Financial Reporting Obligations for Small Co-operatives

The Co-operative Federation of Queensland was established in 1945 and has represented its members and provided practical advice and assistance to co-operatives generally at a local level. It participates in Co-operatives Australia to work together with other State Federations on matters relevant to all states and items of substance or of direct benefit to all co-operatives (new and existing) and their continued development.

CONCERN

We are very concerned that co-operatives are being treated so differently to other entities of a similar nature that are subject to Corporations Law.

LEGISLATIVE

It is essential that separate legislative provision for co-operatives be maintained because of the distinctly different focus on active membership and democratic control with all of the checks and balances that enshrine co-operative principles in the manner in which the business is operated. The essential focus of dealing with its members to advance the benefit to them and their participation is paramount. It is not the same as a remote investor, financial intermediary in a company or other entity; nor a community activity under Association Incorporated legislation. As has been noted elsewhere a detailed review of what is registered currently or proposed as a co-operative should move a number of currently registered co-operative entities to more appropriate legislative governance not the Co-operatives Act.

DISCUSSION PAPER STATUS

The concept of the Discussion Paper is considered flawed in that it focuses on matters which are not what determines the nature of the operation and administration of a co-operative. (NFP’s, DGR’s, Grant Funding etc.)

The question becomes why should co-operatives be treated any differently to small propriety companies. The co-operative membership (community of owners) and administration is often in fact more closely held and integrally involved with its members both in terms of having dealings with the members and the fact that the majority of the board of directors must be active members. This level of scrutiny would normally provide a substantially greater degree of internal control of the operations and management such that the board at the very least and, to a degree, members in their transactions would require adequate reporting to ensure accountability. This legislation is purely to deal with the requirements of an organization operating on co-operative principles and their needs.
MEMBER CONTROL OF REPORTING REQUIREMENTS

This board / member relationship does not mean to obviate or restrict some scrutiny at any level below the requirements for small proprietary companies under Corporations Law. This decision should be left to the members to determine in their rules or at a general meeting of the co-operative. It should be left to that process to determine the level of scrutiny and the full range of options should be available to the members to determine from no Audit, Independent Review by an impartial person of a Statement of Cash Flows and a Listing of Assets and Liabilities, and a Review carried out in accordance with Auditing Standard on Review Engagement ASRE 2410 or a full Audit in accordance with Australian Auditing Standards by a registered company auditor. It must be left to the Rules and the members in general meeting to specify the appropriate level and the board should be bound to report to members accordingly.

There is a requirement that a general meeting be called upon “the written requisition of the number of members who together are able to cast at least 20% (or a lesser percentage specified in the rules of the co-operative)”. Emphasis added. This would allow member control of when a special audit may be required. A motion moved in accordance with the rules at the meeting would be binding.

DISCRIMINATION

It is essential that legislation and regulation related to co-operatives is not viewed differently to any other administrative structure. The Discussion Paper approaches the matter from a motherhood perspective and does not sufficiently reflect current public policy standards for government to not be interventionist and prescriptive unless certain exception reporting draws the attention of the Registrar to a need to intervene for fair trading protection. Certainly, the resources available to the Registrar (other than possibly in New South Wales) are extremely limited and do not currently (as well as could not currently) get involved to any greater level of detail. This would require considerable extra staffing and discriminates against co-operatives in the extent of compliance requirements.

PUBLIC FUNDRAISING DISCLOSURE APPLIES AS FOR OTHER ENTITIES

It is accepted in relation to any organization that goes out to the public for fund raising instruments such as debentures and Co-operative Capital Units (CCU’s) that are deemed by the legislative provisions related thereto to have certain minimum standards of disclosure and audit such that in those circumstances a co-operative should also abide by those provisions. This is also governed by the fact that certain classes of funding organizations (such as banks) can require their own level of information and the degree to which that application must be supported by independent review.

Co-operatives are appropriately distinguished as distributing or non distributing to differentiate between the nature of the business undertaking. It is entirely irrelevant whether it is “for profit” or “not for profit” and certainly no other administrative structure is separately categorized in this or any other manner. It is of significant note that quite separately there is a national review of the notion of Not for Profit and the benefits that brings to the respective purpose of the entity structure. The outcomes of that will apply to all entities irrespective of their organizational administration and which legislation they are registered under. It would be expected that co-operatives would comply as they do at present should that be the purpose of their activities e.g. current taxation requirements.

It is equally irrelevant whether the organisation is a Deductible Gift Recipient or receives Grant Funding because like the many circumstances in which entities operate they may or may not be required to have greater accountability. Certainly, no other administrative structure has any requirements other than in the nature of the Grant, Deductible Gift or other special purpose requirement that would be specified as part of the particular arrangement and the relevant special purpose legislation applicable such as taxation law and/or legislative grants.
Concern is strongly emphasized that the approach implied is contrary to all stated principles on the elimination of “red tape” and the review of regulatory impact of the proposals at state and national government. It would almost certainly be objected to at both levels.

Co-operatives do not need or request greater complexity of operation. It is essential that professional people such as lawyers, accountants and other advisors or educators have a simplified approach that utilises the current range of compliance and reporting arrangements that are applicable to accounts and audit of existing entities. This should be the thrust of the co-operative legislation.

It is also inconceivable that provisions in one state e.g. Western Australia would adopt the simplified approach and it not be equally available to other states. Co-ops will all register in Western Australia if that was the case. The experience there has been that an appropriately balanced and reasonable approach has been taken to the changes with their requirements similar to that of small companies.

Professional members of the various Accounting and other bodies who work and are experienced in co-operatives’ management and legislation often have a slightly different view to that of the remote research areas but still apply and support the relevant standards as long as they reflect co-operative operation. Internationally this has been recognised and work is progressing to change the existing provisions to reflect good co-operative practice.

The co-operative movement and its members in Australia have for a long time requested the relaxation of requirements and yet still proposals that are hand holding, paternalistic and interventionist from the past are developed. Whilst this may have been more relevant previously when there was no communication, no access to advice and consumer knowledge and protection was limited; this is now not the case, and should be the exception as for most other entities.

The Queensland Government’s stated Regulatory Simplification Plan has the objective of “reducing the compliance burden to business and the administrative burden to government ................. The aim is to give time and money back to business, community and government to invest in pursuits that promote productivity, facilitate innovation and increase competitiveness”. Other states have similar bi-partisan objectives.

Australian Government Policy at a State and National level is to develop regulatory simplification rather than be prescriptive and a burden on business. The Australian Government, Department of Finance and Deregulation, in its Deregulation Policy division has a stated objective to pursue “Reform efforts encompass both Commonwealth and cross-jurisdictional (Commonwealth-State) regulation with the objective of reducing costs to government, business and the community and, more generally, improving interaction between government and the public.”

**QUESTIONS – RELEVANT SUMMARY REPLIES**

5.4 To the extent that any of these are part of the consideration in relation to Corporations Law, etc. then it would apply equally to co-operatives and not a greater imposition.

The added record keeping, expensive audit costs and often travel costs to expand compliance do not provide any greater internal control or reported information. Often it places the small co-operative that is community owned at a competitive disadvantage because of overheads and the red tape involved.

5.6 Again to the extent that it applies under Corporations Law then only at that point compliance with normal requirement of all other organizations would apply.

6.2 Whether a co-operative is a not for profit, DGR or Grant Recipient etc. is also irrelevant as it is for any other organizational structure. Any external appropriate requirements that would be expected of other organizations would then and only then be applicable to co-operatives but not included in Co-operative legislation.
6.4 See the above responses. Not separately applicable to Co-operative legislation and should not be considered.

7.3 As discussed, the level and extent of accountability for small co-operatives should be determined by members in their Rules with the format outlined there. The savings would be considerable and place it within the same scope as any other small entity.

8. At the applicable level of financial reporting obligation as determined by the members in the Rules of the co-operative, the standard accounting principles should apply to that reporting even if the Rules requirement is an unaudited Statement of Cash Flows and a Listing of Assets & Liabilities. The co-operative movement internationally disagrees with the provision that captures share capital as debt. The financial reporting of shares in a co-operative should be reflected as capital until its nature is changed to a repayable debt. This repayment of capital is very limited by the legislation to certain circumstances and percentages of total capital at any particular time with terms of repayment that could extend up to 13 years such that the viability of the co-operative and its accounting for share capital is not in question.

CONCLUSION

A small co-operative should be defined as a co-operative that does not raise funds from the public other than as a member or new member under the rules and satisfies as per the discussion paper any two of the following criteria:

- Consolidated revenue is less than $25 million,
- Consolidated gross assets is less than $12.5 million,
- Less than 50 employees.

Should a co-operative need to raise funds from the public (non members) then the provisions of Corporations Law that apply to all other entities should apply with the standard provisos for banks, wholesale or sophisticated investors etc. who are deemed to be able to access relevant advice or require relevant financial information at the time of the fund raising transaction.

Many co-operatives have very little margin in their turnover as they are operating on behalf of their members and quite often audit costs can be the difference between survival and more importantly for the community providing both greater competition and industry or regional economic development.

These co-operative operations would not occur without those members joining together or substantial government assistance which then places a burden on government administration and the tax payer.

Conceptually, it could be argued that the transactions with the member belong to the member as an agency arrangement and should not be reflected upon as the size of the co-operative for legislative and accounting policy purposes. Practically, this concept would be too difficult and foreign to other entity and accounting practice that it should not be considered other than to reflect that many co-operatives have relatively small discretionary funds within the sole control of the board and management such that an additional financial reporting burden is not necessary.

In conclusion, the Rules of the co-operative as approved by the members should define financial reporting and audit criteria no more onerous than small proprietary companies.

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