Audits for Ontario Co-ops

FACT SHEET

Introduction

Having financial statements audited can be a challenging and expensive process for many co-ops, and understanding when an audit is required can sometimes be confusing. The Co-operative Corporations Act outlines the specific requirements about when coops need to perform audits and other restrictions or allowances for the process.

What Is an Audit?

All co-ops have some sort of records of their financial activities and generally include documents like:

- Expense reports or expense statements
- Budget statements
- Accounts payable (what the co-op owes to other bodies) and accounts receivable (what money is owed to the co-op)
- Bank statements and reconciliation reports
- Cash flow statement (summary of cash coming into the co-op and going out of the co-op)
- Income statement (summary of revenues and expenses, showing a net profit or loss)
- Balance sheet (summary of the assets, liabilities and members' equity in the co-op)

These are usually reviewed on a monthly or quarterly basis by the board of directors as part of their governing work.

Audited financial statements are financial statements of the co-op that have been reviewed by an external certified accountant. After the statements have been reviewed, the accountant provides an opinion about the statements and whether or not they represent a fair statement of the financial position of the co-operative. This is done in accordance with Generally Accepted Accounting Principles (GAAP). These statements are presented to the members at the Annual General Meeting (AGM).

There are details in the Act that outline the material that must be included in audited financial statements and how they must be displayed. Co-ops and those that provide financial assistance to co-ops are urged to consult sections 126—137 of the Act for more details on what is required. There is a cost associated with carrying out an audit, and these costs have risen in recent years due in part to scandals in the corporate world related to accuracy of accounting and financial records. This has added increased pressure on all forms of business to obtain audits and increased demand on the services and liability of auditors that perform these services.

When Does My Co-op Have to Do an Audit?

There are several thresholds that apply to co-ops seeking an exemption from the audit provisions of the *Co-operative Corporations Act*. The most basic is found in Section 123 (2) of the Act. It states that a "co-operative that has never issued securities and that at the end of a financial year has less than $5,000 in capital and less than $5,000 in assets" is exempt from having to do an audit. The foregoing is, of course, extremely limited and very few co-ops meet this exemption.

ADDITIONAL INFORMATION

coopzone.coop/en/BusinessSuccessions

The above website has the following series of guides:

- The Co-operative Alternative: A guidebook for successfully transferring a business to a co-operative
- Business-owner's Guide: Selling a Business to a Co-op
- The Co-operative Alternative: A guide for co-operative entrepreneurs
- Co-op Steering Committee Guide: Buying a Business
- Companion Guide: Transferring a Business to a Co-op
- Tip Sheets: The 20 Steps of the Business Transfer Process, Checklist for a Business-to-Co-operative Succession Plan, Valuing a Business

What Do "Capital" and "Assets" Mean?

Capital refers to outstanding member loans and patronage loans, unsecured long term debt, issued shares or other capital, or any surplus (which is income for the year minus the expenses).

Assets mean any property, equipment, or cash owned by the co-operative.

Even if a co-op does not meet the exemption condition outlined above, there are other exemption conditions that may allow a co-op to forego the preparation of audited financial statements. These exemptions are found in Sections 123(1) and (1.1) of the Act and these sections state that a co-operative may be exempt from doing an audit if the following conditions are met:

1. The co-op has fewer than 51 members, **and**
2. None of the co-op's (a) capital (b) assets (c) gross revenues or sales exceed $500,000; **and**
3. No government grant or subsidy that the co-op receives has a condition requiring an audit.

If **all** of the foregoing conditions are met, then a co-op can exempt itself from the preparation of audited financial statements if:

1. The co-op has 15 members or less and all the members consent in writing to the exemption, or
2. The co-operative has more than 15 but fewer than 51 members and the exemption is approved by special resolution. The special resolution allows the co-op to exempt itself from doing an audit provided that 3 or more members of the cooperative do not give the co-operative written notice that they require an audit within 14 days after the meeting at which the special resolution was confirmed — if 3 or more members provide this written notice, then the co-op must do an audit, even if they otherwise meet the exemption. A "special resolution" is a resolution passed by the directors of the co-operative and confirmed by at least two thirds of the votes cast at a general meeting of the members (or a higher proportion if the co-op's articles require it).

Who Can Be an Auditor?

An auditor must be a qualified person that is independent from the co-op. It is usually a certified chartered accountant, public accountant or an accounting firm. Current board members or employees cannot be auditors, nor can former directors or employees if they occupied that position in the two years preceding the audit. Other parties that cannot be auditors include firms or individuals that conduct a material amount of business with the co-op.

How is the Auditor Appointed?

Auditors are appointed by the membership as part of the AGM and holds office until the next AGM. If for some reason the members do not appoint an auditor at the AGM, the directors can do it on their behalf. The board of directors can also appoint a replacement auditor if the auditor resigns or dies.

Auditors can be removed during the course of the year (i.e. between Annual General Meetings) by the vote of the membership, but the auditor has to be given 15 days notice so that they can make an appeal to the membership in person. The membership can also choose to change auditors by appointing a new auditor at the AGM but the auditor must be given written notice of this intention.

FOR MORE INFORMATION, CONTACT

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More resources are available at:
CoopZone Network
coopzone.coop

This is one of a series of FACTSheets created by On Co-op providing general knowledge, best practices, and sector-specific information.

Get the full list of FACTSheets online at **ontario.coop/documents_downloads**

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