those lands have been registered.
- Auditors shall recheck whether fix assets such as building, machinery, etc. really exist.

➤ **Administration expense**

- Do the total amount of administration expenses in ledger correspond to the total amount of expenses written in the receipts?
- Is each purpose of expense appropriate?
- When the total amount increases too much compared with the previous year, auditors shall ask for the reason.

➤ **Appropriation plan**

- Does the amount of carried forward at the beginning of fiscal year correspond to the amount of carried forward at the end of the fiscal year?
- Does the total amount of net profit in the appropriation plan correspond to the amount in the profit & loss statement?
- Are reserve fund and training fund kept correctly?
- Is the share dividend rate limited? (between 10% and 15% of total share value)
- Is the amount of incentive appropriate?
- Does AC fully consider the necessity of reserve fund kept in AC when AC makes appropriation plan?

➤ **Members of board of director**

- Have members of the board achieved a quorum?
- Is there ineligible person becoming a member of the board?



- Have all necessary agendas been approved at board's meeting?
- Have all meeting minutes been made and kept properly?

➤ **General Meeting**

- Is the General Meeting held at least once every year?
- Are procedures complied with Law on Agricultural Cooperative?
- Are all necessary agendas approved at the General Meeting?
- Is meeting minute made and kept properly?

➤ **Statute and regulations**

- Is the statute of AC different from the model statute significantly and are the contents of statute appropriate?
- Is the revision of statute approved at the General Meeting and reported to PDA?
- Are the statute and regulations kept at AC's office as members can access?

➤ **Business plan and financial plan**

- Is business plan made properly to increase members' benefit and implemented?
- Is financial plan that is related to raising and managing funds made properly and accorded with business plans?
- Is there principle to make business plan to buy fix asset by own fund?
- Is financial plan relied extremely on loan?

➤ **Income and expenditure plan**

- Are income and expenditure plan made based on business plan and financial plan?
- Are income and expenditure balanced by the estimation of excessive income and underrated expenditure?
- Is there any unplanned amount of income or expenditure?

## 1.2 Financial Audit

Auditing financial sector shall consider following points:

- Are balance sheet and profit/loss statement made? if yes, following points shall check:

(1) *Evidential document check*

- This is to check whether amount of money in receipts corresponds to amount recorded in accounting book and whether a receipt is not forged.
- Consist of sufficient evidence (no-erase receipts, concerned expense documents that are properly approved by board)
- Financial result: conducting audit on every document to let us know whether book-keeping and detailed data of balance consist of sufficient evidence

(2) *Calculation check*

- This is to check whether bookkeeping and accounting are calculated properly.

(3) *Entry check*

- This is to check whether entries in accounting books and preparation of trial balance is done correctly.

*(4) Account analysis*

- This is to check whether the analysis of accounting operation recorded in entry is accurate.
- Check book-keeping, debt list and loss-debt (debt that can't be repaid)

*(5) Real examination*

- This is to examine real situation of assets such as cash, inventory list, etc..

*(6) Investigation*

- This is to check whether inventory liquidation is done properly by observing inventory list of AC on the ground.

*(7) Additional confirmation*

- This is to confirm whether business performance is done actively with customers as well as members.

*(8) Comparison*

- This is to check whether unusual loans have not been provided by comparing balance of account receivable between this year and last year.

*(9) Financial affairs*

- Is fixed asset purchased by AC's funds?
- Is the current asset ratio (current assets/current liability \* 100, Higher is better.) considered as properly?
- Is the amount of deposit to other banking institutions to be used for repayment of deposit of members considered as properly?
- Is the debt ratio (equity capital/total liabilities \* 100, Higher is better.)
- Is there any uncollectible loan or doubtful loan or account receivable?

*(10) Question*

- This is to question to leaders, general manager or employees of AC in written or orally to obtain explanation or evidence.

## **1.3 Audit on Business plan implementation**

### ***1.3.1 Auditing credit business***

- Is there an internal regulation of credit business approved by the General Meeting?

#### ***1. Cash***

- Is cash kept in safe place?
- Is it decided about who is to be cashier? What kind of additional jobs shall the cashier do?
- Is the remaining amount of cash record into a cash ledger every day?
- Real examination should be implemented before starting or after finishing auditing operation day by requesting a representative of AC for attendance. Auditors shall count cash in front of him/her and check out the amount of cash that is different from the amount in the cash ledger.

#### ***2. Deposits to banks***

- Auditors shall request AC to ask for the confirming report of deposit from the banks before auditing.
- Does the amount of deposit in the deposit ledger correspond to the amount in the confirming report of deposit and trial balance?
- Is the bank AC deposits money an appropriate institution?
- Are the number of deposit time suitable to the cash flow of AC?
- Is the interest of deposit appropriate?

### ***3. Loan to members***

- Does the amount of loans in the loan ledger correspond to the amount in trial balance?
- Regarding amount of loan, interest rate, payback period, collateral and loanee, is there any violation of the statute and internal regulation?
- Is there any overdue loan?
- Is there any loan which is late to be paid up or collateral or guarantor is not fully secured?
- Is the demand done to loanee who delays repayment appropriately?
- Do members receive loans practically? (check the ledger and direct ask the member to verify)
- Is there an evident paper when providing loan to the member?

### ***4. Lending practice***

- Is the amount of loan provided extremely large and returned with difficulty and tight financial situation?
- Is the amount of loan provided to some specific person(s) by favour?
- Are all loans provided based on the official procedures?
- Before providing loan, does AC monitor loan request application, possibility of repayment, and keep collateral?
- Is the amount of loans given to non-members extremely large?

### ***5. Saving from members***

- Does the amount of saving from members in the saving ledger correspond to the amount in trial balance?
- Auditors shall select some saving accounts and check whether the record of acceptance and payment and calculation of interests are correct.
- Auditors shall request saving books from some members and check the amount with saving ledger.
- Is saving deposit of members recorded properly in ledger when they deposit their money?

### ***6. Joint saving business***

- Does AC aim to increase savings of members? Is this aim feasible?
- Are there any members who do not save money? If so, does AC take any action to him/her?
- Does the total amount of saving decrease? If so, does AC take action to change the situation?
- Is the reserve for paying back to members kept sufficiently?

### ***7. Borrowing from outside***

- Auditors shall request AC to ask for borrowing confirmation letter from the institutions they borrow before auditing.
- Does the amount of borrowing in the borrowing ledger correspond to the amount in the borrowing confirming letter and trial balance?
- Does each account of borrowing correspond to receipt?
- Does a total amount of borrowing exceed the ceiling decided in the statute or at the General Meeting?

- Does each borrowing follow the financial plan? Is there any problem within the repayment?
- Does repayment follow the repayment plan?
- Is there any borrowing for individual or with high interest rate and in short-term?
- Is there any off-the-book debt?

### ***1.3.2 Auditing supply business (buying goods to sell to members or outsiders)***

- Does invoice of supplying volume correspond to the volume recorded in stock-out list?
- Does the real volume of goods remaining in stock correspond to goods list?
- Does total amount of supply stock correspond to balance sheet? (must be the same cost)
- Is purchasing cost from market and supplying price to members of AC appropriate?
- Is there receipt for members?

### ***1.3.3 Auditing marketing business (purchasing agricultural products from members and sell to the market)***

- Does invoice of volume sold to the market correspond to the volume recorded in stock-out list?
- Does the real volume of goods remaining in stock correspond to goods list?
- Does total amount of goods remaining for sale correspond to balance sheet? (must be the same cost)
- Is the price bought from members and sold to market appropriate?
- Is there any receipt of buying goods given to members?
- Is product sold to market recorded in the warehouse ledger?
- Does the list of product collected from members correspond to the amount in the stock?

## **IV. Cases of scandals in agricultural cooperatives:**

The followings are the scandals or faults which are happened in Japan, Thailand and some Asian countries including Cambodia. The supervisory committee members must take consideration to understanding in auditing; some that has not existed now it might be happened in the future in agricultural cooperative in Cambodia.

- The cashier calculated wrong of interest rate, so she/he pocketed the surplus cash.
- The director of the board has used the AC cash for buying his/her own properties
- Cashier forges signature of the director to use cash for expense on his/her own business.
- When an agricultural cooperative gained a benefit of marketing business, the chairman had made the business look like his/her own business and pocketed the profit. When the cooperative suffered a loss, he/she made the cooperative register the deficit.
- A chairman had made a substantial loan to a private company managed by his/her family without consulting with the board and putting up collateral.
- A chairman had procured agro-chemicals from a private company managed by his/her friend at a higher price than the market price.
- A board member had made the cooperative buy his/her agricultural products at a higher price than the market price.
- A staff sold an unusable machine to a junk trader in his/her name without consultation with his chief and pocketed the proceeds.

- A member had entrusted his/her passbook to a staff regularly, although such behaviour violated the regulation, and the staff withdraw money from the member's account secretly, forged a receipt from the member and pocketed the money.
- A staff had kept applications for a new membership and the investment money received from 25 members at home because he/she was busy.
- A staff forged a request for refund of share capital from a member and remitted the refund money to a bank account of his/her friend and pocketed it.
- A staff working at a branch office made and submitted a document to employ a fictional part-timer and pocketed the salary.
- A staff had operated on a shoestring by pocketing money collected from members and handing money collected the next time to a cashier of the cooperative.
- A staff had played dumb about types and volumes of purchased fertilizers by forging price estimates and settlement notes and pocketed the balance between the real purchase money and payment.
- A staff falsified an inventory sheet and recorded fictional stock in order to disguise an inventory loss at a retail shop.
- A staff had pocketed proceeds from fertilizer supply to members by providing fictional receipts.
- A staff had pocketed money received from members as fixed deposit. A staff had pocketed money received from members as fixed deposit.
- A staff opened a fictional bank account in member's name without his/her permission and pocketed his/her deposit money by transfer processing from the original account to the fictional account and from the fictional account to the staff's account.
- A staff cancelled a member's fixed deposit before maturity without his/her permission and pocketed it.
- A staff forged a fictional loan secured by a member's fixed deposit and pocketed the loaned money.
- A staff conspired with a wholesaler of fertilizers and made it pad fertilizer bills and pocketed the balance.
- A staff had picked cash from a safe for personal use and left a memo on which the picked amount was written as deemed cash.
- A staff received a deposit from a member and lent it to another member without permission and pocketed the amount of difference in interest rates.
- A staff put petrol in his/her personal car in the disguise of a cooperative's car at a gas station of the cooperative.
- A staff had picked cash from a cash register of a cooperative's retail shop.
- A staff had pocketed money by using receipts which members didn't receive because of unnecessary
- A staff had pocketed proceeds from fertilizer supply received from members without payment processing although he handed receipts.
- A staff sold rice commissioned for sale by members illegally and pocketed the proceeds.
- A staff supplied a tractor to a fictional member and pocketed the proceeds.

## V. Preparation of a report of auditors

Supervisory committee shall prepare a report of auditors which has the following contents as soon as possible and report to the board.

- Names of auditors who implement audit
  - Auditing reference date
  - Date and the period of implementing audit
  - Names of officials and staffs of AC who witnessed auditing
  - Outlines of feedback and necessary points to improve
- ❖ **Preparation of auditing report which is included in the annual report**

Auditors shall prepare an auditing report which is included in the annual report as soon as possible. The report shall be explained and approved at a general meeting.

## VI. Result of Auditing Report :

- Total checking result by combining facts or real existing events
- In case those errors are found, it is necessary to inform those errors clearly.
- Offering guidance that is applicable for improvement
- Auditing committee shall keep accurate data and provide information on time to board of director such as critics for improvement by using polite words.
- Pointing weakness or issue or improper practice
- Tell faults clearly with the source of faults
- Try to find unusual reasons that are found and happened repeatedly
- Figure out solution and other choices that are able to implement by an urgent discussion with concerned officers

### 1. *Auditing Report Sample of Auditing Committee:*

➤ *In case that auditor didn't find faults during auditing, he or she must write as follows:*

### **Supervisory committee's Audit report**

March 30<sup>th</sup>, 2015

This is a supervisory committee's audited report of.....agricultural cooperative.

On March 25<sup>th</sup>-26<sup>th</sup>, 2015 supervisory committee audited the accounting books, inventory list, balance sheet, profit and loss statement, and necessary documents of business report in agricultural cooperative, in accordance with article 50 and 52 in Law on Agricultural Cooperative. We recognized that all important points and all activities of this agricultural cooperative appropriately.

#### **Supervisory Committee**

##### **Signature**

Chairman of Supervisory Committee:

Name.....

Signature: .....

Name: ..... (member of supervisory committee)

Signature: .....

Name: ..... (member of supervisory committee)

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➤ *In case that auditor found faults during auditing, he or she must write as follows:*

### **Supervisory committee's Audit report**

March 30<sup>th</sup>, 2015

This is a supervisory committee's auditing report of ..... agricultural cooperative. On March 25<sup>th</sup>-26<sup>th</sup>, 2015 supervisory committee audited the accounting books, inventory list, balance sheet, profit and loss statement, and necessary documents of business report in agricultural cooperative, in accordance with article 50 and 52 in Law on Agricultural.

Supervisory committee found some frauds mentioned below in accounting books, inventory list, balance sheet, profit and loss statement, and necessary documents of agricultural cooperative.

#### **Frauds found as follows:**

- Inappropriate cash on hand compared to the balance
- Expense without accurate invoice and in wrong way
- Expense without a permission from chairman
- Inaccurate calculation of earning and expense
- Expense for cooperative only, not for personal expense
- Loss of cooperative's equipment
- Without accurate list of loan to members or non-members
- Without accurate list of members' products
- Inaccurate note into accounting system
- .....

Supervisory committee, according to the Agricultural Cooperative Law, requests to the board of Directors to recheck and improve aforementioned frauds.

#### **Supervisory Committees**

##### **Signature**

Chairman of Supervisory Committee:

Name.....

Signature: .....

Name: ..... (member of supervisory committee)

Signature: .....

Name: ..... (member of supervisory committee)

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