THE STATUS OF THE FINANCIAL REPORTING FUNCTION OF
CO-OPERATIVES IN SOUTH AFRICA

by

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Submitted in fulfilment of the requirements for the degree of Magister Commercii in Business Management in the Faculty of Economic and Management Sciences

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The International Co-operative Alliance (ICA, 2013c:2) states that a co-operative as business model has the ability to address unstable economic circumstances for citizens around the world. The business model is *inter alia* focused upon the well-being of the individual and bringing economic resources under democratic control – it has been proved that the co-operatives sector has already provided millions of jobs worldwide. The United Nations has also identified the potential of co-operatives to play an important role in social and economic growth to such an extent that they decided during 2009 to proclaim 2012 as the United Nations International Year of Co-operatives.

The ICA (2013c:3) aims to provide co-operatives with direction for future growth in its proposed Blueprint. The expansion of existing accounting practices of profit-orientated business is identified amongst other actions that should be taken to ensure that co-operatives succeed in playing a significant role in economic, social and environmental sustainability by 2020.

This study focuses upon the nature, status and accounting requirements of co-operatives by means of a literature review. Existing financial reporting guidance as well as research already performed for the development of financial reporting guidance for co-operatives is also investigated, followed by the empirical portion
of the research. Three South African co-operatives are investigated with reference to their financial reporting requirements – the information is gathered by means of semi-structured interviews which are held with stakeholders relevant to the financial reporting function of co-operatives in South Africa.

The study concludes with a perspective on the relevance of existing financial reporting frameworks of co-operatives and specifies the shortcomings thereof with regard to the financial reporting requirements of co-operatives.
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CHAPTER 1

INTRODUCTION AND BACKGROUND: THE STATUS OF THE FINANCIAL REPORTING FUNCTION OF CO-OPERATIVES IN SOUTH AFRICA

Labor can and will become its own employer through co-operative association.
— Leland Stanford

1.1 INTRODUCTION

The year 2012 was proclaimed as the United Nations International Year of Co-operatives (ICA, 2013c:2). One would immediately ask about the reason for the emphasis on this type of enterprise, instead of any other type of enterprise. The nature of other enterprises as well as the rationale for the emphasis on co-operatives from a local and international perspective will be discussed as background to this chapter. The remainder of the chapter will explain the origin of this study, followed by the research objectives, propositions, a brief explanation of the research methodology followed and an overview of the layout of the study. Lastly an explanation of the meaning of abbreviations and definitions used in the study will be discussed, ensuring that the content of the study is understood correctly.

1.2 BACKGROUND TO CO-OPERATIVES

The Legal Resources Centre (2011:6) recognises the increased interest in the social economy in South Africa. New forms of social enterprises are emerging as community based organisations are striving to decrease their dependence on grants and donations, by replacing them with enterprises that are run like businesses that create sustainable income streams for funding the social purpose of the organisation. The selection of an appropriate legal form by such entities is not always straightforward – the Legal Resources Centre (2011:6) has in
response to this developed a guide to legal forms of social enterprises in South Africa. The appropriateness of various types of legal forms are evaluated in this document with reference to legal requirements, advantages and disadvantages towards social enterprises.

1.2.1 For-profit entities

Public companies, private companies, close corporations and co-operatives are classified as for-profit entities. For-profit entities primarily exist for generating profit. Such entities are more likely to obtain access to funds and flexibility of profit distribution. The investment of profit in a social purpose is an advantage of the application of profit-companies as social enterprises (Legal Resources Centre, 2011:8, 22).

1.2.2 Non-profit entities

Voluntary associations, trusts and non-profit companies are classified as non-profit entities. Such entities are in general not focussed upon the generation of revenue from trading activities, but rather from that of donations. Such donations are applied for the promotion of specific aims such as charitable work or social welfare, and distribution of profit amongst members is therefore not allowed by such entities (Legal Resources Centre, 2011:8, 10).

1.2.3 Hybrid models

These entities are established in cases where the aim of the entity is to generate revenue from trading activities as well as from donations. The aims for the entity can therefore be divided between more than one legal entity, such as companies or co-operatives that are for-profit entities and non-profit entities such as voluntary associations (Legal Resources Centre, 2011:8, 26).
The above is summarised in Table 1.1:

### Table 1.1: Summary of legal forms

<table>
<thead>
<tr>
<th>Models</th>
<th>For-profit</th>
<th>Non-profit</th>
<th>Hybrid</th>
</tr>
</thead>
<tbody>
<tr>
<td>Example of legal form</td>
<td>Public companies, private companies, close corporations and co-operatives.</td>
<td>Voluntary associations, trusts and non-profit companies.</td>
<td>Combination of company or co-operative and voluntary associations.</td>
</tr>
<tr>
<td>Aim</td>
<td>Generating revenue for members.</td>
<td>Obtaining donations for social objective.</td>
<td>Combination of generating revenue and obtaining donations for social objective.</td>
</tr>
<tr>
<td>Distribution of profits allowed</td>
<td>Yes.</td>
<td>No.</td>
<td>Depends on legal form.</td>
</tr>
</tbody>
</table>

*Source: Own compilation*

### 1.2.4 The role of co-operatives

Co-operatives are distinguished from other enterprises as their goal is *inter alia* focused upon mutual benefit, democratic control and social and cultural needs – each member has only got one vote. Members of co-operatives have the opportunity to combine interests and expertise for mutual benefit, but are also able to benefit financially by means of dividend declaration. Co-operatives are hence recognised as entities that fit well into a social economy, due their ability to produce goods, services and knowledge whilst promoting solidarity by the fulfilment of social and economic aims (Legal Resources Centre, 2011:6, 24).

The ICA (2013c:2) promotes the potential of co-operatives to *inter alia* address social and economic challenges. The ICA’s (2013c:3) vision for co-operatives in 2020 is to become an acknowledged leader in economic, social and
environmental sustainability, a model that is preferred by people as well as the fastest growing enterprise. Co-operatives should however be able to inter alia demonstrate that sustainability is part of their inherent nature before this vision can become reality (ICA, 2013c:15). Innovations to accounting and the expansion of performance measurement of co-operatives are suggested as some of the actions that can be taken in demonstrating the ability of a co-operative towards sustainability. It is stressed that co-operatives should collect and publish relevant information in demonstrating their positive impact (ICA, 2013c:18). Discovering the nature and content of accounting and performance management in this study is further discussed in Section 1.3.

1.3 ORIGINATION OF THE STUDY

The purpose of the financial reporting function of any entity or business is inter alia to measure the profitability of the entity, the ability to carry on as a going concern and to evaluate the achievement of the goals of the entity. The goals of a co-operative differ from other entities such as companies, due to the fact that a co-operative focuses on supplying affordable goods and rendering affordable services to members and does not focus on shareholder wealth by the maximising of profits as in the case of a company. The financial reporting requirements applied by companies might therefore not be appropriate for application by co-operatives when reporting on financial information and financial performance.

The above was investigated by a discussion group that was appointed by the DTI to advise them on the development of a regulatory framework for the financial, management performance and social reporting systems for co-operatives. The need for the development of additional guidance for the financial reporting of co-operatives has, amongst other findings, been identified by the discussion group during the project (Nieman, Plant & Fouché, 2011:7-8).
The process followed and findings made were further explained in a paper entitled *Developing a regulatory framework for the Financial, Management Performance and Social Reporting Systems for Co-operatives in developing countries: A case study of South Africa*, that was presented during the 4th Italian Conference on Social and Environmental Accounting Research (Italian CSEAR, 2012). The positive nature of the feedback received on the paper from other attendees further revealed the need for research on the topic.

The above research is expected to enhance the defined emphasis of the literature review in this study and is also expected to provide direction to the empirical phase of the research, with specific reference to the development of relevant questions for inclusion in the semi-structured interviews.

### 1.4 RESEARCH QUESTION AND RESEARCH OBJECTIVES

#### 1.4.1 Research question

Does a financial reporting framework exist for co-operatives in South Africa?

#### 1.4.2 Primary research objective

- To establish the need for a different financial reporting framework for co-operatives in South Africa.

#### 1.4.3 Secondary research objectives

- To determine whether financial reporting frameworks currently applied in South Africa are appropriate for co-operatives.
- To identify concepts to be included in a co-operative financial reporting framework.
1.5 PROPOSITION

$P_0$: There is no financial reporting framework for co-operatives in South Africa.

$P_A$: There is a financial reporting framework for co-operatives in South Africa.

1.6 DELIMITATIONS OF THIS STUDY

This study is specifically applicable to co-operatively managed enterprises in South Africa.

1.7 ASSUMPTIONS

IASB (2010) states in paragraph QC 1 that the objective of financial reporting is to provide financial information about the reporting entity that is valuable to current and potential investors, lenders and other creditors in their judgment on whether they should provide the relevant entity with resources. Relevance is also, according to paragraph QC 6 (IASB, 2010), one of the fundamental qualitative characteristics of useful financial information. In this study it will be assumed that financial information reported on by a co-operative should be relevant to the members and other stakeholders of a co-operative.

1.8 RESEARCH DESIGN AND METHODOLOGY

A qualitative research approach was followed during this study. The phenomenon of the financial reporting framework of co-operatives will be investigated. The research was conducted by means of a literature review as well as an empirical study. The aim of the literature review was to obtain background on co-operatives, with specific reference to the international status of co-operatives, the objectives of co-operatives, the financial reporting requirements of co-operatives as well as an evaluation of the appropriateness of existing financial reporting requirements for the application by co-operatives.
The empirical part of the study was performed by means of case study research, and the data relevant to the case studies was gathered by means of semi-structured interviews. Stakeholders to the financial reporting requirements participated in the semi-structured interviews, in order to obtain their view on the financial reporting needs of co-operatives, as well as the appropriateness of existing financial reporting requirements of co-operatives.

1.9 CONCEPTUALISATION

The concepts referred to in this study are defined as follows:

1.9.1 Assurance engagement

An assurance engagement is defined as an engagement where a practitioner expresses a conclusion about the evaluation of the measurement of a subject matter against a criteria enhancing the degree of confidence of the intended users other than the responsible party (IAASB, 2005).

1.9.2 Conceptual Framework for Financial Reporting of the IASB

The Conceptual Framework has been issued by the IASB and the purpose and status thereof *inter alia* sets out the concepts that underlie the preparation and presentation of financial statements for external users (IASB, 2010).

1.9.3 Co-operative

“A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise” (ICA, 2013b).
1.9.4 Financial reporting framework for co-operatives

A framework that would replace the Conceptual Framework for Financial Reporting of the IASB, addressing the concepts that underlie the preparation and presentation of financial statements for external users of co-operatives.

1.10 ABBREVIATIONS USED

The following abbreviations are used in this study:

BRICS

Brazil, Russia, India, China and South Africa.

CEARC

Centre of Excellence in Accounting and Reporting for Co-operatives.

CIPC

Companies and Intellectual Properties Commission.

DTI

Department of Trade and Industry.

DGRV

Deutscher Genossenschafts- und Raiffeisenverband (German Co-operative and Raiffeisen Confederation).
IASB

International Accounting Standards Board.

IAASB

International Auditing and Assurance Standards Board.

IFRIC

IFRS Interpretations Committee.

IFRS

International Financial Reporting Standards issued by the IASB.

IFRS for SMEs

International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) issued by the IASB.

ICA

International Co-operative Alliance.

ILO

The International Labour Organisation.

iSORP

international Statement of Recommended Practice.
1.11 OUTLINE OF THESIS

Chapter One provides background to co-operatives and explains the difference between co-operatives and other forms of enterprises. The emphasis on co-operatives is further explained with reference to their current international status and expectations for development as a type of enterprise with socio-economic benefits. The research question, objectives, delimitations and assumptions are explained, followed by a summary of the research methodologies that will be applied in this study. The chapter also provides guidance on concepts that will be referred to and abbreviations that will be used in the study.

Chapter Two introduces an overview of co-operatives with reference to the international status thereof, the seven principles of co-operatives, as well as the auditing and financial reporting requirements of co-operatives. Specific reference is also made to the status and functioning of co-operatives in selected BRICS countries, including South Africa. Former as well as existing and expected legislation relevant to the financial reporting requirements of co-operatives in South Africa is compared, to obtain a perspective of former and existing financial reporting requirements that have been and are currently in place.

Chapter 3 commences with a discussion on elements such as member rewards, financial reporting, reserves and the goals of co-operatives that distinguish co-operatives from investor owned entities. The application of the requirements of existing financial reporting frameworks is examined, in order to obtain an understanding of the appropriateness thereof for co-operatives. The examination of existing frameworks is followed by an investigation of proposed content for a financial reporting framework for co-operatives, according to Canadian as well as South African research performed. The merit for a financial reporting framework for co-operatives is preliminarily evaluated as well. The chapter concludes with a summary of current financial reporting guidance available for application by co-operatives.
Chapter Four contains a detailed explanation of the research methodologies applied during the literature review, as well as during the empirical phase of the study. The themes that are investigated during the empirical phase of the research and how they evolved during the literature review phase of the research are explained. It is further explained that such themes are investigated by means of a qualitative research approach in the form of case studies, and that data was gathered by means of semi-structured interviews.

Chapter Five commences with a brief summary of the cases selected for the case studies, as well as the role of the participants selected for the semi-structured interviews in their organisations. The findings made during the empirical phase of the research are then clearly documented and concluded on with specific reference to the themes identified during the literature review.

Chapter Six summarises the findings of the study with specific reference to the literature review and the empirical research performed. Each research objective is also concluded on in this chapter, followed by limitations of the study as well as the benefits thereof and areas identified with merit for future research.

1.12 CONCLUSION

The chapter has provided a perspective on the reason for the emphasis on co-operatives, as well as a brief overview of their socio-economic role and potential. The research objectives were also stated in this chapter, followed by an overview of the approach that will be followed in addressing them. The propositions, delimitations, assumptions and terminology and abbreviations used in the study were also clarified. The chapter concluded with a brief overview on the chapters included to the study.
CHAPTER 2

CO-OPERATIVES – AN OVERVIEW

2.1 INTRODUCTION

This chapter begins with a background discussion on the international status of co-operatives with reference to their international role and extent of membership. The nature of co-operatives is then discussed with reference to the qualities and values of a co-operative that differentiate this type of entity from other entities such as companies. The status and functioning of co-operatives in emerging countries including Russia, Brazil and India are then investigated. This is followed by a South African perspective on co-operatives, to obtain an understanding of the significance of co-operatives and the extent of utilisation of this type of enterprise.

It is specifically noted that co-operatives became a significant enterprise in South Africa when they experienced a significant growth of almost 150% between September 2011 and January 2014 as shown in Figure 2.1. The fact that the South African government recognises co-operatives as an important instrument for socio-economic development in South Africa is one of the reasons for this growth. The attempts by the South African government, not only to ensure growth of co-operatives, but also to enhance their governance from a financial reporting and auditing perspective, are also investigated in this chapter.

The chapter concludes that a significant number of the world population are registered members of co-operatives in various economic sectors and that co-operatives play a vital role in the alleviation of poverty, especially in emerging countries. International guidance on the requirements of financial reporting, specifically relevant to the unique characteristics of co-operatives, are however difficult to identify. This revealed the relevance of this study to the researcher and provided the researcher with direction for further research.
2.2 CO-OPERATIVES IN GENERAL

This section begins with a discussion on the new international awareness of co-operatives followed by a discussion on the nature of this type of enterprise. Aspects such as the values unique to co-operatives; economic sectors that are likely to utilise co-operatives as a form of enterprise; as well as the difference between co-operatives and other entities such as companies are referred to, in order to obtain a better understanding of the nature of this type of enterprise.

2.2.1 International status

The term “co-operative” was commonly known in South Africa as an enterprise form which became an integrated part of the South African farming culture and community, providing farmers with farming advice and access to inter alia...
agricultural produce, production inputs, and farming equipment during the 20th century. The concept of a co-operative has however not been limited to South Africa – the number of co-operative members today amounts to a total of approximately one billion people worldwide (ICA, 2013a).

Co-operatives as business enterprises have received increased attention on an international level recently. The General Assembly of the United Nations (UN) proclaimed 2012 as the International Year of Co-operatives during 2009 (United Nations, 2010:1). The Secretary General of the UN, Ban Ki-moon, describes a co-operative as follows: “Co-operatives are a reminder to the international community that it is possible to pursue both economic viability and social responsibility” (ICA, 2013c:2).

The International Labour Organisation (ILO), a United Nations agency, adopted the Promotion of Co-operatives Recommendation No. 193 during its International Labour Conference held in Geneva during June 2002. This new Labour Standard inter alia recognises the importance of co-operatives in the economic and social development of people through the mobilisation of resources, with creation of jobs and contributions to the economy. The General Conference of the ILO defines a co-operative as “an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs as aspirations through a jointly owned and democratically controlled enterprise” (ILO, 2002).

Co-operatives worldwide are guided and promoted by the (ICA) which is the largest non-governmental organisation and constitutes of 267 member organisations representing 96 countries and approximately 1 billion individuals (ICA, 2013b).
2.2.2 Origin of co-operatives

Co-operatives originated from European and North American co-operative associations that existed during the 17th and 18th centuries (Zeuli & Cropp, 2004:1). The Rochdale Society of Equitable Pioneers was established by a group that included artists and weavers in an English town called Rochdale in 1844. The residents of the town had suffered from the industrial revolution at that stage, as many of them were handloom weavers facing pressure from power loom weavers and American tariff policies. This, amongst other factors, had led to poverty and unemployment. A dream of better lives for everyone was born from the social challenges faced by the society and led to the establishment of the Rochdale Society that had initially operated as a small store. The co-operative had rapidly diversified its business activities from the store that opened in 1844 to a large society in 1850 that became involved in banking, butchery and education at that stage (Fairbairn, 1994:1-7). This co-operative is currently known as The Co-operative Group, the largest mutual business in the United Kingdom with 4500 outlets, 87 000 employees and an annual turnover of £11 billion (The Co-operative Group, 2014).

This mutual self-help organisation has inspired co-operatives ever since. Fairbairn (1994:49) ascribes Rochdale’s ability to develop and manage a commercially successful organisation whilst achieving mutual benefits of members and working together with other co-operatives, as one of the reasons why the organisation inspired many other co-operatives (Fairbairn, 1994: 9-10,49; Zeuli & Crop: 2004:1).

Fairbairn (1994:22-23) states that the ICA, established as an international organisation for co-operatives in 1895, brought the Rochdale principles under discussion when the organisation attempted to formalise the definition of a co-operative. The ICA after many controversial attempts created a committee to define the Rochdale principles in 1934 and identified the following:
- Open membership;
- Democratic control;
- Distribution of the surplus to the members in proportion to their transactions;
- Limited interest on capital;
- Political and religious neutrality;
- Cash trading; and
- Promotion of education (ICA in Fairbairn, 1994:25).

2.2.3 The seven co-operative principles

The values of a co-operative are still constructed on self-help, self-responsibility, democracy, equality, equity and solidarity. Co-operative members are inspired by ethical values of honesty, openness, social responsibility and caring for others. The principles of a co-operative serving as guidance to transform the values of co-operatives into practice are according to the ICA (2013b) defined as follows:

2.2.3.1 Voluntary and open membership

Co-operatives are organisations that are open to all persons that can benefit from their services and are willing to accept membership responsibilities without discrimination of a gender, social, racial, political or religious nature.

2.2.3.2 Democratic member control

Members are responsible for active involvement in decision-making, policy development, in a democratic manner where designated persons are elected to act on behalf of members and are held accountable. A one-man one-vote policy is applicable to primary co-operatives.

Zeuli & Cropp (2004:49) state that although a co-operative is controlled by its members, a board of directors who are legally responsible for the co-operative
will be elected. The board appoints a chief executive officer (CEO) or general manager. It is however important that all the abovementioned parties should have clarity about their specific roles and responsibilities in avoiding counter-productive business management.

The members which are the most important role players of the co-operatives are sometimes the main culprits in misunderstanding their role – the co-operative is financed by the members and the goals of the co-operative are set by the members. The attendance of meetings, committee or board service, being well informed about current news and decisions made by the co-operative, especially the election of competent board members, are included as examples of member involvement. The importance of the role of the members of the co-operative is illustrated in Figure 2.2.

The main responsibility of the board is to act on behalf the members of the co-operative by protecting their interests and assets. The CEO that is selected by the board should be a highly skilled person that is capable of the daily management of the co-operative – hiring the ideal candidate is not always an easy task for the board.

**Figure 2.2: Co-operative governance and control**

![Diagram of Co-operative Governance and Control]

*Source: (Zeuli & Cropp, 2004:49)*

**2.2.3.3 Member economic participation**

Equal contributions are made by members from a capital perspective. Members are in control of such capital, but limited compensation is received by them and a part or most of the capital is the property of the co-operative as a whole.
Surpluses are partially allocated to the development of the co-operative, approved activities and keeping reserves at a certain level. Members also receive a part if the reserves in relation to transactions carried out with the co-operative.

2.2.3.4 Autonomy and independence

Co-operatives are independent organisations that are controlled by their members. Transactions between the co-operatives and government or other parties, or for raising capital, should be of such a nature that member control and the independence of the co-operative is not threatened.

2.2.3.5 Education, training and information

Co-operatives have an incentive to train and educate members, management and representatives in enabling them to make valuable contributions to the co-operative and to serve as ambassadors for the co-operative.

Zeuli & Cropp (2004:54) state that this principle is important, as leadership and financial ownership are important for a successful co-operative. Training workshops for directors, annual meetings, special meetings and informing members about financial or operational changes are examples of the application of this principle. The financial support towards education and information incentives differs between co-operatives, in spite of the fact that co-operatives are in most cases legally guided on the implementation this principle.

2.2.3.6 Co-operation amongst co-operatives

Co-operation amongst co-operatives by means of local, national and international networks support the co-operative network and enable the co-operative to provide value to its members.
2.2.3.7 Concern for the community

Sustainable development of communities is achieved by the application of member-approved policies.

It is evident when comparing the principles of 1934 with the existing ICA principles that the Rochdale Pioneers did indeed have a significant influence on the existing values of a co-operative.

The term co-operative is also a commonly known one in business terms and the above objectives are confirmed as follows: The term co-operative is therefore also defined as “a firm owned, controlled, and operated by a group of users for their own benefit. Each member contributes equity capital, and shares in the control of the firm on the basis of one-member, one-vote principle (and not in proportion to his or her equity contribution)” (Business Dictionary, 2011).

The nature of the trades that make use of co-operatives as enterprise form, vary from manufacturing of goods out of raw materials, agricultural activities, retail and co-operatives involved in housing development schemes. Co-operatives can therefore be classified into the following categories: “Consumers co-operatives; producer co-operatives; housing co-operatives; worker co-operatives and financial co-operatives” (DGRV, 2010:23-25).

Co-operatives are also differentiated from other entities such as companies, partnerships and sole proprietorships from a legislative perspective. Section 2 of the Co-operatives Act (14/2005) of South Africa ratifies compliance with the principles, as discussed in the paragraph above, as one of the goals of a co-operative. Zeuli & Cropp (2004:46) state that the main difference between a co-operative and other entities lies in the member versus investor orientation. The member orientation of a co-operative emphasises the creation of benefits for members that is prioritised above profits. Other entities are, on the other hand, primarily driven by profit making in creating shareholder wealth.
The main economic activity of a co-operative therefore is to provide goods or services to its members at the best possible cost and in some cases also to ensure that members have access to goods and services that they otherwise wouldn’t have had access to. The members of the co-operative are normally the main consumers of the goods or services provided by the co-operative. The emphasis is therefore not to maximise net profits and shareholder wealth by economic activities, such as that in the case of a company. The emphasis in the case of a co-operative is rather to ensure that activities are managed in a sustainable manner, ensuring the maximum benefit to the members which are also the users, by rendering goods and services at prices that are as reasonable as possible.

2.2.4 Objectives of a co-operative: measuring the achievement thereof

The future of every company, partnership, sole proprietorship and co-operative rests in the financial ability to carry on with its business as a going concern and to achieve its business objectives.

Management is according to the IAASB (2013) in paragraph 4(c) responsible to ensure that controls are in place for achieving trustworthiness of financial reporting, effectiveness and competence in its business functions and obedience with applicable laws and regulations.

Reliable financial reporting is normally achieved if an appropriate financial reporting framework is applied by an entity. Public companies listed on an exchange are, in South Africa as an example, according to Regulation 27(4) of the Companies Regulations (2011), required to comply with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. IFRS is in this case regarded by the Companies Regulations as an appropriate, existing financial reporting framework.
It is however the case, that the goals of a co-operatives have always been different from those of other enterprises and companies. The need for a different type of accounting methodology has therefore been investigated and identified, since the early existence of co-operatives (Polo Garido & Mari-Vida, 2011).

The growing international prominence and significance of co-operatives was discussed earlier in this chapter. The local growth of co-operatives, as illustrated in Figure 2.1, also shows an increase in the quantity and significance of the role of co-operatives – the total of registered co-operatives in South Africa amounted to a total number of 33 288 registered co-operatives at the end of September 2011, as opposed to a number of 81 955 registered co-operatives at the end of January 2014 (CIPC, 2011; CIPC, 2014).

This significant growth in the number of registered co-operatives in the 26 month period between September 2011 and January 2014 is a clear indication that the public interest in co-operatives is increasing in South Africa. Each new co-operative being registered also represents an increase in reliance on co-operatives by additional members and stakeholders.

The question arises whether an appropriate financial reporting framework exits for the co-operatives in South Africa, ensuring that all these stakeholders have access to transparent financial reports of the co-operatives of which they are members or stakeholders in any other capacity.

It is at this stage important to investigate the nature and functioning of co-operatives in specific countries.

2.3 CO-OPERATIVES IN RUSSIA, BRAZIL, INDIA AND SOUTH AFRICA

The aim of the research in this study is to obtain an understanding of the status of the financial reporting function of co-operatives in South Africa. An international perspective on the status of the financial reporting function will be used as a
benchmark for the research that focuses on the South African perspective by investigating selected countries. The selected countries should however be comparable with South Africa. The following criteria should therefore be satisfied for the selected country to form part of this study:

- The country should be an emerging country like South Africa / part of the BRICS countries; and
- Evidence should exist that co-operatives have added value to economic growth or social development in the selected country.

The selected countries are Russia, Brazil and India – these countries are emerging countries like South Africa, facing challenges similar to those in South Africa, and are also co-members of the BRICS countries.

Each selected country will be investigated under the following headings:

- Types and activities of co-operatives;
- Financial reporting of co-operatives; and
- Conclusion.

2.3.1 Co-operatives in Russia

The co-operative movement in Russia recently became a prominent part of the economy, which is strongly characterized by different segments including co-operatives in agriculture, credit co-operatives, consumers’ co-operatives (system of Centrosoyuz), housing co-operatives, horticultural co-operatives and producer’s co-operatives. The status of co-operatives was also influenced by the inner element and functionality of co-operatives in Russia, which underwent changes in the five year period after the adoption of Recommendation No. 193 by the International Labour Conference in June 2002. The Russian government has, in response to this decision, started to develop a national policy on co-operatives
with the intention to address the need for additional guidelines, laws and regulations (ILO, 2009: 7-8, 25-26).

2.3.1.1 Types and activities of co-operatives

Agricultural co-operatives
Independent farmers are enabled by agricultural co-operatives to enter the agricultural market by joining infrastructure and marketing facilities with each other. Agricultural co-operatives amounted to a number of 12 000 co-operatives in 60 different districts of the Russian federation at the end of 2009. The increased reliance on co-operatives by such farmers is due to commercial difficulties experienced with expensive agricultural means and competitive selling prices of products by wholesalers (ILO, 2009:8).

Credit co-operatives
The Russian Centre for Micro Financing approximated that 6 million individual business persons and 4 million legal entities are in need of credit assistance, but do not have access to it through commercial banks which are not willing to assist them, due to a lack of security and ability to settle credit (ILO, 2009:8).

Credit consumer co-operatives play a vital role in credit assistance of starting and smaller enterprises and such co-operatives amounted to 1467 co-operatives at the end of December 2008. Credit consumer co-operatives can be differentiated between agricultural credit or consumer credit co-operatives. Membership of agricultural credit co-operatives amounted to 143 600 at the end of December 2008, confirming the need for this type of co-operatives (ILO, 2009:13).

The role fulfilled by agricultural credit co-operatives in the assistance to members is not limited to financial assistance, but also includes assistance in the development of agricultural output and promotion and selling of the output (ILO, 2009:13).
Consumer co-operatives (system of Centrosoyuz)
The main focus of consumer co-operatives are towards social demand and goals and also assuring 300 thousand job opportunities for individuals. Consumer co-operatives can mainly be distinguished between 7000 hairdressing saloons, 11 000 clothes and footwear repair shops, 2300 enterprises engaged in housing construction and renovations, 4300 shops involved in household appliances and 1000 pharmacies (ILO, 2009:8).

Housing co-operatives
50% of Russian citizens are challenged with the fact that their housing conditions need to be upgraded, but they don’t have the ability to address the need, either by financing from their own cash funds, or with loans from banks. Banks are hesitant to assist them, due to their uncertain credit status. Finance initiatives based on joint reserve funds, under the patronage of the Guild of Popular Co-operatives in Russia, were practised at the end of 2009 in 82 metropolitans and settlements and 68 regions in Russia. This initiative supported the construction of 10 000 apartments in the six years preceding 2009 (ILO, 2009:9).

Horticultural and dacha co-operatives
More than 20 million families in Russia being owners of gardens and plots involved in vegetable cultivation results in this type of co-operative being the largest in Russia (ILO, 2009:9).

Production co-operatives
An estimated number of over 15 million production co-operatives embodied by industrial, transport, construction and other producers’ co-operatives exist in Russia (ILO, 2009:9).

2.3.1.2 Financial reporting
Limited information confirming the application of any financial reporting framework for co-operatives in Russia is obtainable.
It is however confirmed that there are still limitations in the Russian legislation due to the lack of formal uniform requirements for co-operatives. This obstructs the application of public standards to co-operative activities, including accounting and reporting guidelines (ILO, 2009:36).

2.3.1.3 Conclusion

Co-operatives do play a vital role in uplifting individual members economically and also improving socio-economic circumstances for large parts of the Russian population. A financial reporting framework that represents and communicates the actual financial performance and position of co-operatives, seems vital in an environment where transparency towards members is essential, due to their reliance upon it.

2.3.2 Co-operatives in Brazil

The co-operative as an enterprise form has developed in Brazil since the late 1800’s. Although not many Brazilians are involved in co-operatives, this form of enterprise is still regarded as an important association. It is proved by the correlation in the increased number of co-operatives in the south of Brazil since 1999 (in relation to other regions in Brazil) and the improvement of the socio-economic development and living standard for inhabitants in both the country as well as town areas in Brazil. The south of Brazil is, after all, one of the best developed areas in Brazil. Registered co-operatives of all categories of co-operatives amounted to 7 489 co-operatives at the end of 2002, consisting of a membership of 5 762 718 individuals and providing job opportunities for a number of 182 026 employees in Brazil [ACI in (Boas & Baldeserra, 2005a:86-88)].
2.3.2.1 Types and activities of co-operatives

Consumption co-operatives and credit co-operatives

Consumption co-operatives consist of the largest number of members amounting to 1 920 311 individuals, followed by credit co-operatives with 1 439 644 co-operative members in Brazil. The largest numbers of registered co-operatives are job co-operatives with 2 109 registered co-operatives, followed by agribusiness co-operatives with 1 626 registered co-operatives in Brazil (ACI in (Boas & Baldeserra, 2005:86-88)).

Credit co-operatives

The number of credit co-operatives in Brazil escalated *inter alia* due to the following elements: Brazilian banks are of the opinion that it is not viable for bank branches to operate in smaller towns and regions due to limited financial ability of the community to support such branches; smaller enterprises and poorer families on the other hand couldn’t afford market related interest rates charged by banks for providing personal credit (Braga, Fully Bressan, Colosimo & Bressan, 2006:84).

It is evident from this escalation of credit co-operatives that members of communities on lower socio-economic levels are strongly reliant on credit co-operatives. It is again proved that when referring to a co-operative as an enterprise form as opposed to a company, the main objective of a co-operative is to address and attend to the needs of its members, while a company is focused upon maximising its profits.

It is only possible to attend to the needs of members when requirements such as unity amongst members, member participation in decision-making and goal setting as well as member involvement in the financial decision-making, are satisfied. All members are however not involved in the day-to-day management of the co-operative and rely on the members designated for the management of the co-operative. Transparent communication by managing members with non-managing members enabling them to understand the real state of the co-
operative, is therefore vital to ensure that the desired level of non-managing member involvement is satisfied and that informed feedback is obtainable from non-managing members (Central Bank of Brazil, 2008:11-14; 41).

Managing members have got a specific fiduciary duty towards other members, in the case of a credit co-operative. This is due to the fact that member capital is invested in the co-operative, as financial services are rendered to members. It is therefore recommended that members should have access to financial statements of the co-operative. It is also recommended that these financial statements should be externally audited where “the focus of action is examining the co-operative’s financial statements” (Central Bank of Brazil, 2008:45). The result of the audit is that the performance of the specific co-operative can be evaluated and also compared with the performance of other co-operatives (Central Bank of Brazil, 2008:45).

The recommendations are however not clearly defined in a framework to be applied by co-operatives for reporting on the financial performance and position of the co-operative. The criteria on what performance will be measured against when the financial statements are audited, or on any indicators for comparing the co-operative with other co-operatives, are also not defined in the literature mentioned above.

Agricultural co-operatives
Case study research has indicated that agricultural co-operatives play a relevant role in enhancing the quality of life of members by assisting them in the development of members and their environment. Co-operatives rely on members for their growth, due to the social nature of a co-operative. The existence of a co-operative’s main aim is to serve its members. Members will therefore have a significant effect on future successes of co-operatives. The research has also shown that member involvement in the co-operative is a requirement for the co-operative to achieve its goals (Boas & Baldeserra 2005:91-92).
2.3.2.2 Financial reporting

The relevance for the existence of a law that values communication with stakeholders has therefore also been identified in Brazil. The nature of the communication referred to in the literature is however not clearly defined in this source, but no indication exists that any practice of financial reporting towards members is also present.

2.3.2.3 Conclusion

It is clear that numerous stakeholders are reliant on co-operatives for jobs, goods and services, as well as credit facilities providing them with the opportunity to improve on their quality of life. No evidence however exists that co-operatives are governed from a financial reporting perspective.

2.3.3 Co-operatives in India

The co-operative sector in India has existed since 1904 and enterprises in the form of co-operatives consist of 236 million members. This results in the fact that co-operatives can be seen as one of the main socio-economic role players in the Indian economy. Co-operatives initially originated from a government drive which aimed to address the difficulty of limited financial means and access to credit experienced by farmers. Co-operatives in India were regulated for the first time by the co-operative credit societies in 1904 (Government of India, 2008:133).

2.3.3.1 Types and activities of co-operatives

The co-operative sector was initially involved in agricultural activities and also played a vital role in turning India into the most prominent milk supplying country in the world, ensuring an increase in the household income of milk suppliers in the country. Co-operatives in India have however faced challenges in the past
few decades in meeting their aims. Ideals such as member involvement being responsible for its own development and addressing specific needs of members have been jeopardised by the increase in their dependence on government funding. This involvement of politicians has led to co-operatives becoming earning driven initiatives rather than remedies for poverty and to assist the public (Government of India, 2008:135-136).

The Constitutional (One Hundred and Sixth Amendment) Bill, 2006 (later approved by the Union Cabinet) announced on 22nd May 2006 by the Union Government, addresses matters such as democratic functioning, member equality, fair election of members, auditing requirements and reporting by co-operative societies to the state government on matters such as co-operative activities and accounts. The aim of the proposed Bill was to increase regulations on co-operatives preventing cases of exploitation thereof as stated above (Government of India, 2008:138-139).

The vital role and reason for the initial establishment of co-operatives in history was however, still recognised as the limitation of market access and capital to farmers and other non-farming activities in rural areas. Co-operatives have traditionally and should still assist such enterprises in rural areas with agricultural development and in obtaining credit (Government of India, 2008:137-138).

2.3.3.2 Financial reporting

The Union Government has introduced the proposed Bill to parliament in reaction to challenges faced by the co-operatives, emphasising the importance of the existence of co-operatives. Clear guidance on the nature of the financial reporting, other than the mere fact that co-operatives should report to the state government about their activities and accounts, seems however not to be included in the proposed Bill (Government of India, 2008:138-139).
2.3.3.3 Conclusion

India has a significant co-operative sector and the Indian government has realised the need for additional guidance and governance of co-operatives. Specific requirements from a financial reporting perspective for co-operatives will still need the attention of the government for further development.

2.3.4 Co-operatives in South Africa

2.3.4.1 The Department of Trade and Industry (DTI)

The co-operative sector was governed by the Co-operatives Society Acts of 1922 and 1939 as well as the 1981 Co-operatives Act in South Africa. The South African cabinet made the decision in 2001 that the development and elevation of co-operatives in South Africa should become the responsibility of the DTI and not the responsibility of the Department of Agriculture anymore. The aim was to ensure that all sectors in the economy can benefit from the entity referred to as a co-operative and not only agriculture (DTI, 2012:7).

Co-operatives in South Africa are currently governed by the Co-operatives Act No. 14 of 2005. The Co-operatives Amendment Act No.6 of 2013 was signed by the president during August 2013 and the commencement date is still to be gazetted (SAICA, 2014).

2.3.4.2 Co-operative Development Policy for South Africa 2004

The DTI formulated the Co-operative Development Policy for South Africa 2004 (Co-operative Development Policy) shortly after the International Labour Conference adopted ILO Recommendation No. 193 in the General Conference on 20 June 2002 (DTI, 2004:4). The new Labour Standard inter alia recognises the importance of co-operatives in social and economic development as discussed in Section 2.2.1.
The Co-operative Development Policy states that South Africa has a history of an unequal allocation of prosperity and work opportunities amongst different races. The expansion of upcoming businesses and a healthier spread in ownership in such businesses became a great priority in the South African economic policy, ensuring an increase in equal wealth distribution and socio-economic development. It is recognised that a strong and self-maintaining co-operative drive in South Africa can serve as a cure for socio-economic problems, such as: unemployment, limited access to resources and unequal distribution of wealth (DTI, 2004:4).

2.3.4.3 Co-operative Act No. 14 of 2005


2.3.4.4 Integrated strategy on the development and promotion of co-operatives

The DTI instigated the Integrated Strategy on the Development and Promotion of Co-operatives (the Strategy), published during 2012, that is aimed to serve as an implementation framework for the application of the Co-operative Development Policy as well as the Co-operatives Act, No. 14 of 2005.

The Strategy is the outflow of the government’s decision towards the elevation of co-operatives in South Africa for a period of 10 years, from 2012 – 2022. The aim of the Strategy is enabling co-operatives in South Africa to become an independent drive. The Strategy is aimed at developing as well as developed co-operatives, with specific reference to the elevation of co-operatives classified as survival co-operatives, micro co-operatives, small co-operatives and medium size co-operatives.
The vision of the Strategy is based on the same vision as The Co-operative Development Policy for South Africa, with an *inter alia* focus on growth of an independent co-operative sector in South Africa to combat poverty, striving to financial growth in the economy and job creation resulting in economic transformation in South Africa (DTI, 2012:7-10).

The effectiveness of the Strategy will *inter alia* be measured against the following criteria:

- The growth in the number of co-operatives in South Africa and its' contribution to the gross domestic product (GDP);
- The role of co-operatives in combatting poverty;
- Increase in membership;
- Increase in job creation by co-operatives;
- Increased utilization of products created by co-operatives by members and consumers;
- Sustainable management of co-operatives and compliance with laws and regulations; and
- An increased ability of co-operatives to enter markets and to obtain financial assistance and even for some co-operatives to be able to assist enterprises inferior to them in gaining access towards markets and financial assistance.

(DTI, 2012: 7-10)

2.3.4.5 Agricultural co-operatives

The establishment of co-operatives in South Africa dates back to the early 20th century. Legislation at that stage did not encourage strict adherence to the seven international co-operative principles – this was due to the so called “*predominantly white agricultural co-operatives, aimed at developing and building the white farming community*”.

The South African government promoted black-owned agricultural co-operatives in the 1970s and 1980s as part economic grand-plans for the developed
homelands which were developed at that time. The development of black owned co-operatives was later also promoted in the 1981 Co-operatives Act (DTI, 2012:31).

2.3.4.6 Consumer co-operatives

Consumer co-operatives aimed to improve the purchasing power of Afrikaner consumers during the 1940s, but the consumer co-operatives were not as successful as the agricultural co-operatives, due to the development and market power of chain stores. Black communities also tried to establish consumer-type co-operatives by making use of a stokvel system. The main aim was to enable people to have access to buying goods in bulk and at wholesale prices and also for the arrangement of funeral plans for their loved ones. Approximately 10 million people are currently members of such stokvels in South Africa. The numbers of stokvels were in some cases negatively influenced due to conflict, while many survived where they were built on communal trust, discipline and support (DTI, 2012:32).

2.4 AUDITING AND FINANCIAL REPORTING OF CO-OPERATIVES

Section 2.3.1 has highlighted actions taken by South Africa in an attempt to utilise the potential of co-operatives by means of governance and government initiatives. This section will compare the various acts that were applicable to co-operatives since 1981 with the existing act that is applicable to co-operatives – the progress made in providing guidance for co-operatives in South Africa on their financial reporting and auditing requirements will be evaluated by means of this comparison.
2.4.1 Co-operative Act No. 91 of 1981

2.4.1.1 Financial reporting

**Accounting records**
Section 134 of the Co-operatives Act (91/1981) (hereafter referred to as the Act) *inter alia* required that co-operatives had to keep accounting records in one official language, fairly reflecting the state of affairs and business of the co-operative. These accounting records included the transactions and financial position of the co-operative, comprising of: a specific record of all assets and liabilities, a fixed asset register with detailed information on all movements or changes in value for each fixed asset held during the year, records of daily cash receipts and payments made, records of goods sold where applicable, notes showing the turnover of business carried on with non-members as a percentage of total turnover, and a record of the annual stock take documentation.

**Financial statements**
Section 135 of the Act *inter alia* specified that financial statements had to be kept in one language of the Republic and include the following: a balance sheet, an income statement, a director’s report and an auditor’s report.

Section 135 and Schedule 2 of the Act addressed bonus distribution. In the cases where bonus distribution to members took place during a year by means of a distribution scheme, the co-operative had to create a separate income statement specifying the details thereof to the extent that the profit and loss resulting from such distribution was reflected fairly. The financial statements were subject to compliance with generally accepted accounting practice, as well as specific aspects that had to be included, either as part of the financial statements, or to the notes of financial statements.
Balance sheet

Schedule 2 of the Act required that the line items in the balance sheet had to be grouped according to the nature thereof and that the opening balance of such amounts had to be disclosed as well.

- **Share capital and shares**
  Issued share capital and paid-up share capital, including its relevant details as well as the value of any contingent liability attached to such shares, had to be indicated.

- **Reserves and provisions**
  Detailed guidance was provided and requirements stipulated regarding the classification, measurement and disclosure of the general reserves and contingent reserves in the balance sheet.

- **Members’ funds**
  Members’ funds had to be disclosed separately, according to source, specifying any interest relating to the funds, as well as the details of any circumstances, other than termination of membership, which could lead to repayment thereof to members.

- **Liabilities**
  Long term liabilities and current liabilities had to be disclosed separately.

- **Debentures**
  Debentures had to be disclosed separately according to class, also stating the particulars of redeemed debentures available for reissue.

- **Loans**
  Loans from the Land Bank had to be shown separately. The particulars of loans obtained for payment of advances for members for agricultural products delivered by them, or obtained for financing the supply of farming requisites or agriculturally
related expenses as well as bank overdrafts, were also required to be disclosed separately.

- **Secured liabilities**
  Liabilities secured by an asset were required to be indicated separately, together with the related asset.

- **Amounts due to certain juristic persons and partnerships**
  Amounts owed to a juristic person other than in the normal course of business, in which the co-operative had an interest, as well as funds owed to the company subsidiaries had to be shown separately.

- **Assets**
  Fixed assets, current assets and assets not pertaining to either definition had to be disclosed separately.

- **Fixed assets**
  The measurement method had to be disclosed for each asset, with specific reference to cost price, valuation, total depreciation and write offs, where applicable. Land and buildings had to be specified with reference to description, acquisition date, purchase price, improvements and revaluations, subsequent to date of purchase. Revaluation dates, the name and qualification of the persons responsible for the valuation, as well as the valuations basis had to be specified in cases where land and buildings were re-valued.

- **Goodwill, patents and trademarks**
  The amounts as far as they were not written off had to be disclosed separately for the respective items.

- **Investments**
  The amount of the co-operative’s investment in shares or member funds of another co-operative and an investment or shares or securities in companies or juristic persons had to be shown separately.
• **Loans due to the co-operative**
Details of any loan provided outside the normal course of business to members, to companies in which the co-operative had shares or to employees, had to be specified and indicated separately.

• **Investments in company subsidiaries**
The total amount of investments in company subsidiaries had to be disclosed separately, with specific reference to whether they were classified as shares, indebtedness or provisions.

• **Current assets**
Current assets had to be specified according to their nature, with specific reference to trading stock and agricultural products on hand, specifying the method applied in determining the value, whether they were valued at the lower cost, net realizable value or replacement value, as well as the accounting basis applied for the valuation thereof. Debtors had to be shown separately with specific reference to amounts due by members and amounts outside the normal course of business, and that due by other co-operatives and companies in which the co-operative had shares. Provisions for doubtful debt had to also be shown separately. In addition, the co-operative was required to disclose the balance on a pool account (and the net realizable value thereof) held in respect of agricultural products acquired by means of carrying out a right on an investment in another co-operative, or agricultural products acquired as the agent of a control board separately. Expected losses due to the decrease of the value of such current assets had to be stipulated if no provision was made for the loss.

• ** Debenture issues**
The value as far as it was not written off, costs incurred, amounts paid in respect of commission, discounts allowed as well as the manner in which the debentures were written off, had to be disclosed.
• **Contingent liabilities**
  Any contingent liabilities had to be disclosed by means of a note to the financial statements.

• **Contracts and capital expenditure**
  The aggregate or estimated amounts (if material) for contracts for capital expenditure not provided for, as well as contracts authorised by the directors and not contracted, as well as the source of the funds for such expenditure had to be disclosed.

• **Foreign currency**
  Material effects when foreign currency was converted to rand had to be disclosed.

**Income statement**

The income statement had to show the following amounts separately:

- Income derived from dividends, interest or fees from company subsidiaries as well as income derived from investments and loans;
- Material capital gains or losses resulting from the disposal of assets as well as bad debts;
- Interest paid on long term loans, debentures, members’ funds or money borrowed;
- Depreciation on fixed assets;
- Provisions made against income and not utilised;
- Directors’ and auditors’ remuneration, specifying the nature of the services rendered in the case of the latter;
- Amounts paid for leasing charges for the use of assets that would have been depreciated if the asset had belonged to the co-operative;
- Tax provisions in respect of the current or future years; and
- Any material amount arising from credit or debit from an event in the previous year.
The notes to the income statement were required to provide a reason if no tax provisions had been made. Transactions carried out by the co-operative of a different nature or a change in accounting policy, had also to be shown in the notes to the income statement, as well as profits or losses made by each company subsidiary of the co-operative for the financial year.

*Statement of source and application of funds*

A statement showing all the sources of funds and application thereof was required from a co-operative as an annexure to the financial statements.

*Directors’ report*

A general review of the business, operations, results or any other matters that had occurred during the year, and were regarded as material to the members of the co-operative, had to be reflected in this report. Special matters including changes in the assets, the nature of the business or in management of the entity, as well as the application of surpluses had also to be included in this report if no mention thereof was made in the financial statements.

2.4.1.2 Auditing

Section 143 of the Act required that the financial statements of all co-operatives were subject to an annual audit.

2.4.2 Co-operative Act No. 14 of 2005

2.4.2.1 Financial reporting

*Accounting records*

Section 21 of the Co-operatives Act (14/2005) (hereafter referred to as the Act) requires that adequate accounting records should be kept for a minimum period of five years by co-operatives, of which their main objective involves conducting transactions with members, and for a minimum of three years for all other co-
operatives. The Registrar is permitted by the Act to issue guidelines for the manner in which the records should be kept.

**Financial statements**
Section 47 of the Act states that the financial statements have to comply with generally accepted accounting practices.

### 2.4.2.2 Auditing

Section 47 of the Act states that all types and sizes of co-operatives are subject to an audit, unless a co-operative cannot afford the costs relating to an audit – co-operatives can apply for an exemption from the audit, in this case. The auditor is provided with guidance on the performance of an audit, including the following:

- The auditor should verify whether the financial statements did adhere to generally accepted accounting practices;
- The auditor should verify whether the co-operative did maintain adequate financial records;
- The auditor should report on whether the assets and facilities of the co-operative were adequately managed and whether its operations had been conducted in terms of the principles of the co-operative; and
- Any other matters in the constitution of the co-operative that require a report by the auditor should be addressed by the auditor.

### 2.4.3 Co-operatives Amendment Act No. 6 of 2013

#### 2.4.3.1 Financial reporting requirements

**Accounting records**
Section 22 of the Co-operative Act (14/2005) was amended by Section 18 of the Co-operatives Act (06/2013) (hereafter referred to as the Act), stating that a co-
operative should retain accounting records and financial statements for five years or any longer period as prescribed by the Minister.

Financial statements

Section 47 of the Co-operative Act (14/2005) has been replaced with the content of Section 35 of the Act. A co-operative reporting system framework should, according to this Section, be published in the Government Gazette, by the Minister, within three months after the commencement of the Act.

2.4.3.2 Auditing

Section 47 of the Co-operative Act (14/2005) has been replaced by the content of Section 35 of the Act. Category C primary co-operatives, secondary co-operatives, tertiary co-operatives and national apex co-operatives are, according to this Section, subject to an audit. Category B primary co-operatives must produce an independent review to the Registrar for each year, and Category A primary co-operatives must submit an annual report to the Registrar that is signed by the directors of the co-operative.

2.4.4 Findings on the comparison of co-operative legislation

The findings indicate that clear guidance was provided to co-operatives regarding accounting record requirements, as well as financial reporting requirements in the Co-operative Act (91/1981). Auditing guidance was limited, in that all co-operatives were subject to an audit without any exemptions.

The Co-operative Act (14/2005) does not provide specific guidance on the content of the accounting records or financial reporting requirements of co-operatives. The Act however requires from the auditor to report on aspects such as compliance of the co-operative with its principles. A lack of guidance on the reporting requirements results in the auditor being burdened with an ambiguous task. It becomes inevitable to question the reasoning behind the change from
legislation with clear guidance on the accounting for co-operatives, to legislation with no specific guidance on the accounting for co-operatives, when comparing the abovementioned legislation.

The Co-operative Amendment Act (6/2013) stipulates that a reporting framework for co-operative is expected after commencement of this Act. The DTI released the Co-operatives Amendment Bills during May 2012, and the Bills were out for public comment until 2 July 2012. In August 2013 the Co-operatives Amendment Act (06/2013) was signed by the President – the commencement date is however still to be gazetted (SAICA: 2014).

It seems that the Co-operative Amendment Act (6/2013) determines the required level of assurance on the financial statements based upon the public interest and size of the specific co-operatives – a reasonable level of assurance (audit) is required of larger co-operatives; a limited level of assurance (independent review) is required of medium co-operatives and no level of assurance on the financial statements is required from small co-operatives.

Table 2.1: Summary of findings in legislation

<table>
<thead>
<tr>
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<tbody>
<tr>
<td><strong>Financial reporting</strong></td>
<td><strong>Financial reporting</strong></td>
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<tr>
<td>Accounting record requirements were clearly specified regarding the nature and the content thereof.</td>
<td>Accounting records had to be kept for a minimum period as stipulated by the Act. No detailed requirements were prescribed for such documentation.</td>
<td>Accounting records should be kept for a minimum period as stipulated by the Act. No detailed requirements are prescribed for such documentation.</td>
</tr>
<tr>
<td>The financial statements had to comply with a generally accepted accounting practice. Schedule 2 of the Act specifies matters and provides guidance on areas where reporting is specifically required for co-operatives. It can be seen as a connection between commonly known accounting and financial reporting, specifically designed for co-operatives.</td>
<td>The financial statements had to comply with a generally accepted accounting practice.</td>
<td>A co-operative reporting system framework should, according to this section, be published to provide guidance on the financial reporting requirements of co-operatives.</td>
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Table 2.1 continued on next page
<table>
<thead>
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<tr>
<td><strong>Auditing requirements</strong></td>
<td><strong>Auditing requirements</strong></td>
<td><strong>Auditing requirements</strong></td>
</tr>
<tr>
<td>All types and sizes of co-operatives are subject to an audit.</td>
<td>An annual audit had to be performed but some co-operatives were exempted from an audit if they couldn’t afford it. It was also required by the auditor to report on aspects such as financial record keeping, asset and facility management and compliance with the principles of the co-operative.</td>
<td>The following co-operatives are subject to an audit:</td>
</tr>
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<td>Category C primary co-operatives</td>
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<td>Secondary co-operatives.</td>
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<td>Tertiary co-operatives.</td>
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<td></td>
<td>National apex co-operatives.</td>
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<tr>
<td>The following co-operatives are subject to an independent review:</td>
<td></td>
<td>Category B co-operatives.</td>
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<tr>
<td>The following co-operatives should only produce an annual report that is signed by the directors of the co-operative:</td>
<td></td>
<td>Category A co-operatives.</td>
</tr>
</tbody>
</table>

*Source: Own compilation*

### 2.5 CONCLUSION

Co-operatives are widely utilised on an international level in both developed and developing countries. The nature of a co-operative being focussed on the needs of its members rather than the wealth of its shareholders, creates the potential for this type of enterprise to alleviate poverty, particularly in developing countries. Countries such as Brazil, India and Russia have already identified this potential and consumer, housing and credit co-operatives are part of the economy of these countries. South Africa has also more recently rediscovered the potential of this type of enterprise – the South African government has declared co-operatives as a tool to address poverty and to stimulate rural development.

The nature of a co-operative however differs from a normal entity such as a company, as it is focused on the mutual benefit of the members and not primarily on shareholder wealth. This distinctive attribute of a co-operative requires unique
financial reporting guidance. Financial reporting standards are however not clearly identifiable or applied especially in developed countries such as South Africa. An assessment of existing and former legislation for co-operatives in South Africa revealed the need for a financial reporting framework for co-operatives. Chapter Three will elaborate on specific elements that create the need for such a framework and will also evaluate the relevance of existing financial reporting standards for co-operatives.
CHAPTER 3
FINANCIAL REPORTING OF CO-OPERATIVES

3.1 INTRODUCTION

It was established in Chapter Two that co-operatives fulfil a vital socio-economical role internationally in the alleviation of poverty, especially in emerging countries. The objectives of a co-operative however differ from other entities such as companies. The inevitable question comes to mind as to whether it is appropriate for an entity like a co-operative to apply financial reporting frameworks similar to other entities such as companies. The literature has also indicated that no specific financial reporting framework is being applied, for co-operatives in particular, in other developing countries like Brazil, Russia or India.

It was discovered that clear guidance for the financial reporting of co-operatives did exist in South Africa between 1981 and 2005. The Co-Operatives Act No 91 of 1981 together with Schedule 2 of this act provided clear guidance on the requirements of accounting records, as well as the annual financial statements of a co-operative. The justifiability of the change in the act was also questioned in Chapter Two: this act that provided clear guidance on these matters was replaced with an act in which the guidance was limited to co-operatives being subject to compliance with generally accepted accounting practices.

The investigation on the status of a financial reporting framework for co-operatives in South Africa will be discussed according to three main areas in this chapter, whereafter it will be concluded whether a need for additional accounting guidance for co-operatives exists in South Africa.

The first area under investigation will evaluate the elements of financial reporting and goals of co-operatives that create a need for additional guidance on accounting for co-operatives. The second area will evaluate the appropriateness
of the application of existing financial reporting frameworks such as IFRS and IFRS for SMEs to the financial reporting function of co-operatives. The third area will investigate research performed in Canada and in South Africa on the development of proposed accounting guidance for co-operatives.

3.2 ACCOUNTING FRAMEWORK FOR CO-OPERATIVES: REQUIREMENTS

It is stated in the Preface to IFRS paragraph 8 that the objective of the Conceptual Framework of the International Accounting Standards Board is to facilitate consistent and logical formulation of the International Financial Reporting Standards (IFRS). The concepts underlying the information presented in general purpose financial statements are then addressed by IFRS which is based on the Conceptual Framework (IASB, 2010a).

The Scope of the Conceptual Framework refers to the objective of financial reporting, the qualitative characteristics of useful financial information; the definition, recognition and measurement of elements from which financial statements are constructed and concepts of capital and capital maintenance (IASB, 2010b).

Robb (2008:2-4) has identified the need of a Statement of Recommended Practice for co-operatives, due to the fact that: “Co-operatives operate on the principles of user-ownership, user-control and proportional distribution. They differ in many significant ways from investor-owned corporations. Consequently there is a need for a specific Conceptual Framework for Co-operatives.”

Specific elements are discussed as illustration of this dilemma:
3.2.1 Member rewards

A co-operative is not financed by investors with the aim to maximize profits and shareholders’ wealth through the return on investment. Members are rather rewarded by taking part in the daily activities of the co-operative. Consumer co-operatives, for example, allow discounts to customers in relation to the amount of transactions carried out between the co-operative and the customer. A producer co-operative can also distribute some of the surpluses on profits made when goods were sold on behalf of the member as an incentive for the member to enter more transactions with the co-operative in future (Hicks, Maddocks, Robb, & Webb. 2007a:2-13). The rewards to members are therefore rather based on dealings between members and the co-operative, as opposed to the dividends based on share value of an investment.

The measurement of performance will hence rather be based on the capability of the co-operative to serve members to the greatest extent, by providing them with products and discounts. Ratios, key indicators and explanations on the achievement of these objectives will therefore be much more appropriate to be part of a reporting framework as opposed to, for example, the disclosure of earnings per share as required by paragraph 66 of IAS 33 (IASBa, 2001).

3.2.2 Financial Reporting

Research has shown that co-operatives have difficulty in the application of some of the fundamental aspects of generally accepted accounting practice (GAAP) in their financial reporting function. This will have an effect on the relevance and transparency of financial information which is communicated to members. This makes it difficult for them to understand the true success and prosperity of the co-operative, due to a lack of relevant financial information communicated to them effectively (Hicks, et al. 2007a:10).
Reasons for this might be that the financial statements obtain less attention from market analysts and critics. Market analysts and critics also do not necessarily have a sound understanding of the character and objectives of a co-operative. The financial statements are therefore not open to informed public comment and evaluation, resulting in the fact that co-operatives can get away with poor and incomplete financial reporting. The possibility of members enjoying an autonomous contribution to the affairs and decision-making of the co-operative is therefore diminished, due to incomplete reporting on financial information (Hicks, et al. 2007a:9-10).

A financial reporting framework that considers the objectives of a co-operative and also the ability of all members of the co-operative to interpret the results of the co-operative, in member friendly layouts and reporting formats, will enhance membership understanding and involvement (Hicks, et al. 2007a: 10).

3.2.3 Reserves

Equity is defined as “the residual interest in the assets of the entity after deducting all its liabilities” according to the Conceptual Framework paragraph 4.4(c) (IASB 2010b). The classification and disclosure of the reserves of a co-operative can, in many cases, be influenced by the laws and regulations of the operating environment or country, as the distribution of the reserves / equity amongst members is limited by such laws and regulations.

3.2.4 Goals of the co-operative

Nadeau and Thomson (1996) (in Hicks et al. 2007a:12) argue that the main aim of a co-operative is not maximizing shareholders’ wealth but rather ensuring that members have access to affordable goods and services.

Although co-operative businesses should be managed in a sustainable way, the objectives thereof are not limited to it – co-operatives have a social responsibility
to fulfil to their members. Members are therefore affected by the business as well as the social performance of the co-operative, in order to evaluate to what extent the co-operative achieves its goals. Financial reporting on the social as well as economic performance of the co-operative should therefore be reported to members (Hicks, *et al.* 2007a: 12).

The Conceptual Framework of the IASB (IASB, 2010b) states in paragraph OB2 that the general aim of financial reporting is to provide existing investors, lenders and other creditors with useful financial information in assisting them with decision making in providing resources to the entity by means of buying, selling or holding equity and debt instruments or providing or settling loans and other forms of credit. Such reports might be useful to to regulators, members of the public, other than investors, lenders and other creditors, but the reports are however not primarily directed to these groups according to paragraph OB10 (IASB, 2010b).

Merely focussing on the needs of investors in the case of a co-operative will not provide members of the co-operative with sufficient information on their interests in the co-operative, due to the fact that their interests are broader than only an investment perspective. The achievement of the social objectives which members rely upon, is not reported on when the focus is primarily on the investors.

It becomes clear when evaluating the elements of financial reporting as well as the goals of a co-operative, that the relevance of existing accounting standards to co-operatives should further be investigated, as well as the merit behind the development of additional accounting guidance for co-operatives.

### 3.3 EXISTING ACCOUNTING FRAMEWORKS

It has been established in Chapter Two that legislative guidance on the financial reporting function of co-operatives in South Africa is mostly limited to the requirement that the financial statements of co-operatives should comply with
generally accepted accounting practices. No reference is however made to a specific financial reporting framework or accounting standards. Available financial reporting frameworks and standards as well as the relevance thereof to co-operatives are further investigated as part of the literature study.

3.3.1 Generally Accepted Accounting Practice (SA GAAP)

It was mutually announced by the Accounting Practices Board (APB) and Financial Reporting Standards Council (FRSC) in March 2012 that Generally Accepted Accounting Practice (SA GAAP) will be withdrawn and not be applied for financial years from 1 December 2012. South African entities are advised to apply IFRS or IFRS for SMEs from this date. This former financial reporting framework that was applied by entities such as close corporations and companies is no longer available to apply by any entity including co-operatives. Other existing financial reporting frameworks will therefore be investigated (SAICA, 2012).

3.3.2 International Financial Reporting Standard (IFRS) for Small and Medium-sized Entities (SMEs)

The appropriateness of the application of IFRS for SMEs to co-operatives has been explored since 2004 and has ever since raised many concerns. The IASB suggested in an Exposure Draft on a Proposed IFRS for SMEs that IFRS for SMEs should be applied to co-operatives. The ICA (ICA, 2004) made it clear in a response letter that application of the Exposure Draft to co-operatives will not be appropriate or beneficial for co-operatives. The following reasons were *inter alia* provided in support of their response:

- The application of IFRS for SMEs requires special knowledge of IFRS due to the fact that IFRS forms the basis thereof. Human capital and financial
resources are limited in medium and smaller co-operatives, which will challenge such entities to comply with or to apply IFRS for SMEs;

- Section 18 of the Exposure Draft requires from co-operatives to account for merger transactions between co-operatives, on the purchase method, rather than the pooling of interest method. This method doesn’t reflect the real nature of the transaction and it is also not adapted to their legal form; and
- Co-operative member shares will with the application of IFRIC 2, in some cases, be classified as liabilities in the financial statements. Such classification will have catastrophic consequences to their business.

The latter concern will be further investigated from a South African perspective. The nature of co-operative member shares will be established with reference to relevant legislation, after which the application according to IFRS for SMEs will be determined. The same process will be followed for companies in South Africa. The application of IFRS or IFRS for SMEs will then be compared in both the cases from the perspective of a co-operative and a company.

### 3.3.2.1 Members’ shares: co-operatives

Section 1 (1) of the Co-operatives Act (14/2005) (hereafter referred to as the Act) defines member shares as shares that are issued to the members of the co-operative as a membership requirement. The Act stipulates that a member has the right for repayment of his shares when such a member withdraws their membership. The only circumstance in which the co-operative may defer such a repayment is when the co-operative determines that the repayment will negatively affect the financial well-being of the entity. The period of the deferral is then also limited to a period of two subsequent years from the effective date of withdrawal of membership.

Repayment of the members’ shares is therefore compulsory according to the Act, unless financial distress is experienced by the co-operative. The IASB (2004) *inter alia* states in IFRIC 2, paragraphs 6-8 that member shares are classified as
equity, if the entity has an unconditional right to refuse redemption of the shares (in cash and not in other equity instruments) or when redemption thereof is unconditionally prohibited by local law, regulation or entity’s governing charter. However, provisions in local law, regulation or the entity’s governing charter that prohibit redemption only if conditions – such as liquidity constraints – are met (or are not met) do not result in members’ shares being equity but a financial liability.

Co-operatives in South Africa are, according to the Act, required to pay back member shares, unless it will cause a negative effect on the financial well-being of the company, resulting in member shares of co-operatives being classified as a liability according IFRS – the same threat as identified by the ICA in its response letter, is therefore faced by co-operatives in South Africa with the application of IFRS or IFRS for SMEs.

3.3.2.2 Members’ shares: companies

Companies are regulated by the Companies Act (71/2008) (hereafter referred to as the Act) in South Africa. Section 1 of the Act defines a share and a shareholder as one of the units into which the proprietary interest in a profit company is divided, and a shareholder refers to the holder of a share issued by a company and who is entered as such in the certificated or uncertificated securities register, as the case may be. Company shares are also normally tradable at a value that is determined by the cost of capital at market value or the book value (CIMA, 2003:126) for raising long term finance from the capital market of which the Johannesburg Stock Exchange (Proprietary) Limited is an example (Correia et al. 2003: 13-4).

The IASB (2001b) defines an equity instrument as any contract that evidences a residual interest in the asset of an entity after deducting all its liabilities, according to IAS 32, paragraph 11. Shares, on which companies in South Africa rely significantly as a source of long term finance, are therefore, according to IFRS, classified as equity. The application of IFRS to companies will therefore not
necessarily have a negative effect on their solvency ratio, unlike in the case of a co-operative.

### 3.3.2.3 Members’ funds

Brault (1985:226) has investigated the equity capital construction of co-operatives in the United States of America (USA). This investigation was done during an era when co-operatives played an important role in the economy, inspired by legislative enactments and federal tax advantages. Co-operatives are initially financed by member shares from an equity perspective – this is however not an unlimited source of equity finance for a co-operative.

This limitation makes sense when referring back to Chapter Two. It was concluded that a co-operative is not focused on the wealth of shareholders but rather on the availability of affordable goods and services to its members. Share prices therefore have a limited potential to grow and another source should hence be identified, serving as equity finance in the case of a co-operative.

Brault has identified *Financing through revolving equity*, amongst other mechanisms, as the main source for financing the growth and capital needs of co-operatives. This mechanism relies on net savings of the co-operative that is capitalised into separate member accounts, referred to as qualified notices of allocations (qualified allocations), at year end. The funds are utilised by the co-operative until they are redeemed. Such member equities can be redeemed before or when a member resigns by means of so-called redemption plans (Brault, 1985:255, 260).

Brault’s theory can be confirmed with the following findings made by Garland and Brown (1985:1-9): The USA’s fish harvest was rated as the fourth largest in the world in 1980. 102 fishery co-operatives formed part of this industry in some way at that stage. A study was performed on *inter alia* the financing structure of 23 of such co-operatives. The research has shown that the majority of these co-
Operatives were dependent on net earnings to raise capital. Existing members of these co-operatives seemed to be responsible for raising the capital for the co-operative. Redemption plans were also in place in instances where changes in member financing occurred.

Former legislation in South Africa has also provided that members' funds had to be classified as equity in the financial statements of co-operatives. Members' funds were, according to the Co-operatives Act (91/1981) (hereafter referred to as the Act), classified as equity in the financial statements of co-operatives, as it was stated in Section 85(1) of the Act that a co-operative may provide for the establishment of one or more members' funds, and Section 85(2) of the Act stated that such money would’ve been paid to the members at such times and in such manner and in such circumstances as provided in the statute. Schedule 2 of the Act has also stipulated that these funds were to be classified as equity in the balance sheet of the entity.

Brault as well as Garland and Brown have confirmed the importance of members’ funds to a co-operative for long term finance, and such practice was also followed under former legislation in South Africa. The classification of member’s funds, with reference to the definition according to Co-operatives Act (14/2005) (hereafter referred to as the Act) and the requirements of IFRIC 2, will further be investigated to determine how members’ funds are classified in the financial statements of co-operatives in South Africa with the application of IFRS or IFRS for SMEs.

Section 43 of the Act stipulates that the constitution of a co-operative may provide for the establishment of one or more funds of members and that money standing to the credit of a member in a fund of members must be paid to the member in the manner and at the time provided for in the constitution of a co-operative. The application of IFRIC 2 to members’ funds will however result in their being classified as a liability according to the IASB (2004) – it is stated in IFRIC 2 paragraph 6 that demand deposits, current accounts, deposits accounts
and similar contracts that arise when members act as customers are classified as financial liabilities.

The same concern as raised in the comment letter of the ICA, as discussed with reference to members’ shares, is therefore applicable to member’s funds in a co-operative. It seems that the application of IFRS for SMEs will cause co-operatives to not have any finance that is classified as equity in financial statements. This finding sketches a dark picture – co-operatives have been discussed as a tool for social development and alleviation of poverty in Chapter Two and the South African government has even earmarked this type of enterprise for these functions. The above comparison between the classification of members’ shares and members’ funds in the case of a co-operative versus a company is summarised in Table 3.1.

Table 3.1: Co-operative versus company: Members’ funds and shares

<table>
<thead>
<tr>
<th></th>
<th>Co-operative (IFRS / IFRS for SMEs)</th>
<th>Company (IFRS / IFRS for SMEs)</th>
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<tbody>
<tr>
<td><strong>Instrument</strong></td>
<td>• Liability</td>
<td>• Liability</td>
</tr>
<tr>
<td></td>
<td>• Equity</td>
<td>• Equity</td>
</tr>
<tr>
<td><strong>Shares</strong></td>
<td>•</td>
<td>•</td>
</tr>
<tr>
<td><strong>Member funds/Retained income</strong></td>
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</table>

Source: Own compilation

3.4 ACCOUNTING FRAMEWORKS: PROPOSED CONTENT

It becomes evident from the findings above that no accounting framework exists that is specifically designed for co-operatives. It was also discussed that a co-operative is focussed on the need of their members by providing them with affordable goods and services. An entity such as a company, on the other hand, is rather focussed on profits and has a duty to their shareholders in maximizing the profits and therefore also maximizing share prices. The shareholders of a company are not necessarily involved in the daily management of the company.
and neither are the shareholders necessarily the consumers or the customers of the company. Research performed addressing this need in Canada and South Africa is discussed in this section. The nature and content of Canadian research is regarded as relevant and topical in obtaining an international perspective, and was investigated together with research performed in South Africa.

3.4.1 Canadian research

Quarter, Mook & Richmond (2002:4) are of the opinion that non-profit entities including co-operatives have unique accounting needs which are not addressed by existing accounting practices. The Centre of Excellence in Accounting and Reporting for Co-operatives (CEARC) at the Saint Mary’s University in Canada, has also identified the need for research on accounting guidance that recognises the distinctive elements of a co-operative – Generally Accepted Accounting Principles (GAAP) are developed for the reporting need of investor driven companies with different purposes, objectives and principles to those of co-operatives. Difficulty in the classification and definitions of member shares and financial instruments (also refer to Section 3.3.2.3) in the financial statements of co-operatives are inter alia highlighted by the CEARC as problematic areas when applying GAAP to co-operatives.

The CEARC started a project aimed at the development of a draft voluntary international Statement of Recommended Practice (iSORP) during November 2007 – key components for inclusion to the iSORP would be documented in a series of working papers, reports and discussion papers for public comment. A full iSORP, also subject to public comment, would be developed from these documents. An iSORP is, according to the CEARC, defined as accounting and reporting guidance being applied in conjunction with recognised accounting standards, which accommodates sector unique reporting requirements. Examples of currently applied SORPs include the public sector SORPs in Canada as well as the wide range of SORPs that accommodate various sectors,
including banking, education, and charities in the United Kingdom (Hicks et al. 2007b:3).

3.4.1.1 CEARC working paper 1: Towards an international statement of recommended practice (iSORP) for co-operative accounting and reporting (November 2007)

The CEARC states that an iSORP has the potential to cultivate an international input and awareness on the unique requirements of accounting for co-operatives. Guidance on the content and treatment of financial and non-financial information provided to those involved in the preparation of annual reports of co-operatives is therefore expected to result in financial statements being more relevant, reliable and understandable for the users.

The following examples are highlighted as part of CEARC Working Paper 1 in achieving the abovementioned objectives:

Classification of member's financial instruments
Recommendations on the classification of member’s shares as equity or a liability, as well as accounting, reporting and disclosure thereof would be addressed together with specific guidance in cases where the treatment might differ from applied GAAP.

Reporting member interests/funds in the balance sheet
The classification of members' financial instruments and treatment of retained income will received specific guidance by means of suggestions on the outlay of the balance sheet and content of the notes to the financial statements.

Payments to members and the community
Consistency in the treatment and clarity on the information to be disclosed with reference to returns, refunds, interest, dividends patronage refunds and
donations will be addressed by a suggested recommended practice on the accounting and reporting thereof.

**Reserves**

Specific guidance on the disclosure of the policy and strategy behind the reserve funds, which are in many cases important sources of capital of the co-operative, would be obtained by *iSORP* recommendations.

**Definition of co-operative accounting terms (glossary)**

Accounting terminology used by co-operatives that differs from other entities, such as distribution instead of dividend and surplus instead of profit will be defined for the standardisation thereof.

**Annual report, non-financial content**

Aspects such as non-financial and performance reporting can be enhanced by the inclusion of information about the activities of the co-operative in addition to the content of existing annual reports – such aspects can be standardised by an *iSORP* that provides specific guidance on social, ethical and environmental reporting as well as performance indicators, still bearing in mind the nature and size of the co-operative.

**Other areas where co-operative specific approaches could be considered**

Potential topics are considered for inclusion to an *iSORP* in recognition of the identity of a co-operative without significant deviation from current reporting requirements, but rather by means of more comprehensive disclosure of such aspects in the case of a co-operative.

The following areas will *inter alia* be addressed:

Objectives, scope and purpose of annual co-operative reporting, as well as presentation, disclosure and nature of reporting on revenue, expenditure and balance sheet items.
The preparation of the notes to the financial statements and the inclusion of information about member interest, activities of the co-operative, board expenses and remuneration, related party transactions, education, training and information as well as assurance report costs.

More specific issues such as the treatment of dormant membership, analysis of transactions and information about payments made to members, reporting on volunteer board and staff time, reporting on worker sweat equity, patronage returns, housing co-operative treatment of land and property as well as business combinations (Hicks et al. 2007b:1-11).

### 3.4.1.2 CEARC working paper 1: Report on comments received

(July 2008)

The following was included in the comments on the CEARC Working Paper 1 that were received from persons from: three accounting bodies; three co-operatives; one co-operative apex organisation and one co-operative regulatory organisation:

The feedback has in general indicated the favourability of additional research on an iSORP due to the inadequacy of GAAP for co-operative accounting. The classification of financial instruments and co-operative members’ shares as equity or liabilities, as well as some other accounting aspects relating to the specific characteristics of co-operatives, were highlighted as specific topics for inclusion to an iSORP.

Feedback on the general understanding of co-operative accounting and the influence of co-operative characteristics thereon, indicated that co-operatives should receive more recognition in the accounting profession with specific reference to its objectives being reflected in the accounting function as well as the non-financial reporting function. Some respondents have also cautioned that the ICA, IASB and larger audit firms should support and be involved in the development of an iSORP (Hicks et al. 2008a: 1-6).
3.4.1.3 CEARC working paper 2: Towards a conceptual framework for co-operative accounting

(March 2008)

The comments received on CEARC Working Paper 1, have, in addition to the information contained in Section 3.4.1.2, also contained a suggestion that the development of a conceptual framework for co-operatives should precede the development of an iSORP. The CEARC has in CEARC Working Paper 2 concluded that the iSORP would follow the IASB framework, but with simplified wording for the development of a relevant conceptual framework for co-operatives.

The proposed Conceptual Framework for Co-operatives can be explained as follows:

*Purpose*
Co-operatives are based on the principles of user-ownership, user-control and proportional distribution that differs from investor owned entities resulting in the need for a specific Conceptual Framework for Co-operatives for underlying the preparation and presentation of financial reports.

*Objectives and qualitative characteristics*
Future action is guided by retrospective information contained in financial reports and it will be serviceable if presented timeously and faithfully – financial reports will also include non-financial data, making the financial data more understandable to members.

*Elements and recognition*
The following elements are part of the development of standards that are based on principles in providing members with consistent financial reporting.
Elements similar to other entities:
Financial position; transactions; assets; liabilities; income; expenses; investor shares;

Co-operative specific elements:

- Transformations (commonly known in manufacturing co-operatives where changes to assets are made by processing raw materials);
- Events (any external event that affects the form or monetary value of assets or liabilities);
- Equity (allocated or unallocated equity that refers to members’ interest in assets that can respectively be withdrawn or that remains in the co-operative until termination of membership);
- Patronage rebate (distributions made to members in relation to business carried out in the form of cash, shares or other financial instruments);
- Member shares; (shares that are held as a membership requirement); and
- Transactor shares (shares issued entitling the holder thereof to a patronage rebate).

The recognition criteria of the elements refer to reliable measurement of transactions, transformations and events.

Measurement
Assets will be measured at fair value with the recognition of revaluations in the income statement.

Reporting entity
Consolidated statements will be required from co-operative groups being presented, in addition to individual co-operatives’ financial statements.

Presentation and disclosure
The financial statements will comprise of an income statement, balance sheet / statement of financial position and a statement of cash flows – prepared in due
regard of materiality of values and accompanied by notes to the reports, ensuring understandable non-bias financial statements are compiled. Membership benefits and the basis for the calculation of rebates should be disclosed in the reports, as well as compliance with the seven co-operative principles of the ICA and non-financial information on the activities of the co-operative (Hicks et. al. 2008b: 2-7).

3.4.1.4 CEARC working paper 2: Report on comments received

(February 2009)

The following was included in the comments that were received from one academic and persons from one accounting body and one co-operative:

Non-financial, social and environmental reporting should be included in the framework, in addition to financial measurement, presentation and disclosure. One respondent from a co-operative required clarity on the framework’s definition of a liability, as it refers to obligations towards non-members – the respondent pointed out that patronage dividends that are paid to members are classified as liabilities in their financial reports. Another respondent also suggested that the qualitative characteristics of understandability and comparability of the IASB Conceptual Framework should also be included in the Co-operative Conceptual Framework.

A few areas were also pointed out by respondents who are of the opinion that the suggested Co-operative Conceptual Framework is in conflict with existing standards:

- The co-operative conceptual framework distinguishes between different sectors whereas existing accounting standards are neutral;
- The co-operative conceptual framework only prescribes the measurement of fixed assets at fair value and not at cost price as well, as in the case of existing accounting standards. The other concern regarding revaluation is that all revaluation reserves are recognised in the income statement.
according to the Co-operative Conceptual Framework and not as a non-distributable reserve as in the case of existing accounting standards; and

- Member loans to the co-operative, preference shares and allocated patronage funds are classified as equity and not as liabilities, as in the case of existing accounting standards – only obligations to non-members are classified as liabilities according to the Co-operative Conceptual Framework (Hicks et al. 2009a: 3-5).

### 3.4.1.5 iSORP discussion papers

A series of three discussion papers were also available for comment on the CEARC website between March 2008 and February 2009, aimed at the development of the content for an *iSORP*. Feedback on *iSORP* Discussion Paper No. 1 referred to the objectives, scope and purpose of an *iSORP*. The intended emphasis of the *iSORP* on the needs of members was commented upon and caution was expressed that the needs of third parties should not be compromised by this emphasis. A third party is not necessarily familiar with the effect of a co-operative’s different nature on accounting – terminology such as patronage rebates or member shares being classified as a liability might cause confusion to third parties (Hicks et al. 2008c:2-4).

*iSORP* Discussion Paper No. 2 addressed the reporting requirements of member funds. The balance sheet that consists of assets, liabilities and equity is, according to the CSEAR, developed for an investor owned entity. It is suggested that members’ financial contributions should clearly be distinguished from liabilities towards non-members. An overall total with a detailed breakdown of different types of members’ funds should be disclosed in the financial reports, ensuring that members have a clear understanding of the nature and value of their funds. No comments could however been obtained on *iSORP* Discussion Paper No. 2 (Hicks et al. 2008d:3-8).
iSORP Discussion Paper No. 3 addressed the reporting requirements of payments made to members. Members receiving economic benefits in relation to business carried out with the co-operative and limited investor returns are part of the unique characteristics of a co-operative. A different approach for the reporting on payments made to members should therefore be considered. It is suggested that the financial statements should clearly distinguish between payments made to members and non-members. Payments made to members can be differentiated from payments made through trading activities (i.e. payments made for supplies to the co-operative), payments made in proportion to trading activities (i.e. patronage funds) and payments made that arise from members' funds being held in the co-operative (i.e. payments from members' accounts). The notes to the financial statements can also be utilised for full and appropriate disclosure of various categories of payments made. No comments could however be obtained on iSORP Discussion Paper No. 3 (Hicks et al. 2009b:3-10).

The following aspects are also to be addressed by iSORP according to the website of the CEARC, although limited information could be obtained:

- **iSORP 4 – Reporting on membership**: specific content on the reporting on information about joining, participating in and leaving the co-operative will be considered for inclusion to a proposed iSORP;
- **iSORP 5 – Environmental sustainability reporting guidelines**: specific content on the reporting on information about environmental indicators, report layout and connecting financial information to non-financial information; and
- **iSORP 6 - Co-operative non-financial reporting**: specific content on the reporting on a small number of performance indicators, including four common and five elective indicators (CEARC, 2014).
3.4.2 South African research

Co-operatives in South Africa were regulated by the Co-operatives Act No. 14 of 2005 from August 2005. Amendments to the act were drafted in the Co-operatives Amendment Bill at the end of 2010. The aim of the amendments was inter alia to align it with the International Labour Recommendation 193 of 2002. Regulations were also drafted and proclaimed in terms of the Co-operatives Act in May 2007, aimed at the enhancement of more precise implementation of the Act. Shortcomings in the legislation were subsequently identified. One of the shortcomings was the absence of a regulatory framework for the financial, management and social reporting systems (auditing) of co-operatives (The DTI, 2010:1).

3.4.2.1 DTI Project

The DTI launched a project of which the terms of reference required the development of a regulatory framework for the financial, management and social reporting systems (auditing) of co-operatives during 2010, in reaction to this shortcoming (The DTI, 2010:1). Various stakeholders were involved in this project and a focus group research approach was followed by these stakeholders. Cooper and Schindler (2006:212) define a focus group as a “panel of people (typically made up of 6 to 10 participants), led by a trained moderator, who meet for 90 minutes to 2 hours. The facilitator or moderator uses group dynamics principles to focus or guide the group in an exchange of ideas, feelings and experiences in a specific topic.”

The topic discussed by the focus group was the development of a regulatory framework for the financial, management performance and social reporting systems for co-operatives (auditing) (The DTI, 2010). The Co-Operatives Development Unit of the DTI operated as the moderator of the focus group.
The following parties were part of the focus group:

- The Co-Operatives Development Unit of the DTI (moderator of the group).
- The South African Institute of Chartered Accountants (SAICA).
- The Independent Regulatory Board for Auditors (IRBA).
- The South African Institute of Professional Accountants (SAIPA).
- The German Co-operative and Raiffeisen Confederation (DGRV).
- The Department of Trade and Industry.
- Business Enterprises, University of Pretoria.

### 3.4.2.2 Operational guide for co-operative audit

The focus group initially commenced its research with an investigation of an Operational Guide for Co-Operative Audit of the German Co-operative and Raiffeisen Confederation (DGRV) that was published as guidance for the audit function of co-operatives. The DGRV is an apex, as well as a legally registered auditing association of the German co-operative organisation. The Confederation encourages co-operative improvement in developing countries, but also in Central and Eastern Europe (DGRV, 2010).

It is recognised in this guide that the audit function of co-operatives should address more than evaluating financial statements – the goals of co-operatives are not limited to financial performance. The involvement of the broader community and addressing member needs are part of the goals of the co-operatives. This guide provides guidance for auditing a co-operative from an administrative perspective – no regulatory framework is however defined by this document.

### 3.4.2.3 Shift of emphasis: auditing to reporting

It was identified at an early stage by the focus group that no reporting framework for financial, management and social systems (regulatory framework) is in place.
for co-operatives in South Africa. The emphasis inevitably shifted from auditing to reporting when the group identified this shortcoming - auditing requirements cannot be stipulated when no financial reporting framework exits as a criteria against which to evaluate and report the subject matter. An assurance engagement (audit) is defined by the IAASB (2005) as an engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria (Nieman & Fouché, 2012:2-7).

3.4.2.4 Challenges faced by a developing country

The focus group became aware of the challenges faced when developing a regulatory framework in South Africa, having both qualities of a third world and first world country.

Co-operatives can mostly be classified as emerging co-operatives and established co-operatives. The main emphasis of the government is to promote growth of the emerging co-operatives (DTI, 2004:6). Some co-operatives are regarded as wealthy with numerous stakeholders and it will be expected from them to apply a comprehensive regulatory framework. Other co-operatives are in rural areas and are poor with limited access to money and human resources. Their ability to keep record of their activities, to comply with standards and legislation and to measure their performance is very limited. It became evident that the wide variety of co-operatives cannot be limited to one uniform financial reporting framework, as it would not accommodate the various reporting objectives and different needs.
3.4.2.5 Recommendations

The focus group made use of the existing categories of co-operatives in South Africa (primary, secondary and national apex co-operatives) as a starting point when making recommendations about a regulatory framework. Primary co-operatives have, in addition to this, also been re-classified according to their asset bases and annual revenue in an effort to recommend appropriate financial reporting frameworks for each type of primary co-operative.

The following table summarises the recommendations made by the focus group:

Table 3.2: Financial reporting framework by category of co-operative

<table>
<thead>
<tr>
<th>Category of co-operative</th>
<th>Financial reporting framework</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Primary: Small</strong></td>
<td>Compilation framework to be recommended by the Registrar which will form part of an annual return</td>
</tr>
<tr>
<td>(asset bases of less than R1 000.00 and individual annual revenue of less than R1 000 000.00)</td>
<td></td>
</tr>
<tr>
<td><strong>Primary: Medium</strong></td>
<td>IFRS for SMEs</td>
</tr>
<tr>
<td>(co-operatives with individual asset bases of more than R1 000.00 and individual annual revenue of less than R1 000 000.00)</td>
<td></td>
</tr>
<tr>
<td><strong>Primary: Large</strong></td>
<td>IFRS for SMEs</td>
</tr>
<tr>
<td>(co-operatives with individual asset bases of more than R1 000.00 and individual annual revenue of more than R1 000 000.00)</td>
<td></td>
</tr>
<tr>
<td><strong>Secondary and national apex</strong></td>
<td>Financial reporting framework as prescribed by the Registrar. (IFRS for SMEs where secondary and national apex body received money from the government)</td>
</tr>
</tbody>
</table>

Source: Nieman, Plant & Fouché, 2011:7-8

The focus group admits that their recommendations were limited to available literature and existing financial reporting frameworks. The necessity of a pervasive financial reporting framework, addressing the reporting requirements of all categories of co-operatives, is emphasised by the focus group.
3.5 CONCLUSION

This chapter began with the identification of distinctive elements and different goals of co-operatives, causing the financial reporting requirements thereof to differ from investor-owned companies. The existence of these elements can be ascribed to the way in which co-operatives operate. Members are rewarded with surplus distributions, not with reference to their investments in the co-operative, as in the case of an investor-owned company, but rather with reference to business carried out between the member and the co-operative. The main goal of a co-operative is not maximizing shareholder wealth as in the case of investor-owned entities, and thus will the content of the financial statements that are regarded as relevant to members also differ from such entities – the members’ are not interested in the growth in share price / their investments, but rather in the fulfilment of the social responsibility of the co-operative towards them.

The relevance of existing financial reporting frameworks to co-operatives was then investigated. SA GAAP, traditionally applied by South African entities, was withdrawn in 2012 and is therefore not further considered for this study.

IFRS for SMEs was investigated with reference to written comments made by the ICA concerning the application of IFRS for SMEs to co-operatives. The comments referred to the application of merger transactions between co-operatives, the complexity of IFRS for SMEs for application by the uneducated members / employees of smaller co-operatives, as well as the classification of member shares as liabilities according IFRIC 2. The latter was further investigated with consideration to members’ shares and members’ funds in the case of co-operatives in South Africa by applying IFRS for SMEs under South African legislation – it was concluded that this concern is also valid for members’ shares and members’ funds of South African co-operatives.

Research completed on the development of financial reporting guidance for co-operatives in Canada and South African was then investigated. It was found that the research performed in Canada has considered the development of a
Conceptual Framework for Co-operatives as well as iSORPS containing guidance on accounting matters specifically relevant to co-operatives. Content considered for inclusion to iSORPS includes matters such as classification and reporting of members' financial instruments and interests, as well as payments made to members. Environmental sustainability reporting and other non-financial reporting is also expected to be addressed by iSORPS developed in future. Feedback received on the research performed on iSORPS indicated that the respondents are generally in favour of the development thereof. The involvement of larger audit firms and regulatory bodies such as the ICA were suggested by some respondents for the development of iSORPS.

Elements suggested for the inclusion to a proposed Conceptual Framework for Co-operatives inter alia refer to measurement, reporting and recognition of co-operative specific concerns such as member funds, equity patronage rebate and the adherence to the seven ICA co-operative principles. Feedback on the proposed Conceptual Framework for Co-operatives included suggestions from respondents about the inclusion of additional guidance on reporting and disclosure of non-financial, social and environmental information. Areas of conflict between the proposed Conceptual Frameworks for Co-operatives and existing accounting standards identified by respondents included the proposed measurement of assets at fair value without the option to measure them at cost, as well as the proposed classification of obligations towards members as equity and only classifying obligations towards third parties as liabilities.

The investigation of research performed in South Africa revealed that no specific framework is currently being applied by co-operatives in South Africa. Research performed by a focus group on the development of a regulatory framework for the financial, management and social reporting systems of co-operatives found that co-operatives in South Africa should be categorised between small, medium, large and secondary and apex co-operatives when financial reporting requirements are laid down for co-operatives. Especially smaller co-operatives in South Africa are challenged with constraints such as limited funds and expertise
– financial reporting requirements of such co-operatives should be kept simple and understandable.

Possible financial reporting guidance, its status, advantages and disadvantages towards co-operatives in South Africa are summarised in Table 3.3.

Table 3.3: Status of financial reporting guidance

<table>
<thead>
<tr>
<th>Financial reporting guidance</th>
<th>Status</th>
<th>Advantageous towards co-operatives</th>
<th>Disadvantageous towards co-operatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>SA GAAP</td>
<td>Withdrawn</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>IFRS for SMEs / IFRS</td>
<td>Internationally applied by investor-owned entities</td>
<td>Recognised and existing framework; Credible; Internationally understandable</td>
<td>Not addressing unique characteristics and principles of co-operatives</td>
</tr>
<tr>
<td>Conceptual Framework for Co-operatives and iSORP (Canada)</td>
<td>Currently being researched by CEARC</td>
<td>Specifically developed for co-operatives addressing unique characteristics and principles of co-operatives</td>
<td>Still subject to research and recognition of regulatory bodies; Some areas in conflict with existing accounting standards</td>
</tr>
<tr>
<td>Financial reporting suggested by focus group (South Africa)</td>
<td>Pending for inclusion to South African legislation</td>
<td>Recognises different financial reporting accounting requirements of co-operatives according to size, financial ability and knowledge of employees</td>
<td>Not addressing unique characteristics and principles of co-operatives</td>
</tr>
</tbody>
</table>

Source: Own compilation
CHAPTER 4

RESEARCH METHODOLOGY

4.1  INTRODUCTION

The aim of this chapter is to discuss the research methodology. The secondary data was explored in Chapter Two and Three as it would be unproductive to kick off with the collection of primary data (Cooper & Schindler, 2006:144). Cooper & Schindler (2006:143) explain that a literature review is useful for the researcher in obtaining an understanding about the field of research and to define the research problem. Yin (2003:29-31) explains that the development of a theory is very important, especially when case study research is performed. A theoretical framework defines the research components as discussed in Section 4.4.3.1. The researcher will therefore be clearly guided on how to design the case study, what information to gather for the case study and how to analyse such information.

A qualitative research approach was followed for the empirical phase of this study by means of a multiple holistic case study (Yin, 2003:142-146). The case study approach enabled the researcher to obtain a realistic understanding of the cooperative accounting environment (Yin, 2003:2). The primary data was gathered by means of semi-structured interviews (Saunders, Lewis & Thornhill, 2009:320-324) and triangulated by comparing the viewpoints from various perspectives with each other (Yin, 2003:99).

4.2  RESEARCH OBJECTIVES

The following research objectives were set:
4.2.1 Primary research objective

The primary objective of this study is:
To establish whether a need for a different financial reporting framework exits for co-operatives in South Africa.

4.2.2 Secondary research objectives

The secondary objectives of this study are:
• To determine whether financial reporting frameworks currently applied in South Africa are appropriate for co-operatives.
• To identify concepts to be included in a co-operative financial reporting framework.

4.3 PROPOSITION

P₀: There is no financial reporting framework for co-operatives in South Africa.
Pₐ: There is a financial reporting framework for co-operatives in South Africa.

4.4 RESEARCH DESIGN, METHODOLOGY AND ANALYSIS

4.4.1 Qualitative research

Qualitative research allows a number of research approaches. The researcher will, irrespective of the approach selected, investigate a phenomenon in realistic context recognising it as a multi-dimensional study. The scope of the research will therefore not be superficial – an in depth understanding, in recognition of the complex study; will only be obtained by investigating various sources of data and recognising various perspectives about the phenomenon (Leedy & Ormrod 2010:135). The aim of qualitative research is to obtain a comprehensive understanding of a situation by means of an in depth understanding of different
perspectives without emphasis on the frequency thereof (Cooper & Schindler 2006:196).

The aim of this study is to obtain an understanding of the financial reporting framework of co-operatives in South Africa from the practical and realistic perspective of the stakeholders in the field of South African co-operatives.

4.4.2 The application of case study research

The qualitative research approach applied by the researcher is a multiple holistic case study research approach (Yin, 2003:142-146):

“A case study can be defined as an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident.”

The case study approach will therefore have direct focus on the context, pertinent to the phenomenon of the study. Case studies can also be classified as explanatory, exploratory or descriptive (Yin, 2003:1,13).

The rationale behind the selection of the case study method is due to its descriptive nature – the financial reporting framework of co-operatives in South Africa has not been a well-known topic of research in South Africa and fundamental phenomena such as the reporting requirements of co-operatives, scope of existing financial reporting standards and the objectives of a co-operative were investigated and discovered in real-life situations (Yin, 2003:4). The investigation of multiple (three) cases is also regarded as more substantial and convincing as opposed to a single case study (Yin, 2003:46).

4.4.2.1 Components of the study

The following components are, according to Yin (2003:21-28), important to the research design of a case study and are applied to this study as follows:
**Study questions**
This study is of a descriptive nature and the *what* questions deal with: *what* the applicable financial reporting requirements of co-operatives are; *what* the scope of existing financial reporting requirements is; and *what* the objectives of a co-operative are.

**Study propositions**
The propositions that are also seen as a point of departure include specific financial reporting requirements of co-operatives, and the objectives of co-operatives that might lead to financial reporting requirements, in addition to what is currently available, being required for co-operatives.

**Unit of analysis**
The respondents of each case study are regarded as the units of analysis.

**Logic linking of the data to the propositions**
The link between the data gathered by means of semi-structured interviews and themes as well as research objectives of the study are explained in Section 4.4.3.2.

**The criteria for interpreting the findings**
The findings made during the semi-structured interviews were separately analysed for each question included in the semi-structured interviews. The analysis was done by identifying various codes from the data gathered by means of selective coding, and allocating the content to the main themes of the study in Section 4.4.3.2.

**4.4.2.2 Selection of case studies**

A multiple case study approach is followed in this study as discussed under Section 4.4.2 where each selected co-operative is the subject of an individual case study. Yin (2003:47) compares each case with an experiment where the
researcher makes a finding and confirms it with additional experiments – this is referred to as *replication logic* where more than one case study is performed with specific outcomes. The outcomes expected by the researcher between various cases can be similar or in contrast with each other when demonstrating an initial proposition.

Every case should therefore be selected with a specific purpose. This empirical study, dealing with the phenomenon of the financial reporting framework of co-operatives in the real life context in South Africa (Yin, 2003:13) should therefore be investigated by selecting cases under specific conditions in the relevant context.

The selections made by the researcher in this study are comprised of three entities, from different economic sectors in South Africa that are managed like co-operatives. Two of the entities are large entities and one is a small entity. Similarities in the findings between the large entities are expected with specific reference to financial reporting requirements of co-operatives. Contrasting results are expected between the two large entities and the one small entity with reference to affordability and feasibility of the application of existing complex financial reporting standards to co-operatives. The selection process is summarised in Table 4.1:

**Table 4.1: Case summary**

<table>
<thead>
<tr>
<th>Case</th>
<th>Size</th>
<th>Industry</th>
<th>Basis for selection</th>
</tr>
</thead>
<tbody>
<tr>
<td>One</td>
<td>Large</td>
<td>Agricultural</td>
<td>Significance in relevant sector</td>
</tr>
<tr>
<td>Two</td>
<td>Large</td>
<td>Financial</td>
<td>Significance in relevant sector</td>
</tr>
<tr>
<td>Three</td>
<td>Small</td>
<td>Small business</td>
<td>Randomly selected</td>
</tr>
</tbody>
</table>
It was requested by the respondents that their identities as well as the names of their co-operatives should be withheld. Therefore the co-operatives are not identified.

**Large agricultural enterprise**

**Case one**

A large agricultural enterprise in South Africa that has been managed like a co-operative for the past 100 years was investigated as the first case study. Agricultural development, storing of grain, financial assistance, milling, seed processing and feeds comprise their main business activities (VKB, 2014). The enterprise has been selected from the agricultural sector due to the strong visibility of co-operatives in this sector since the 20th century as stated in Chapter Two of this study. The selected enterprise is regarded as a key role player with reference to the age of the entity, the variety of its products and services and its national scope of business.

**Large financial services enterprise**

**Case two**

A large financial services enterprise in South Africa that has been managed as a co-operative for the past 75 years was investigated in Case two. Services rendered by the co-operative include banking services, insurance and finance (IEMAS, 2014). The co-operative was selected from the financial sector as it was established in Chapter Two in this study that credit co-operatives play an important role in BRICS countries – co-operatives are willing to render services in regions and for clients which are not regarded as economically viable by commercial banks. The selected enterprise is regarded as a prominent enterprise in the financial sector in South Africa with reference to the age of the entity, the variety of its products and services and its national scope of business.
Small home industry co-operative

Case three

The selected entity is a well-known home industry with two branches in Pretoria, specialising in various sorts of cakes, pastries, platters and handcrafts. The entity was randomly selected from a list compiled of registered co-operatives in South Africa at the end of 2012. The source of the list cannot be disclosed at the request of the provider thereof – this list is however regarded as the most recent and complete list of registered co-operatives in South Africa.

4.4.3 Semi structured interviews

4.4.3.1 Selection of participants

A total number of eight individuals from three different groups, including persons responsible for management or financial reporting of the selected co-operatives, external auditors of the selected co-operatives as well as regulators in the co-operative environment were selected to participate in the semi-structured interviews. These groups are respectively responsible for financial reporting, auditing of financial statements and governing financial reporting requirements and therefore regarded as important role-players. The participants relevant to each case are summarised in Table 4.2:

Table 4.2: Summary of participants

<table>
<thead>
<tr>
<th></th>
<th>Case 1</th>
<th>Case 2</th>
<th>Case 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management/ accounting</td>
<td>Financial director: Group</td>
<td>Group manager: Projects and Compliance</td>
<td>Accountant</td>
</tr>
<tr>
<td></td>
<td>Managing director: Group subsidiary</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Auditor</td>
<td>External auditor: Small audit firm</td>
<td>External auditor: Big-four audit firm</td>
<td>Director: DGRV</td>
</tr>
<tr>
<td>Regulators</td>
<td>Director: DTI</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
External auditors

One large enterprise that is audited by one of the so-called big four audit firms and one large enterprise that is audited by a small audit firm has been selected in an attempt to obtain the view of an auditor from both types of audit firms. A deliberate change to experimental conditions has been made in response to Yin (2003:47) who is of the opinion that a replication made with such deliberate changes provides a substantial confirmation of the initial finding. Similar findings under different circumstances will also increase the level of external generalisability.

Director: DGRV

Small co-operatives are normally not subject to an audit and the view of a director of the German Co-operative and Raiffeisen Confederation (DGRV) was obtained as a replacement to the view of the external auditor of the entity. The DGRV is a German national apex organisation and auditing federation of the German co-operative sector, in accordance with the act that regulates co-operatives in Germany, namely the German Co-operative Act. The DGRV is involved in the development of medium and small enterprises through training education and mentorship in South Africa and has already established a number of successful businesses (DGRV, 2014). The rationale behind the inclusion of the director of the DGRV is the involvement of the DGRV in small and medium co-operatives in South Africa. It was therefore regarded as an important role-player, especially in the environment of a smaller co-operative such as that in Case three.

Director: DTI

A director of the Co-operative Unit at the DTI was also included as one of the respondents. The reason for the inclusion of the director from the DTI is due to the relevance of the DTI to Cases One, Two and Three.
4.4.3.2 Data collection

Gathering of the case study data in this study was performed by means of semi-structured interviews. A list of questions was applied serving as a guideline for covering the different themes. Neither the content, nor the order thereof, were necessarily fixed for each interview (Dilley, 2004:129). Additional questions may even have arisen from existing questions where additional exploration was required due to the nature of the answers and in investigating the responses of the respondents (Saunders, Lewis & Thornhill, 2009:320-324).

A deductive approach was adopted for the qualitative analysis of the study and the following main themes were developed during the literature review part of the study (Saunders, Lewis & Thornhill, 2009:491):

- Financial reporting requirements of co-operatives;
- Scope of existing financial reporting frameworks; and
- Objectives of a co-operative.

The questions included in the semi-structured interviews were developed with reference to the abovementioned themes, ensuring that the content of the literature review and the research objectives were properly covered during the empirical phase of the research. The process followed for the development of the semi-structured interview questions and analysis of the findings made during the semi-structured interviews are summarised in Figure 4.1:
Figure 4.1: Summary of empirical research process

Research objective 1

Theme 1

Semi-structured interview
Question 1

Allocation of codes to families

Family 1 (= Theme 1)

Research findings: Chapter 5

Allocation of codes to families

Family 2 (= Theme 2)

Allocation of codes to families

Family 3 (= Theme 3)

Research objective 2

Theme 2

Semi-structured interview
Question 2

Selective coding per question

Research objective 3

Theme 3

Semi-structured interview
Question 4

Selective coding per question

Semi-structured interview
Question 5

Selective coding per question
The different themes also served as categories to which the data gathered during the interviews was allocated, to form meaningful groups of data. These categories were further developed into different codes of data. This approach assisted the researcher in aligning the data gathered during the semi-structured interviews with the research objectives (Saunders, Lewis & Thornhill, 2009:492) and was applied by means of Atlas.ti Explorer (Atlas.ti), a computer assisted data analysis program.

Also refer to Annexure A where the research objectives are linked with the codes, families and questions included to the semi-structured interviews.

4.4.3.3 Data analysis

A Hermeneutic Unit was opened on Atlas.ti where primary data gathered during this study was uploaded and analysed. The primary document function was used to allocate respondents’ answers on each question to a separate document for each question, ensuring that responses were analysed in depth.

The analysis of the data was performed by means of the family manager and coding features of Atlas.ti. The main themes identified in the study were represented by different families in Atlas.ti. The different codes identified during the selective coding process as discussed earlier were allocated to the family most relevant to the code. The transcribed version of respective interview questions were scrutinised by the researcher and divided into different quotes which were allocated to relevant codes.

Atlas.ti was used to generate a report where quotations were allocated according to codes and families. The researcher used this report in documenting the findings in the form of a multiple case report. The individual cases were not discussed separately, but rather the main themes were discussed separately. The findings made during the investigation of the different cases were discussed according to the main themes of this study (Yin, 2003:148).
A holistic multiple case study design was followed by the researcher as more than one co-operative was investigated, but the unit of analysis was limited to the participants (Yin, 2003:142-147).

4.4.3.4 Data quality issues (reliability and validity)

The nature of semi-structured interviews for gathering data can however lead to issues that question the quality of the data gathered according to Saunders, Lewis & Thornhill (2009:326). Yin (2003:34-38) has, on the other hand, also suggested a few tests to assess the quality of case study research, and Dilly (2004:28-29) recommends aspects to be kept in mind by an interviewer for enhancing the validity and trustworthiness of data gathered during interviews.

Saunders, Lewis & Thornhill’s (2009:326) first concern relates to the reliability of the information gathered due to the non-standard nature of the research tool as well as possible personal views of the interviewer and respondent. The outcome of the research might therefore not be similar if another researcher, hypothetically speaking, performs the same research causing the research not to be regarded as reliable. This concern is similar to Yin’s (2003:37) test of external validity. External validity refers to the extent, and in which fields, the findings are generalisable beyond the specific case study. Statistical research however relies on statistical generalisation, whereas case studies rely on analytical generalisation. The aim of case study research is not to generalise the findings to other populations, but to generalise a comprehensive theory instead. The process followed in gathering the information during the semi-structured interviews is clearly documented in Section 4.4.3.3 in recognition of the importance of analytical generaliseability by the researcher.

The aim of gathering data by means of semi-structured interviews is also not necessarily for it to be possible to repeat the exercise, but rather to focus upon the impact of the authentic reflection of the information as collected at a specific time. The process followed while gathering the data and the findings made, are
therefore clearly explained in this study – generalising the comprehensive theory (Yin 2003:37) and enabling another researcher to re-analyse the data (Saunders, Lewis & Thornhill, 2009:328; Seale & Silverman, 1997:380).

Dilley (2004:128-129) who also recognizes interviews as a form of research for case studies, refers to Seidman (in Dilley, 2004:129) who emphasizes the importance of the interviewer’s understanding and respect for the underlying issues and terms regarding interview projects in enhancing the validity and trustworthiness thereof. Seidman (in Dilley 2004:128) suggests that researchers should obtain an understanding of what they have *inter alia* learned from interviews by studying, marking, labeling and categorizing transcripts. Similarities and differences amongst respondents as well as the consistency between the literature and the interviews should also be considered by researchers in enhancing their understanding according to Seidman (in Dilley, 2004:129). The structure and protocol of interviews can, according to Dilley (2004:129), enhance the understanding of meanings by the interviewer and respondent – it is however not required that the way that different questions are asked should be set in stone. The interview structure and protocol followed during this study is documented in Section 4.4.3.2.

Interview questions being developed on the themes as identified during the literature review of this study enhanced comprehension of the questions included in the interviews as well as the insight demonstrated during the analysis thereof. The well-defined questions have also addressed Saunders, Lewis & Thornhill’s (2009:328-329) concern about validity by further providing direction to the interview and contributing to the credibility of interviewer from the perspective of the respondent. The aspects developed from the research objectives were therefore appropriately covered during the interviews and the respondents were more likely to answer the questions accurately and comprehensively.

The application of Atlas.ti as computer assisted data analysis tool has not only enhanced the reliability and validity of the qualitative data by providing structure to the data gathering and analysis process (Seale & Silverman, 1997:379) but
has also enhanced the understanding of the meaning of the gathered data – the transcribed data gathered during the interviews was studied, marked, labeled and allocated to useful groups of data. The findings are documented in Chapter Five, where various responses are analysed, compared to each other and conclusions are drawn.

The data that was subject to the process was recorded digitally onto a dictaphone during the interviews with the permission of the respondents, whereafter the recordings were transcribed verbatim to Microsoft Word. Non-bias and complete versions of the responses were therefore included in the process (Saunders, Lewis & Thornhill, 2007:333-334). A service provider was appointed for the transcription of the interviews whereafter the validity of the transcribed data was verified by matching it with the digitally recorded versions thereof.

Yin (2003:36,85) on the other hand, refers to the test of construct validity that requires valid measurement of the data collected with reference to the objectives and concepts being studied. The researcher has triangulated the gathered data in an attempt to address construct validity by obtaining the viewpoint of several participants from various groups as illustrated in Figure 4.2. Various measures on the phenomenon of the financial reporting requirements of co-operatives (Yin, 2003:99) were therefore considered as part of the research findings in Chapter Five. The reasonability of the data gathered was also assessed with reference to the findings made during the literature review in Chapter Two and Chapter Three of this study.

The clear explanation of the data collection protocol above and in Section 4.4.3.2 has also addressed Yin’s (2003:10) test of reliability. Yin, who defines it as the possibility to repeat same procedures to the same case at a later stage and obtain the same results, acknowledges that all researchers are not always in favour of a case study approach due to it being prone to unsystematic procedures followed and bias conclusions made by researchers.
A clear outlay of the research procedures as documented in Section 4.4.3.2 describes how the data was obtained by specifying the procedures followed and the content of the gathered data. A multiple case study approach followed by the researcher in this study made it even more important for the researcher to follow a defined approach, preserving the researcher from losing track of the subject of the case study (Yin, 2003:67,69).

4.5 RESEARCH ETHICS

Saunders, Lewis & Thornhill (2009:492) are of the opinion that research ethics is about defining the research topic, engaging with organisations and individuals during data collection, and analysing and reporting on findings made in a moral and responsible way. It is proposed that the researcher should strongly consider the effect and ethical impact of their procedures on any party that assists or works with the researcher. A research ethics committee can however assist the researcher with adherence to both ethical procedures and ethical guidelines when submission of a research proposal to such a committee is required.

The Committee for Research Ethics of the Economic and Management Sciences Faculty at the University of Pretoria has assisted the researcher in this study, as initial and final ethical clearance is required from the researcher. Matters such as the research design, access to participants and validity and reliability of data is addressed by the Committee. The researcher was also required to obtain informed consent from participants in the study, ensuring that respondents understood the content and purpose of the research as well as the voluntary basis of their participation.

4.6 CONCLUSION

This chapter explained the connection between the literature review of the study contained in Chapter Two and Chapter Three and the empirical part of the research in Chapter Five in recognition of the importance of the development of a
theoretical framework for case study research. The main themes identified during the literature review formed the basis of the development of the case study as research methodology, and semi-structured interviews as a research tool. This clear guidance assisted the researcher in keeping the empirical research relevant to the research objectives and has also ensured that a comprehensive investigation is performed.
CHAPTER 5

RESEARCH FINDINGS

5.1 INTRODUCTION

This chapter discusses and summarises the findings made during the semi-structured interviews and is documented by means of a multiple case study. The following framework is based on the research objectives of this study:

- Financial reporting requirements of co-operatives.
- Scope of existing financial reporting frameworks.
- Objectives of a co-operative.

The framework was used as a starting point in the development of the questions included in the semi-structured interviews and the findings are discussed accordingly.

The case and respondents are summarised in Table 5.1:

Table 5.1: Summary of cases and participants

<table>
<thead>
<tr>
<th>Case</th>
<th>One</th>
<th>Two</th>
<th>Three</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>- Co-operative Managed Entity.</td>
<td>- Co-operative Managed Entity.</td>
<td></td>
</tr>
<tr>
<td>Basis for selection</td>
<td>- Significance and sector</td>
<td>- Significance and sector.</td>
<td>- Randomly selected.</td>
</tr>
<tr>
<td>Participants</td>
<td>- Two people responsible for management.</td>
<td>- One person responsible for management.</td>
<td>- One person responsible for accounting.</td>
</tr>
<tr>
<td></td>
<td>- One person from external auditor (small audit firm).</td>
<td>- One person from external auditor (big audit firm).</td>
<td>- Two people from a regulator.</td>
</tr>
<tr>
<td></td>
<td>- One person from a regulator.</td>
<td>- One person from a regulator.</td>
<td></td>
</tr>
</tbody>
</table>
5.2 FINANCIAL REPORTING REQUIREMENTS OF CO-OPERATIVES

5.2.1 Introduction

All respondents are of the opinion that financial reporting is vital for co-operatives, as various stakeholders have an interest in the co-operative and rely on the financial statements of the co-operative. Members and investors are interested in the status of member loans, reserves and growth of assets – power has been delegated to management and directors by the members of the entity. Financers and creditors, on the other hand, will also rely on the financial statements due to their interest in the co-operative. Regulators such as the Registrar of Co-operatives also require co-operatives to provide them with the financial statements. Even the public has an interest in the financial statements to some extent.

All members of co-operatives are not always interested in all the aspects of the financial statements – their focus is sometimes limited to what concerns them, namely the distributions made to members. Summarised financial statements can be published and member information sessions can be held to communicate this to members – this does take away the fact that especially larger co-operatives should have a complete set of financial statements available.

The majority of the respondents are also of the opinion that co-operatives should be required to report according to a financial reporting framework and such a framework should not significantly deviate from the currently recognised Conceptual Framework of the IASB. The extent and level to which this framework should be complied by individual co-operatives will however depend on the size of each co-operative.

The majority of respondents were also believe that compliance with the Conceptual Framework of the IASB is required, due to the fact that co-operatives, especially larger ones, should be subject to an audit of their financial statements providing users with reasonable assurance about the financial statements –
especially co-operatives with a significant public interest. Various reasons were provided by the respondents as to why an audit is important, including the following:

- It was found in the past that co-operatives, especially agricultural co-operatives, had an extensive client base resulting in a great public interest that requires an audit.
- A third party confirmation, especially from a large audit firm, provides the members of the co-operative with comfort that the financial statements comply with IFRS and that they are fairly represented – members would like to know what the auditor has to say.
- The members of the co-operative are sceptical and would like to obtain assurance on how the finances are managed and that theft doesn’t occur – they would also like to be addressed by the auditor during the annual general meeting.
- Stakeholders such as members and financers that are, similarly to the case of a company, not involved in the daily management of the co-operative. The financial statements are the primary sources on which they rely.

5.2.2 Differentiating between different sizes of co-operatives

5.2.2.1 The application of IFRS and IFRS for SMEs

The great majority of the respondents are of the opinion that the application of IFRS and IFRS for SMEs to large and medium co-operatives is relevant. Their view is that a co-operative is a public business form similar to any other business. Co-operatives and companies are part of specific industries and the investors who wish to take a risk on investing money, should be able to compare the financial results of the co-operative with other businesses in the companies in the same industry – a co-operative that would like to stay relevant in its industry should not deviate too much from an existing financial reporting framework. The UK Co-operative Bank was referred to as an example of a co-operative that is relevant in its industry, namely the financial environment in the UK.
A few shortcomings in the scope of IFRS and IFRS for SMEs from the perspective of large and medium co-operatives were however highlighted by the respondents. The nature of the shortcomings is discussed in Section 5.3.3 of this chapter. It is therefore suggested that large and medium co-operatives should receive additional guidance by means of additional standards that specifically address financial reporting and disclosure from the perspective of a co-operative.

5.2.2.2 The application of IFRS and IFRS for SMEs on small co-operatives

The majority of the respondents admitted that there should be differentiation between co-operatives of different sizes with reference to revenue and the level of stakeholder interest, when financial reporting and auditing requirements for co-operatives are considered. Financial reporting and auditing requirements for co-operatives with a smaller turnover and not falling into the category of a public company should have less strict financial reporting and auditing requirements. The profile of smaller co-operatives obfuscates complex financial reporting requirements: management and persons responsible for the financial reporting of such entities have either limited financial knowledge or are even illiterate. Adherence to complex financial reporting or complying with financial reporting requirements is therefore very difficult on the level of small co-operatives. It was even revealed that a number of small co-operatives don’t hand in audited financial statements to the Registrar notwithstanding that it is required by the Cooperative Act No. 14 of 2005. Such smaller organisations should however have an income statement and balance sheet as the minimum requirements.

The majority of respondents are of the opinion that the level and extent of financial reporting requirements for co-operatives should consider the size of the co-operative, with the aim to make it easier for smaller co-operatives to compile decent but basic financial statements.

Some respondents stipulated that co-operatives should for financial reporting purposes be classified into large, medium and small co-operatives. Large co-operatives should be required to comply with IFRS, medium co-operatives with
IFRS for SMEs and smaller co-operatives should comply with a basic reporting framework specifically developed for them.

Some respondents have also warned that co-operatives should not deviate too much from the existing Conceptual Framework of the IASB. The emphasis for smaller co-operatives which are not able to comply with IFRS or IFRS for SMEs should not be on the development of a different financial reporting framework. A financial reporting framework is not an accurate description of what is required as this is still too complicated. These small co-operatives should rather receive specific guidance on how to compile basic financial information, such as standardised forms or returns with clear instructions on how to compile them, in cases where stakeholders i.e. the DTI require information from them.

An audit, on the other hand, will neither be feasible for smaller co-operatives, nor will it be affordable for them. Limited internal controls and non-existent financial systems also restrict an auditor from expressing an opinion on the validity of data. Such entities should not necessarily be subject to an audit – it will be more affordable for an accounting officer to take responsibility for the financial statements by signing off on them, an example of which can be seen in the case of former Closed Corporations Act No. 69 of 1984. The Companies Act No. 71 of 2008 was also referred to: companies are, according to this act, required to either carry out an audit or an independent review of the financial statements. Small companies, on the other hand, are only required to appoint a financial officer to sign off on the financial statements of such company.

5.3 SCOPE OF EXISTING FINANCIAL REPORTING FRAMEWORKS

5.3.1 Introduction

It was established in Section 5.2 that the application of IFRS for SMEs on large and medium co-operatives is relevant, notwithstanding a few shortcomings. It was also concluded that smaller co-operatives should receive simplified guidance
regarding financial reporting, as full adherence to IFRS and IFRS for SMEs will not be viable for such co-operatives.

5.3.2 Shortcomings of IFRS and IFRS of SMEs

This section discusses the shortcomings of IFRS and IFRS for SMEs from the perspective of large and medium co-operatives, according to the respondents.

5.3.2.1 Bonus distribution

A co-operative differs from an entity such as a company, in the sense that the majority of its revenue is distributed amongst its members in the form of a bonus that is calculated with reference to the level of business carried out between the member and the co-operative. A company distributes some of the retained income to shareholders in the form of a dividend that is based on the interest held in the company of each shareholder. IFRS does not address distribution of bonuses to members based on business activity between the member and the co-operative – it addresses the declaration of dividends to shareholders with reference to its interest in the company.

It is suggested that financial information on the distribution of bonuses in relation to member activity and revenue should be communicated to members. A sense of belonging and ownership is important from a member perspective, and members are more concerned about bonus distributions than other aspects in the financial statements. It is also suggested that information regarding the distribution of bonuses should be reported to members by means of summarised financial reports that are more comprehensible for the members. Few members are interested in all the information in the financial statements or in analysing financial statements. Members will also not know where to start when they want to verify bonuses that are paid out when they are provided with the complete set of financial statements that comply with IFRS.
5.3.2.2 Equity and member funds

The majority of respondents explained that the treatment of member funds in the case of a co-operative is challenging, as the nature thereof is even described as foreign and different. The general opinion therefore was that additional guidance on the treatment and disclosure of member funds is required. Guidance on the disclosure thereof and decisions made regarding member funds will also protect the interest of the members of the co-operative. Some respondents have however warned that the nature of the additional guidance should not deviate significantly from the existing Conceptual Framework of the IASB, as this might also lead to malpractice.

The treatment of the shares of a co-operative is much simpler than in the case of a company, as each member has a fixed amount of shares and the value thereof remain fixed. If the member decides to sell it later on, the member receives the same value as the initial purchase price. Thus there is not a lot to disclose and member shares are also classified as equity according to IFRS and IFRS for SMEs.

Member shares are not really a source of capital for the co-operative. The member funds that are annually accumulated are the main source of capital of a co-operative.

Membership funds are however subject to specific policies and legislation. Bonuses that are annually paid out to members might constitute a cash payment, while the majority of the bonus is allocated to the member fund that vest to the members over a period of time. The treatment of membership funds is therefore not that simple.

IFRIC 2, Member Shares in Co-Operative Entities and Similar Instruments, that forms part of IFRS, also causes confusion regarding the treatment of membership funds according to some of the respondents. Membership funds are, in most cases, especially by the bigger audit firms, classified as a liability. This
places the co-operative in a difficult position, as on paper, it appears to be bankrupt due to its debt equity ratio.

Some of the respondents suggest that additional information about profit distribution, the nature of the membership funds/accounts, the vesting period, repayment conditions thereof and expected outflow of member funds should clearly be disclosed in the financial statements, in addition to current financial reporting standards. As a result membership funds are never fixed and investors would like to know what changes in membership funds are expected in the long term and the short term, as well as that membership funds cannot just be erased.

Members, on the other hand, should, according to some respondents, be provided with an abridged version of the financial statements simplifying this information to members and making it more understandable for members.

5.3.2.3 Statutory reserves

A co-operative is built on bonus distribution. Legislation also prescribes that a co-operative should have a portion of statutory reserves – additional guidance on the policy and legal requirements of bonus distribution is required for co-operatives.

5.3.2.4 Risk management and management performance

Shares in the case of a company are traded without restriction. An investor that senses risk in a company can sell its investment in the company to another party that is willing to take the risk on that organisation. A co-operative, on the other hand, can be drained in a very short period if the members decide to sell their membership due to rumours about sustainability issues of the co-operative – a member in the case of a co-operative can in no other way access his investment other than to resign as a member of the co-operative. A co-operative will experience serious consequences if the majority of members decide to withdraw
their funds from the co-operative – this can easily happen if the risk management of the entity is not clearly communicated to members.

Some respondents were therefore of the opinion that members of a co-operative should be guided on how to interpret the existing financial reporting framework in obtaining an understanding of management performance and its ability to manage risks – to an even greater extent than in a company. IFRS, on the other hand, doesn’t provide guidance on how to disclose this in a clear manner to the members of a co-operative.

Management should report on whether they have a business plan and how they operate internally – this is also required by the Act on Co-operatives. IFRS does not provide guidance on how to report on this.

Financial reporting of a co-operative is, according to some respondents, very complicated as opposed to other entities – management doesn’t only have a responsibility towards financial performance, but also to managerial and social performance. The new approved Co-operative Amendment Bill also requires from a co-operative to report on the social and managerial performance. IFRS and IFRS for SMEs do not deal with the measurement of social and managerial performance, and additional guidance is required by co-operatives on how to measure social and managerial performance.

5.3.3 Elements of the financial statements

Specific elements of the financial statements will be evaluated in this section from the perspective of large and medium co-operatives.
5.3.3.1 Assets

The majority of the respondents are of the opinion that the treatment of assets according to IFRS and IFRS for SMEs is in most cases comprehensive and relevant from the perspective of large and medium co-operatives.

5.3.3.2 Liabilities

The majority of the respondents agree that the treatment of liabilities according to IFRS and IFRS for SMEs is in most cases comprehensive and relevant from the perspective of large and medium co-operatives, notwithstanding:

- the shortcomings discussed in Section 5.3.2; and
- the legal limit that exists on loans from non-members according to the Co-operative Act No. 14 of 2005, which should in addition to the requirements of IFRS and IFRS for SMEs be disclosed.

5.3.3.3 Expenditure

The majority of the respondents contend that the treatment of expenditure according to IFRS and IFRS for SMEs is in most cases comprehensive and relevant from the perspective of large and medium co-operatives, notwithstanding:

- that the co-operative should disclose the nature of all expenditure to members of the co-operative transparently, ensuring that relevant parties can be held responsible for such expenditure and that such expenditure is in the best interest of the co-operative and its members;
- that significant expenditure is properly disclosed; and
- that significant deviation from the prior year is highlighted and explained.
5.4 OBJECTIVES OF A CO-OPERATIVE

5.4.1 Introduction

Specific reference is made to selected objectives of co-operatives according to the ICA. Respondents were asked whether compliance with these objectives should be reflected in the financial statements of co-operatives. The treatment of transactions with members is also separately discussed.

5.4.2 ICA Co-operatives objectives

The general view of respondents on the disclosure of the ICA objectives is that a co-operative should disclose compliance thereof where the objective is relevant or required by the co-operative. The mere fact that business is carried out by means of a co-operative doesn’t mean that the co-operative should necessarily adhere to all of the ICA objectives. It can therefore not be expected of all co-operatives to report on this. The objective of financial statements is to report on the financial performance of the co-operative and for investors to compare this with other entities. Disclosure of compliance with the ICA objectives will in some instances rather be reflected in the integrated report.

Some of the respondents were however of the opinion that separate disclosure on expenses carried on for members’ education and revenue generated from members should be disclosed separately in the financial statements.

5.4.2.1 Concern for the community

Some respondents felt that concern for the community will be recorded in the financial statements, if costs are involved as indication that this objective of the co-operative is met – bearing in mind that detailed disclosure of the concern for the community to the financial statements can however lead to additional costs and additional work.
Some respondents believe that a higher level of care for the community can be expected from a co-operative background. For example: a co-operative might argue that they are willing to carry on with business in a lossmaking branch, to avoid job losses and loss of infrastructure. It will not necessarily be desirable for a co-operative to have strict reporting requirements of this. Some respondents argue that it will only be relevant to financial reporting if community involvement becomes a DTI requirement and funds allocated to it are specified – disclosing this to the financial statements will then illustrate the compliance of the co-operative with the requirement, as well as the impact of the expense on the co-operative. The consumer will then learn from the financial statements about what can be expected in future – information included in the financial statements should be informative regarding future expectations of the co-operative.

Another view from some respondents is that it is good to show involvement of the co-operative in the community, as this is one of the objectives of a co-operative – information on this is however more likely to be included in the integrated report of the co-operative, preferably in a simplistic fashion.

5.4.2.2 Democratic member control

The majority of respondents believe that it would not be possible or necessary to demonstrate democratic member control in the financial statements. If any disclosure of democratic member control is to take place, it will be part of the integrated reporting. A respondent illustrated the common view with the following example: Current legislation prescribes that each member has one vote. If there are 1000 members in a co-operative – an individual member would have 0.1% of the votes and if there are 100 members an individual member would have 10% of the votes. If votes were differentiated, then it would have been possible to reveal something by additional disclosure.
5.4.2.3 Education, training and information

The majority of the respondents are convinced that every co-operative has a responsibility towards education and training of their members and employees. A co-operative cannot operate separately from its community – a co-operative is rather seen as a development vehicle as opposed to a type of business such as a company. It is therefore good to report on the co-operative’s involvement in training of employees as well as members. This is however not part of the core operations of a co-operative and disclosure thereof as part of integrated reporting will be more appropriate than the financial statements. The members also need assurance that the co-operative fulfils this objective because it is part of what they require from the co-operative.

Some respondents are also convinced that expenditure carried out for education training and information should also be included in the financial statements. This will especially be the case if involvement in such training and the rand value thereof is prescribed by the DTI. The entity is then financially effected by such as responsibility – the effect as well as the compliance should then be disclosed from a financial reporting perspective.

Another view in the minority is that a co-operative doesn’t inherently have a greater responsibility towards education, training and information than any other business. This view however accommodates the fact that a co-operative can regard commitment towards education, training and information as a main objective of the co-operative. Such involvement will then be elaborated on in the integrated report of the co-operative. Valuable disclosure will include information about the number of members trained, and the nature of the training (i.e. formal programs, ABET, National Skills etc.) rather than the value of the expenditure carried on – this is not really the issue, as co-operatives tend to utilize their own personnel to do the training.

Other respondents are of the opinion that expenses carried on for training of members should be disclosed and explained in the financial statements.
5.4.2.4 Member economic participation

The majority of respondents contend that member economic participation, in the sense of transactions with members versus transaction with non-members, should be disclosed separately. It is important for the directors to see from a strategic point of view, whether the income comprises of transactions with members and non-members, or whether the co-operative relies only on business with non-members for survival. Some of the respondents felt that it would increase transparent financial reporting if revenue from members is disclosed separately for illustrating member involvement in the co-operative. The disclosure will also form part of financial reporting of the co-operative.

Other aspects of member economic participation can be disclosed by integrated reporting as well as member information sessions.

Another view is that member economic participation, in the sense of active and non-active members, does not necessarily need to be reflected in the financial statements, as it will not provide users of the financial statements with relevant information. Members who are economically active will receive benefits and those members who are not interested will not see the benefits.

5.4.3 Transactions with members

The majority of respondents are of the opinion that transactions between members and non-members should be disclosed separately. It was also suggested that financial reporting guidance on the disclosure thereof should be formalised. The nature of the disclosure will be almost similar to the IFRS standard, IAS 24, Related Party Disclosure.
5.4.3.1 Business perspective

Co-operatives were in the past not allowed to do business with non-members and were later on restricted to do up to a maximum of 5% of their business with non-members, but the restriction was eventually negated. It is however still good to distinguish between business with members and non-members for evaluating the meaningfulness of the business – the co-operative is actually supposed to do business only with members.

The co-operative should also assess the composition of its revenue – if a co-operative does only do business with members and there is no growth in membership, the co-operative will not grow either.

5.4.3.2 Member perspective

The separate disclosure of transactions between members and non-members puts bonus distribution into perspective, as bonuses are based on transactions between the members and the co-operative. Members thus will be able to verify the reasonability of the total bonus distribution and the value of the bonus received by members individually – this will also ensure that management treats members fairly. The man on the street might feel unfairly treated when profits were high and bonuses paid out were also high, but he has only received a small bonus. If member involvement on a transactional level is disclosed clearly – the reason for the small bonus is explained more clearly.

5.5 CONCLUSION

The conclusion is documented according to the framework as referred to in Section 5.1.
5.5.1 Financial reporting requirements of co-operatives

All respondents are of the opinion that financial reporting is important for co-operatives due to stakeholders, such as members, financers and regulators that are relying on the financial statements of co-operatives. Merit however exits for additional or summarised disclosure, especially for matters concerning members such as distributions made to members – it is however not desired that co-operatives significantly deviate from the Conceptual Framework of the IASB. Especially larger co-operatives should be subject to a statutory audit of the financial statements where they are audited with IFRS or IFRS for SMEs as measurement criteria. The application of IFRS and IFRS for SMEs is also regarded as relevant for co-operatives, as prospective investors in co-operatives would also be interested in comparing the financial results with other entities in the market. Significant deviation from the Conceptual Framework of the IASB can also lead to malpractice.

The majority of respondents admitted that smaller co-operatives should not necessarily be subject to complicated financial reporting requirements due to limited access to skills and finances that are required for adherence to advanced financial reports. Such entities should rather be guided on how to compile simple financial reports and should also not be subject to a statutory audit. A financial officer should rather be appointed to take responsibility for the financial statements of such co-operatives.

5.5.2 Scope of existing financial reporting requirements

The majority of respondents have admitted that IFRS and IFRS for SMEs do not address all the financial reporting requirements of co-operatives. Co-operatives have a different emphasis on the distribution of bonuses to members – members are rewarded for the level of business carried out between the individual member and the co-operative, rather than in the the case of dividends being declared by a company which is based on the performance of the company. Co-operatives are
also reliant on member funds for equity. Such funds are classified as liabilities according to IFRS and IFRS for SMEs leading to disastrous consequences for co-operatives. It is suggested that co-operatives should be required to disclose additional information about member funds, such as vesting periods and expected outflows thereof, ensuring that information about the nature and status of such accounts are conveyed to members.

Other areas that have merit for disclosure in addition to IFRS and IFRS for SMEs include co-operative specific legal requirements, risk management, managerial performance and revenue. Co-operatives are required to classify a portion of their reserves as statutory reserves and limitations on loans from members are also applicable to co-operatives. These legal matters are not reflected in the requirements of IFRS and IFRS for SMEs. The fulfilment of the responsibilities towards members from a social and managerial performance perspective is also not reflected by the disclosure requirements of IFRS and IFRS for SMEs. Co-operatives should also be required to communicate risks and the management thereof towards its members transparently. Members’ funds can easily be drained if members are not informed about the management of business risks.

5.5.3 Objectives of a co-operative

Co-operatives have specific objectives distinguishing them from other entities. The fulfilment of these objectives is not necessarily measured by IFRS or IFRS for SMEs. The success of a co-operative partially depends on member involvement. Transactions between members and non-members being disclosed separately can be an indicator of the success of the co-operative – IFRS or IFRS for SMEs do not provide guidance on such disclosure. Other objectives such as concern for the community, democratic membership control and education, training and information can be reported on by means of financial reporting or non-financial reporting, depending on the significance of costs incurred.
CHAPTER 6

SUMMARY, CONCLUSION AND RECOMMENDATIONS

6.1 INTRODUCTION

The aim of this study was to obtain an understanding of the financial reporting status of co-operatives in South Africa. The researcher commenced the research with a literature review where themes relevant to the empirical research were identified. The aim of this chapter is to provide a brief overview of all the chapters and to conclude with propositions and research objectives with recommendations, limitations and areas with the potential for future research.

6.2 LITERATURE REVISITED

Chapter One formed the basis of the motivation behind the research, with specific reference to the research problem, research objectives and research methodology.

The following primary research objective was identified in Chapter One:

- To establish whether a need for a different financial reporting framework exits for co-operatives in South Africa.

Conclusion: A need exists for additional guidance on the financial reporting requirements for co-operatives in South Africa. The guidance would be in the form of additional accounting standards rather than a new financial reporting framework.
The study was further guided by the following secondary research objectives:

- To determine whether financial reporting frameworks currently applied in South Africa are appropriate for co-operatives.

  Conclusion: The standards that are currently applied by co-operatives are not appropriate for co-operatives in all aspects. Additional guidance is however required in the form of accounting standards and not in the form of a new accounting framework.

- To identify concepts to be included in a co-operative financial reporting framework.

  Conclusion: Aspects dealing with co-operative specific matters should be included in accounting standards providing additional guidance for co-operatives in South Africa. Such aspects include the following:

  - Recognition and measurement of members’ funds and distributions.
  - Merit exits for separate disclosure requirements of transactions carried out between the co-operative and members and transactions with non-members.
  - Summarised or simplified financial reports should be distributed to members conveying information about the members’ funds and distributions made to members, as well as risk management, managerial and social performance of the co-operative and whether the objectives of the co-operatives are met.

Chapter Two provided a broad background to the nature of co-operatives, explaining the origin, development and meaning of the co-operative principles. Co-operatives are focused on providing members with affordable goods and services in fulfilling their objectives of mutuality and self-help. Co-operatives are therefore also regarded as an important role player in the alleviation of poverty.
and socio-economic development, locally and abroad – almost one out of seven people worldwide are members of a co-operative. The chapter also investigated the status, quantity, and activities of registered co-operatives in Brazil, Russia and India, concluding that co-operatives are beneficial to various industries in developing countries with a number of individuals relying upon them. A similar investigation from a South African perspective indicated similar results and has indicated that co-operatives are being recognised as a development tool by the South African government, which has led to a 150% increase in registered co-operatives between September 2011 and January 2014.

No financial reporting guidance, addressing the unique characteristics have however been identified during this investigation. A concern has therefore been raised as it was noted that a number of stakeholders became reliant upon co-operatives, including members, suppliers, consumers and employees – an entity has a duty to report on the status of achieving its goals to its stakeholders, *inter alia* by means of financial reports.

Chapter Three explained that financial reporting has developed to universally defined frameworks, forming the basis of financial reporting and accounting standards. The agency theory – owners (investors) and those responsible for managing the co-operative being separate parties, has resulted in the development of financial reporting frameworks and standards. These standards however address the needs of investors and provide them with information relevant to their main concern, namely the performance of the entity from an investor perspective. The objectives of a co-operative however, differ from other entities. The main focus is not on shareholder or investor wealth. The inevitable question about the relevance of existing financial reporting standards towards co-operatives was further investigated with reference to the distinctive elements resulting in specific financial reporting requirements. This was followed by an investigation of the nature and relevance of existing financial reporting frameworks towards co-operatives.
Chapter Four explained that the researcher has performed the study by means of a literature review followed by empirical research. The empirical part of the study investigated the financial reporting needs of three co-operatively managed entities by means of a multiple case study. One small co-operative and two large co-operatives were included in the study. The large co-operatives were selected from the banking and agricultural sectors in South Africa, as the literature study had indicated the prominence of co-operatives in these sectors. The small co-operative was randomly selected from a list of co-operatives.

Semi-structured interviews were conducted as research tool for gathering case study data. Interview questions, deriving from the themes and research objectives as identified in the literature review, were developed in preparation for the semi-structured interviews. The responses from participants were digitally recorded during the interviews, whereafter they were transcribed and allocated to categories (families) by means of Atlas.ti – the categories were also linked to the research objectives of the study.

The participants comprised of persons from regulatory bodies, auditors and those charged with the financial reporting function of co-operatively managed entities – the participants were selected based on the relevance of their roles towards the financial reporting function of co-operatively managed entities.

Chapter Five elaborated upon the findings made during the semi-structured interviews. The findings were documented in the form of a multiple case report addressing each main theme of the study separately. Further detail on the findings is provided in Section 6.2.

6.3 PROPOSITIONS AND RESEARCH OBJECTIVES REVISITED

The findings will be discussed according to the topic and research objectives of the study:
6.3.1 Propositions revisited

$P_0$: There is no financial reporting framework for co-operatives in South Africa.
$P_0$: Accept

$P_A$: There is a financial reporting framework for co-operatives in South Africa.
$P_A$: Reject

Former South African legislation provided clear guidance on the content of the financial reports of co-operatives. The Co-operatives Amendment Act (06/2013) is expected to be gazetted soon – this Act makes provision for the development of a co-operative reporting system framework. It is not clear what the framework would entail. It is expected that the Act would differentiate between categories of co-operatives according to size, when financial reporting requirements are considered. This study has shown that international guidance on financial reporting requirements for co-operatives is still limited – significant deviation from the Conceptual Framework of the IASB is however, not desirable. Important aspects that require additional financial reporting guidance are summarised in Section 6.2.2 – these concerns will hopefully be addressed in the co-operative reporting system framework when the Act is gazetted.

6.3.2 Research objectives revisited

6.3.2.1 Primary research objective

- To establish whether a need for a different financial reporting framework exits for co-operatives in South Africa

Findings

It was established from the literature review that co-operatives play a significant socio-economic role internationally and in South Africa, resulting in various stakeholders being dependent upon businesses that are managed as co-operatives. Co-operatives should therefore be required to provide standardised financial statements. The financial statements of larger co-operatives should also
be subject to an audit / independent review. Research performed on the development of financial reporting requirements for co-operatives in South Africa and Canada has shown that co-operatives should be subject to financial reporting – existing financial reporting standards do however not address all the financial reporting requirements of co-operatives adequately. The development of additional accounting standards and amendments to the IASB Conceptual Framework was suggested by research performed in Canada. South African research suggested that co-operatives should be categorised according to size when financial reporting requirements are stipulated. The adherence to IFRS and IFRS for SMEs will not be possible for smaller co-operatives in South Africa and additional guidance is required.

The empirical part of the research confirmed the necessity of financial reporting for the cases under investigation. The respondents have generally indicated that medium and larger co-operatives should comply with IFRS and IFRS for SMEs – another financial reporting framework should therefore not be developed for co-operatives. It has however been admitted that shortcomings do exist in the requirements and guidance provided by IFRS and IFRS for SMEs. Additional guidance on accounting and disclosure matters should be developed for co-operatives. The majority of respondents have admitted that small co-operatives will not in all aspects be able to adhere to IFRS and IFRS for SMEs, and basic guidance with simplified accounting requirements should be provided to them.

Conclusion
The need for additional accounting standards for larger and medium co-operatives as well as simplified accounting guidance for smaller co-operatives has been confirmed by the empirical findings. The need for a co-operative conceptual framework has not been proved empirically – significant deviation from IFRS and IFRS for SMEs is not recommended.
6.3.2.2 Secondary research objectives

- To determine whether financial reporting frameworks currently applied in South African are appropriate for co-operatives

Findings
IFRS and IFRS for SMEs are, according to the literature study, regarded as existing financial reporting frameworks and the relevance thereof to co-operatives will be concluded on in this section. Co-operatives are funded by their members and members are also rewarded for their involvement by means of distributions. Distributions are either paid to members in cash or allocated to a member’s account that is utilised by the co-operative until redemption. Members’ shares as well as member funds are redeemable by a member on termination of membership. The nature and legal requirements of members’ shares and members’ funds of a co-operative differ from shares and retained income in the case of a company – the substance thereof is also not properly recognised by IFRS and IFRS for SMEs.

The empirical research performed has revealed similar shortcomings. It is suggested that distributions to members should clearly be communicated to them – summarised financial information containing information relevant to members is recommended in addition to existing financial reports. It has been recommended that members' funds should be properly disclosed in the financial statements with specific reference to the contractual agreement, vesting period and expected cash outflows.

Conclusion
Guidance on the accounting treatments and disclosure of members’ shares, members’ funds and distributions made to them should be developed for co-operatives in addition to existing financial reporting frameworks.
To identify concepts to be included in a co-operative financial reporting framework

Findings

It has been established from the literature study that the principles and objectives of a co-operative are in some ways different from those of an investor-owned company – co-operatives are focussed upon principles such as self-help, mutuality, democracy and solidarity, giving rise to additional concepts that should be included in financial reporting requirements of co-operatives. South African legislation has in the past identified additional aspects that had to be included in the financial statements of co-operatives accordingly. Co-operatives were required to disclose income derived from members as well as the details of distributions made to members, separately in the accounting records. Provision was also made for separate disclosure of members’ funds, including details of possible circumstances that could lead to a sudden outflow of members’ funds.

Research performed in Canada has also suggested that additional aspects should be included to existing financial reporting requirements. Specific reference was made to separate disclosure of members’ funds and distributions made to members. Guidance on non-financial reporting matters such as social and managerial performance was also suggested for future development by this research.

The empirical research has also revealed that the difference in principles and objectives between a co-operative and other entities results in additional financial reporting requirements. Separate disclosure of revenue derived from members and non-members would detect unhealthy reliance of the co-operative on non-members and will illustrate member economic participation – bonuses being distributed to members are then also put into perspective.

The empirical research has also identified a need for additional disclosure on the social and managerial performance of a co-operative. A co-operative has a social responsibility towards its members and the co-operative is more dependent on its
members for generating capital than in the case of a company. It has also been gathered from the empirical part of the research that additional disclosure on adherence to co-operative legal requirements such as statutory reserves and limitations on loans from members are needed for co-operatives. Reporting that explains the achievement of co-operative objectives such as concern for the community, democratic member control and education training and information would in many cases be desirable and beneficial for the co-operative.

Conclusion
Transactions between members and non-members should be separately disclosed. Social and managerial performance should also be considered for inclusion to financial reports or as part of the integrated reporting of the co-operative.

6.4 RECOMMENDATIONS

Recommendations originating from the findings in Section 6.2 will be discussed according to financial reporting and non-financial reporting requirements.

6.4.1 Financial reporting

6.4.1.1 Conceptual framework

A conceptual framework for the financial reporting of co-operatives that deviates from the IASB conceptual framework is not recommended. The IASB conceptual framework should be followed – additional accounting standards providing guidance on recognition, measurement and reporting of transactions and balances should be developed, addressing the unique requirements of co-operatives.
6.4.1.2 Statement of comprehensive income and payments made to members

*IFRS and IFRS for SMEs*

IFRS and IFRS for SMEs should be applied to medium and large co-operatives with specific consideration of the following:

- Distributions made to members should be separately disclosed, providing information on the nature of the payments / type of distribution as well as the basis on which distributions are calculated.
- Revenue from members and non-members should be separately disclosed.

Small co-operatives should be guided by means of standardised documentation containing a simplified statement of comprehensive income with clear guidance on the nature of the line items, how to measure the values of transactions and when to recognize transactions.

6.4.1.3 Statement of financial position and equity

*IFRS and IFRS for SMEs*

IFRS and IFRS for SMEs should be applied to medium and large co-operatives with specific consideration of the following:

- Members’ funds should be disclosed separately, disclosing vesting periods, agreements and events that could lead to a significant outflow of cash. The classification thereof as equity or liabilities remains a controversial subject and it is recommended for future research in Section 6.4.
- Statutory reserves and loans from members should be disclosed separately.

Small co-operatives should be guided by means of standardised documentation containing a simplified statement of financial position with clear guidance on the nature of line items, how to measure the values of balances and when to recognize transactions as balances.
6.4.2 Non-financial reporting

Adherence to the principles of a co-operative should be reported on. The nature of the principle and monetary implications thereof would determine whether it should be properly disclosed in the financial statements or as part of integrated reporting. For example: significant expenditure on education and training of employees would be properly disclosed in the statement of comprehensive income, whereas involvement of the co-operative in a community project with limited monetary implications would rather be disclosed as part of integrated reporting.

Risk management and managerial and social performance would mainly be addressed as part of integrated reporting – reference would be made to information contained in the financial statements where applicable. Members of the co-operative should regularly be provided with detailed information which explains matters such as the performance of the entity and the basis of bonus distributions to them in an understandable manner. Information sessions between management and members can also address this need effectively.

Small co-operatives should not be subject to reporting on the compliance with the principles of the co-operatives, or reporting of managerial and social performance in any other way than a simplified statement of comprehensive income or statement of financial position, as discussed in Section 6.3.1.

6.5 LIMITATIONS

The phenomenon of the financial reporting framework has been explored to a limited extent in previous research performed. Some matters have therefore not been solved to a conclusive degree as documented in Section 6.5. Unsolved problems of a similar nature were identified in former research performed. Limitations in sources of an academic nature have urged the researcher to refer to the following sources that were regarded as relevant to the study:
- National and international legislation.
- South African strategy and policy documentation.
- Accounting standards.
- Strategy and policy documentation of the ICA.
- Publications by regulatory bodies and correspondence between regulatory bodies.
- Discussion group working papers on the development of co-operative legislation.

Cases included for representing medium to large co-operatively managed entities were limited to the financial services and agricultural sectors in South Africa. A relevant variety of stakeholders to the financial reporting function of co-operatives were selected as participants, in an attempt to mitigate this limitation.

6.6 BENEFITS OF THE STUDY AND FUTURE RESEARCH

6.6.1 Benefits

Absolute certainty and consistence doesn’t exist for the financial reporting requirements of co-operatives, either in South Africa or internationally. The study provides an overview of existing research and the current status of the financial reporting function of co-operatives in South Africa. A co-operative system reporting framework is prescribed by legislation but has not been finalised yet. The following parties could therefore benefit from the study:

- Regulators in the development of a co-operative system reporting framework: This study does highlight areas of particular concern regarding the financial reporting function of co-operatives with reference to existing research as well as empirical findings.
- Those responsible for the financial reporting function of co-operatives: Recommendations as documented in Section 6.2 have been developed by the researcher with specific reference to the literature as well as the
empirical part of the study, where practices currently being applied were investigated.

- Auditors performing assurance engagements: Contentious issues associated with the financial reporting of co-operatives are discussed in the literature and in the empirical part of the research from the perspective of regulators, an auditor from a large audit firm and an auditor from a small audit firm.

6.6.2 Future research

The study has provided an international perspective on the topic and has also defined the current status for the financial reporting function of co-operatives in South Africa, enabling the researcher to make recommendations as stated in Section 6.2. Future research is however recommended on aspects as discussed below in obtaining additional clarity towards all financial reporting aspects of co-operatives.

6.6.2.1 IASB Conceptual Framework

Detailed guidance on the application of the elements of the IASB Conceptual Framework should be developed for co-operatives in the form of accounting standards – the standards would still be based upon the existing framework, but it should clarify how all objectives and unique attributes of co-operatives should be reflected in the financial statements. Recommended practices and propositions originating from existing research do not provide consistent guidance as yet.

The classification of member’s shares and members’ funds as equity or liabilities is still a controversial topic that should be addressed by future research.
6.6.2.2 Non-financial reporting

Existing research does prove that reporting on the performance of co-operatives from a managerial, social and ethical perspective should be required from co-operatives. Limited guidance does however exist on how it would be achieved by co-operatives. Would a Sustainability Reporting Framework as suggested by the Global Reporting Initiative (GRI) be relevant to economic, environmental, and social performance of co-operatives, or are such frameworks also developed with emphasis on the reporting needs of investor-owned entities?

6.7 CONCLUSION

The financial reporting status of co-operatives in South Africa has been defined in this study. The application of the existing Conceptual Framework to co-operatives, without significant deviation, is desirable. Additional guidance, in the form of accounting standards, should be developed in defining how the unique characteristics of co-operatives should be reflected in the financial reporting function. The study has however made clear recommendations for the benefit of stakeholders to the financial reporting of co-operatives.

Non-financial performance is also relevant to co-operatives – important aspects of that nature were identified in this study. The study has however revealed the need for additional research on these aspects as well.
LIST OF REFERENCES


International Auditing and Accounting Standards Board (IAASB). 2013. *ISA 315 (Revised), Identifying and assessing the risk of material misstatement through understanding the entity and its environment.*


International Accounting Standards Board (IASB). 2004. *IFRIC 2, Member’s Shares in Co-operative Entities and Similar Instruments.*


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ANNEXURE A

INTRODUCTION

The annexure summarises how the research questions were developed to address all the research objectives. The analysis of the data was performed by means of Atlas.ti as discussed in Chapter Four. The content of the data gathered is made up by quotes from various respondents. All quotes were categorised according to codes that were identified from the transcribed data. The categorised quotes were allocated to meaningful groups of data that are also referred to as families according to Atlas.ti. Each family consists of a specific range of codes. Each family also resembles a theme relevant to a research objective. The quantity of quotes allocated to each family is also counted by Atlas.ti in measuring the quantity of responses received that are relevant to each family. The findings are separately discussed according to each theme in Chapter Five.

The table below illustrates the process followed as discussed, and refers to each question that was included to the semi-structured interviews:
<table>
<thead>
<tr>
<th>Code family*</th>
<th>Research objective relevant to family*</th>
<th>Codes relevant to family*</th>
<th>Quantity of quotes allocated to family*</th>
<th>Semi-structured interview question(s) relevant to family*</th>
</tr>
</thead>
</table>
| Financial reporting requirements of co-operatives | To establish if a need for a different financial reporting framework exits for co-operatives in South Africa | • Auditing requirements  
• Categorising cooperatives  
• Comparability of financial information  
• Financial reporting (IFRS)  
• Public interest  
• Summarised financial statements  
• Sustainability reporting  
• Users of financial statements | 56 | Question one  
Explain the need for financial reporting for cooperatives by also referring to the following:  
• The users of the financial statements;  
• The need for the financial statements to be audited.  

Question three  
How should the following elements of financial statements be disclosed in the financial statements of a cooperative? |
| Scope of existing financial reporting frameworks | To determine whether financial reporting frameworks currently applied in South African are appropriate for co-operatives. | • Assets  
• Bonus distribution  
• Equity and member funds  
• Expenses  
• Legal requirements | 26 | Question two  
What is your view on the relevance of the current complex financial reporting frameworks to a cooperative? |
<table>
<thead>
<tr>
<th>Code family*</th>
<th>Research objective relevant to family*</th>
<th>Codes relevant to family*</th>
<th>Quantity of quotes allocated to family*</th>
<th>Semi-structured interview question(s) relevant to family*</th>
</tr>
</thead>
</table>
| Objectives of a co-operative | To identify concepts to be included in a co-operative financial reporting framework. | • Concern for the community  
• Democratic member control  
• Education training and information  
• Member economic participation  
• Transactions with members | 32 | **Question four**  
A cooperative has specific objectives according to the International Cooperative Alliance (2010). How should meeting the following objectives be reflected in the financial statements of a cooperative?  
**Question five**  
Do you have any other suggestions on the reporting function of cooperatives? |

* Meaningful group of data according to Atlas.ti