Chapter 7

Accounting and audit requirements

7.1 Accounting requirements

7.1 The Act sets out accounting, auditing and reporting requirements for a society's financial accounts. We explain these requirements in this chapter.

7.1.1 G Every society must keep proper books of account giving a true and fair view of the state of the society's affairs and explaining its transactions. Societies are also required to maintain satisfactory systems of control of their books, cash holdings and receipts, and payments.

7.1.2 G Accounts must be produced to at least the minimum standards required by the legislation and the society's own rules. This means either a revenue account dealing with the affairs of the society as a whole, or two or more revenue accounts covering the whole year that deal separately with different businesses of the society. These, together with any balance sheet, must give a true and fair view of the society's income and expenditure and of its affairs at the date of the balance sheet.

7.1.3 G The principles in the applicable Financial Reporting Standards published by the Financial Reporting Council (available at https://www.frc.org.uk/) generally apply to societies (but see also 'Group Accounts' at 7.10). Some societies are affiliated to sponsoring bodies or are regulated by other organisations which may have more demanding accounting requirements. Societies in this position should comply with these additional standards, as long as they do not conflict with or fail to meet the requirements of the Act.

Publication and display

7.1.4 G Every society must display its latest balance sheet in a clearly visible position at its registered office.

7.1.5 G In addition, a society must give a copy of its latest annual return, including the accounts and auditor's report (where required), free of charge to any member or other person interested in its funds who asks for it. With the member's agreement, that can be done through the society's website.

7.1.6 G As a general rule, every published revenue account or balance sheet must be signed by the secretary and two members of the society's committee and be audited or include a report on the accounts. We deal with this in more detail under 'Audit requirements' at RFCCBS 7.2.

7.1.7 G A society can publish an unaudited interim revenue account or balance sheet as long as it is published with the latest audited year-end revenue account or balance sheet and is marked clearly and prominently with the words 'UNAUDITED REVENUE ACCOUNT' or, as the case may be, 'UNAUDITED BALANCE SHEET'.

7.1.8 G A society must send us their annual return and accounts within seven months of the society's financial year-end. Annual return forms can be found here. We make the society's annual return available for public inspection on the Mutuals Public Register (http://mutuals.fsa.gov.uk/).

[**Note:** http://www.fca.org.uk/your-fca/documents/forms/annual-return-ar30-industrial-and-provident-societies-act-1965-forms]

Group accounts

7.1.9 G A society with one or more subsidiaries at the end of its year of account must produce audited group accounts for that year. They must give a true and fair view of the income, expenditure and state of affairs of the society and its subsidiaries. Societies must submit the group accounts to us with the auditor's report in their Annual Returns.

7.1.10 G The group information (for the society and its subsidiaries) can be presented alongside the society figures in one set of accounts or separately in a further set of accounts.

7.1.11 G If a society that has to submit group accounts does not include that information in its Annual Return, we will send the documents back to be completed fully.

7.1.12 G If a parent society is a wholly owned subsidiary of another corporate body then it is exempt from the group accounts requirement.

7.1.13 G Group accounts do not have to include a specific subsidiary if we approve the parent society board's opinion that this:

(1) is impracticable, or would be of no real value to the society's members, given the insignificant amounts involved; or

(2) would involve expense or delay out of proportion to the value to those members; or

(3) would give a result that would be misleading, or harmful to the business of the society or any of its subsidiaries; or

(4) is inappropriate because the business of the society and that of the subsidiary are so different that they cannot reasonably be treated as a single undertaking.

7.1.14 G The parent society needs to contact us setting out its opinion as to which reason(s) applies.

7.1.15 G If at least one of these reasons covers all the subsidiaries, then no group accounts have to be filed at all. If we grant an exemption, the parent company does not have to apply to us again and can use it for those subsidiaries in following years, as long as the auditors certify their agreement that the board's opinion and the reasons for it are the same throughout these later years.

7.1.16 G The Financial Reporting Council has published The Financial Reporting Standard, which applies in the UK and Republic of Ireland (FRS102). FRS102 does not override the provisions of the Act. So societies should comply with the FRS requirements unless they are contrary to the Act.

7.2 Audit requirements

7.2.1 G The starting point is that every society is required to appoint one or more qualified auditors to audit its accounts and balance sheets for each year of account.

7.2.2 G Societies can then either be exempt from some of the requirements or 'disapply' them. We deal with exemption and disapplication below from ■ RFCCBS 7.2.8 and ■ RFCCBS 7.2.12 respectively. If a society has disapplied the audit requirement it may still have to appoint a qualified auditor to produce a report on its accounts. We deal with this at ■ RFCCBS 7.2.21.

The audit

7.2.3 G The auditors must report to the society on whether the year's revenue account and balance sheet, and any other accounts they examine, give a true and fair view of the society's affairs, otherwise comply with the legislation, and are in agreement with the books of account for the year. Auditors also give their opinion on whether proper books of account and control systems have been maintained.

7.2.4 G In preparing their report, the auditors can carry out any necessary investigation, see the society's books and other documents at any time, and demand information and explanations from the society's officers. They can also attend and speak at the society's general meetings and must get the same communications which members get about the meeting.

The auditor

7.2.5 G The term 'qualified auditor' means someone eligible for appointment as a statutory auditor under Part 42 of the Companies Act 2006. They must be a member of a recognised supervisory body (such as the Institute of Chartered Accountants in England and Wales and the Association of Chartered Certified Accountants) and eligible for appointment under the rules of that body.

7.2.6 G The auditor must not be an employee or officer of the society or its holding or subsidiary society. They also cannot be an employee, employer or partner of a society employee or officer. They must not be prohibited under the Companies Act 2006 from being auditor of a subsidiary company of the parent society. This is to ensure their independence.

7.2.7 G Auditors are appointed and removed by the members' meeting. However, no annual resolution is needed to reappoint the same auditor from one year to the next. Removing or replacing the existing auditor requires a resolution. 28 days' notice of this resolution must be given to the members and the auditor. The auditor can make verbal and written representations to the meeting considering the resolution.

Small Society Exemption

7.2.8 G A society can appoint two or more lay auditors instead of a qualified auditor if, in its preceding year of account, it had:

(1) turnover of less than £5000; and

(2) assets of less than £5000; and

(3) fewer than 500 members.

7.2.9 G However, if the society's rules only permit a full professional audit, the society will need to register a rule amendment with us before they can use the small society exemption.

7.2.10 G The following societies can never use the small society 'lay audit' exemption:

(1) regulated housing associations;

(2) a subsidiary of another society;

(3) a society with one or more subsidiaries (whether companies or societies);

(4) a society that has to prepare accounts under the Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 1993.

7.2.11 G Anyone can be a lay auditor, as long as they are not an officer or employee of a society or a partner, employee or employer of any society officer or employee.

Disapplication of the qualified auditor requirement

7.2.12 G If a society does not qualify for the small society exemption, it may be able to 'disapply' the requirement to appoint a qualified auditor if the following conditions are met.

7.2.13 G These conditions are that the society is:

(1) not in a category required to have a full audit (see RFCCBS 7.2.26);

(2) not required by its rules to have a full audit;

(3) below certain financial thresholds; and

(4) a society whose members pass a resolution by the required majority to disapply the audit requirement.

Financial Thresholds

7.2.14 G The thresholds referred to above are:

Non-Charity		Charity	
(1)	value of aggregated assets at the end of the previous year of account was less than £2.8m; and	(1)	value of aggregated assets at the end of the previous year of account was less than £2.8m; and
(2)	turnover for the previous year was less than £5.6m	(2)	turnover for the previous year was less than £250,000.

7

Disapplication Resolution

7.2.15 G A general meeting must pass a resolution to disapply the requirement to appoint a qualified auditor. It will pass if:

(1) less than 20% of the votes cast are against the resolution; and

(2) less than 10% of all members entitled to vote cast a vote against it.

7.2.16 G If this resolution is not passed, the society must have a full professional audit.

7.2.17 G The resolution only operates for one year of account. So a society must pass a resolution in each year of account it wants to opt out of the full audit requirement. For instance, if a society's financial year-end is 31 December, it must pass the disapplication resolution before 31 December.

Society rules on accounts and audit

7.2.18 G If a society currently requires a professional auditor to audit its accounts and wants to disapply this requirement or use the small society exemption then a rule change may be needed. For example, a rule that states '...and the audit will be carried out by a registered auditor' ties the society to the appointment of a registered auditor. If the current rules only permit a full professional audit, then a rule amendment must first be passed and registered with us.

7.2.19 G The small society exemption and disapplication provisions do not override society rules. The society will still need to amend its audit rule to use the relaxed auditing requirements. A rule change to state, for example:

> '... and an audit, where necessary in law, or where the membership requires, will be carried out by a registered auditor or two or more lay auditors, where the condition for appointing lay auditors prevail'

would allow the society to take advantage of the relaxed auditing requirements.

7.2.20 G We assess rule changes on a case by case basis. Generally however, we will not register a rule change unless it allows for circumstances where an audit may be required either by law or by the members. For example, we would not register 'the accounts will be examined by an independent accountant'. We encourage societies to either use the example given above or to follow the wording below:

> 'The members shall vote annually, as allowed by section 84 of the Co-operative and Community Benefit Societies Act 2014, at the Annual General Meeting, to have, when necessary in law or where the membership requires:
>
> (1)an audit carried out by a qualified auditor
>
> (2)an audit carried out by two or more lay auditors
>
> (3)a report by a qualified auditor
>
> (4)or unaudited accounts, where the conditions for such exist.
>
> If a full audit or a report is required, a person who is a qualified auditor under section 91 of the Co-operative and Community Benefit Societies Act 2014 shall be appointed. The qualified or lay auditors, if so appointed, shall not be officers or servants of the society and nor shall they be partners of, or in the employment of, or employ, an officer or servant of the society. Lay auditors shall be chosen by the Committee of Management from the general membership and/or others.
>
> If the membership vote for unaudited accounts, the society's income/expenditure ledger shall be scrutinised by the secretary and committee members only and signed, as a true record, by the secretary and two committee members or any other number as may be required by legislation. An income/expenditure report will be prepared to present to the society's members at each Annual General Meeting'.

7

The Report

7.2.21 G If a society chooses not to have a full audit from a qualified auditor they must, if their turnover was over £90,000 in the preceding year of account, appoint a qualified auditor to prepare a report on the accounts and balance sheet. Regulated housing associations in England and Wales must appoint a qualified auditor to prepare a report on the account and balance sheet whatever their turnover.

7.2.22 G The report on the accounts and balance sheet is less onerous than a full audit. The report must state whether, in the opinion of the qualified auditor making the report:

(1) the revenue account or accounts, the other accounts (if any) to which the report relates, and the balance sheet are in agreement with the books of account kept by the society;

(2) on the basis of the information contained in the books of account, the statutory account complies with the requirements of the Act; and

(3) the financial criteria allowing the production of a report instead of a full audit have been met.

7.2.23 G The qualified auditor preparing the report has the same kinds of powers as an auditor. These include carrying out any necessary investigation, seeing the society's books and other documents at any time, and being able to demand information and explanations from the society's officers. They are also entitled to attend and speak at society general meetings and get the same communications about the meeting as members. The auditor should sign their report.

7.2.24 G Where the relevant conditions are met, and the society produces unaudited accounts, the revenue account and balance sheet must still be signed by the secretary and two committee members of the society acting on behalf of the society's committee.

Societies needing full professional audit

7.2.25 G A society with a turnover of more than £5.6m (£250,000 if charitable) or total assets of more than £2.8m in the preceding year of account must always have a full professional audit.

7.2.26 G Any society that is one of the following, or was at any time during the accounting period, cannot disapply the audit requirement

(1) a Scottish regulated housing association;

(2) a subsidiary of another society;

(3) a society with one or more subsidiaries (whether those subsidiaries are companies or societies);

(4) a society that holds a deposit or has done so at any time since the end of the preceding year of account (unless the deposit was withdrawable share capital).