Ref #527559

4 September 2015

Ms Elize Koekemoer
Co-operative Development Unit
Department of Small Business Development

Email: ekoekemoer@dsbd.gov.za

Dear Madam,

**SAICA SUBMISSION ON THE DRAFT REGULATIONS, DRAFT REGULATIONS FOR CO-OPERATIVES**

The South African Institute of Chartered Accountants (“SAICA”) is the foremost accountancy body in South Africa and one of the leading institutes in the world. It plays an influential role in a highly dynamic business sector. SAICA currently has 39 956 members of which 32 031 are resident in South Africa and 7 565 are international members.

The strategic pillars of SAICA include SAICA playing a leadership role in South Africa by developing new material, making submissions and working with government to address social and economic issues. SAICA therefore comments on legislation that impacts SAICA members and society as a whole.

In response to your request for comments on the Draft Regulations for Co-operatives, attached is the comment letter prepared by The South African Institute of Chartered Accountants (SAICA).

We thank you for the opportunity to provide comments on this document.

Please do not hesitate to contact us should you wish to discuss any of our comments. We would be available to make oral presentations, if required.

Yours sincerely,

Juanita Steenekamp (CA (SA))
Project Director – Governance and Non-IFRS Reporting
References to the Co-operatives Act, refers to the Co-operatives Act, No 14 of 2005. All reference to the Amendment Act refers to the Co-operatives Amendment Act, No 6 of 2013.

We would also like to note the following areas where we believe further clarification is required or where there is a significant change in the application of the Act:

General comments:

1. The Co-operatives Act require that the financial statements must be circulated prior to the Annual General Meeting, there is however no requirement for co-operatives to compile the financial statements in a certain time period. The Act, Amendment Act or Draft Regulations does not state any requirements with regards to the preparation of the financial statements.

2. “Section 36 of the Amendments substitutes section 48 of the Act as follows:

“(1) Every co-operative must circulate the audited report, the independent reviewed report of the annual report to all its members at least fourteen days prior to an annual general meeting.

(2) The annual general meeting must consider and discuss the audited report, independent reviewed report or annual report in order to take resolutions on the future conduct of the business of the co-operative.”

The Amendment Act defines an audited report, an annual report, and an independent reviewed report as the following:

“ ‘audited report’ means a report by an auditor examining and evaluating the financial statements, social report and management decision report;

‘annual report’ means a document prepared by the Board containing financial statements, a social report and the management decision report;”

‘independent reviewed report’ means a report by an independent reviewer examining and evaluating the financial statements, social report and management decision report”

In light of the definitions of “audited report” and “independent reviewed report” it seems that the intention is for the annual report (which may be independently reviewed, audited or neither) to be circulated to all co-operative’s members at least fourteen days prior to the annual general meeting. SAICA is therefore of the view that Section 36 of the Amendment Act should be clarified.

3. Management and control of money

There seems to be little reporting required on how moneys are managed and controls around that.
4. Regulation 19 - Monetary thresholds for primary co-operatives

The difference between Category A Primary Co-Operative, Category B Primary Co-Operative, Category C Primary Co-Operative etc. is clarified in Draft Regulation 19. It is determined with reference to the revenue of the co-operative.

However, it is not clear whether the revenue to be used for this purpose is the pool revenue or the co-operative’s revenue as per its financial statements.

5. Transfers to non-distributable reserves

The Act required at least 5% of profits to be transferred to a non-distributable reserve (section 3(1)(e)).

In terms of the Amendment Act, such reserves may not be less than 1% (and not more than 5%) of the co-operative’s net asset value as reflected in its most recent audited report. The amended provisions could be quite an onerous requirement for co-operatives with strong statements of financial position.

6. Financial reporting of pool accounts

The Act and Draft Regulations make provision for the accounting standards and requirements that should be applied to the financial information of the Co-operative.

We recommend that the accounting requirements for the pool accounts also be dealt with.

7. Section 48(3) of the Amendment Act

Section 48(3) of the Amendment Act is unusual in that the auditor’s report has to be signed by the directors to confirm its approval.

In practice this result in the directors signing the financial statements twice – first the financial statements are drafted and approved by the directors. It is then audited by the auditors and the audit report is signed. This is then signed by the directors again.