

Co-operatives Societies Act, 2001

Co-operative's Board Presentation
An Accounting & Auditing Perspective
23rd April 2002

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Purpose of New Accounting Features in the ACT

- **Re-establish** a level playing field for Coops in the business world
- **Project** an improved image through the statutory introduction of IAS's
- **Enable** members to have a minimum of reported accounting information at hand

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Issues for today's INFO session

- New features in the ACT
- Financial statements requirements
- Statutory submission requirements
- Auditors' responsibilities
- Audit report requirements

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New Features in the ACT

- International Accounting Standards
- International Standards on Auditing
- Minimum financial statements requirements set for presentation to members
- Abridged Audited Financial Statements
- Coops' Financial Statements to be made available by the Coops Board for public scrutiny
- CCF own legal personality

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Auditors and Audit (S45)

- Accounts must be audited **once** every year
- Auditors must be warrant holders (CPAA) – (see Accountancy Profession ACT)
- An auditor must hold office **at all times**
- Auditors are **appointed at AGM**
- Auditors' **remuneration** to be **approved at AGM** or as the members decide and **included in the notes to the accounts**

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Submissions to the Board (S48) (1)

- Financial statements must be delivered to the Board **within 5 months** after the close of each financial year in the following format:-
 - 1 **complete** set of audited financial statements as presented at AGM
 - 1 set of abridged audited financial statements to be made available for public inspection (**optional**)

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Submissions to the Board (S48) (2)

- The Board **will make available for public inspection** the full set of financial statements in the event that the abridged accounts are not delivered within the stipulated 5 months
- **Penalties** shall be imposed if the full set of audited financial statements are not submitted to the Board in time

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Coming into force of Section 48

- Legal Notice 49 of 2002 – stipulates that S48 is to come into force **1st January 2003**
- Abridged financial statements may be delivered to the Board as from accounting years commencing **1st January 2002**
- Financial statements covering the year ended **31st December 2002** shall be the first to be made available for public scrutiny

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Audit of Financial Statements (S49)

- Auditors are to inform the Board **forthwith** of any **material irregularity** disclosed in the course of the audit of any Coop society
- Forthwith = without delay; immediately; before AGM
- Society's audited financial statements are to be made available for inspection by the members **5 working days before the AGM**

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Audit Report (S49)

- Audit should be conducted in accordance with **International Standards on Auditing**
- Audit Report **must state on the face of every report** whether in the auditors' opinion, the financial statements:-
 - have been properly prepared in accordance with the Cooperative Societies ACT
 - show a true and fair view:-
 - of the state of affairs of the society as at the end of the accounting period; and
 - of the income and expenditure of the society for the accounting period.
- Audit qualification – same as for companies

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Signatures on Audit Reports (S48(7))

- Audit reports are to be **signed** by the auditor or by an audit partner responsible to sign on behalf of the partnership
- **Name** of signing partner to be clearly typed on the face of the auditors' report
- In other words the Board wants to know who physically signed the audit report (should only be signed by a partner)

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Audit Report on Abridged Financial Statements (S48)

- The abridged audited financial statements must be accompanied with the **full text** of the audit report as laid down at the AGM, together with a declaration stating:
 - Whether in the auditor's opinion the society is entitled to prepare an abridged set of audited financial statements, for public inspection
- Rules for presentation – same as for Companies

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Financial Statements (S48)

- To be prepared in accordance with **IAS's**
- To be delivered to the auditor for auditing not later than **3 months** from financial year end

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Abridged Financial Statements - Eligibility

- Who is eligible to prepare abridged financial statements? (same as Companies Act)
 - All cooperative societies are eligible but **must NOT exceed the limits of two** of the following criteria on their balance sheet date:
 - - balance sheet total: Lm1,100,000
 - - turnover: Lm2,000,000
 - - average number of employees 50

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Abridged Financial Statements – Non-Eligibility

- What if the society **DOES NOT** qualify to prepare abridged financial statements?
 - Society must prepare accounts as indicated in Parts I, II, & III of the Third Schedule
 - **Full** Balance Sheet
 - **Full** Income & Expenditure Account
 - **Full** Notes to the Accounts

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Abridged Financial Statements - Format

- What statements are to be prepared? (same as Companies Act, 1995)
 - Abridged Balance Sheet
 - Abridged Income & Expenditure Account
 - Abridged Notes to the accounts
- ACT stipulates only one format as regards I&E and Balance Sheet
- Departure from proposed format must be disclosed, and reasons explained in the notes to the accounts

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Financial Statements Special Presentation Features for Coops

- Special headings in accounts for Cooperative societies when compared to Companies
 - I & E
 - Provision to the CCF
 - Provision to the Reserve Fund
 - Patronage Refund
 - Balance Sheet
 - Balance due to CCF
 - Balance of Reserve Fund

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Central Cooperative Fund (S91)

- All societies **must contribute 5% to the CCF from the surplus resulting from its activities, operations, investments and any other sources**
- The CCF shall have a **distinct legal personality** and shall sue defaulters for non payment of the 5%
- The Board shall furnish the CCF with the relevant information to enable the CCF to determine the contribution due by each society

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Recommendations (1)

- Familiarise yourselves with the ACT
- Follow auditing standards
- Qualify if society departs from IAS's
- Qualify if society departs from the ACT
- Make sure the society's name on the face of the accounts is the correct registered name
- Going concern qualification is to be clear especially in cases of insolvent societies

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Recommendations (2)

- Avoid small audit qualifications, identify internal control deficiencies
- Check calculations of CCF & Reserve Fund
- Accounts should reflect only transactions performed by the society (do not double count)
- Make sure the capital structure reported is in accordance with the statute

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Recommendations (3)

- Avoid using the word company in the society's audit report and/or in the body of the accounts
- Do not forget - Coops Societies have Limited as part of their name
- Qualify if cash flow statement (IAS 7) is not available
- Follow as far as possible accounts layouts found in Third Schedule
- Prepare your clients for the business implications of having their accounts scrutinised by the public

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Areas NOT covered today

- Dissolutions and liquidations
- Accounting records
- Treasurer's/Manager's responsibilities
- Taxation issues
- Inquiries into the financial position
- Transfer of shares
- Disqualification & powers of auditors
- Share capital; make up and limitations

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Question Time

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MINISTRY for SOCIAL POLICY

