

## **PECOL Chapter 4: External Control**

### **UK Report**

**March 2014**

#### **Introduction**

In the UK there are no specific legal rules about any audit other than the purely financial. I refer to this as a “Legally Required Audit”.

However, the Financial Conduct Authority as registrar of co-operative societies decides whether a society meets the requirement for registration as a “bona fide co-operative”. That can be investigated and monitored through information required by the FCA to confirm compliance with co-operative principles. That role is and always has been carried out when an application is made for the registration of the society or a rule amendment. The FCA can decide that a society no longer satisfies the registration requirement. That allows the FCA to monitor compliance with Co-operative Principles. It is likely that from 1<sup>st</sup> August fuller use will be made of that power by requiring societies to confirm in their annual return that they continue to satisfy the requirement. I refer to that as “Discretionary Regulatory Monitoring”.

Other aspects of the performance of a society as a co-operative can be monitored by or on behalf of the society and its members either by a federal co-operative body or by other people. I refer to this as “Self Regulation”.

The Table below attempts to summarise which of these three processes applies to some key issues raised in the Guidelines for this PECOL Chapter.

It is important to note that important changes will be introduced on 1<sup>st</sup> August 2014 but the detail of them has not yet been finalised. They are particularly important in the development of Discretionary Regulatory Monitoring.

| <b>Legally Required Audit</b>                                    | <b>Discretionary Regulatory Monitoring</b>     | <b>Self Regulation (at choice of Co-operatives &amp; Federations)</b> |
|--|--|---|
| Audit of Accounts and Balance Sheet                              | Initial Society Rules                          | Assessment of Commercial Performance beyond accounts                  |
| Registration of Annual Return                                    | Rule Amendments                                | Audit of member-promotion   |
| Publication of Annual Return                                     | Annual Report Confirmation to FCA (proposed)   | Measure of Co-operative Performance                                   |
| Small Society Exemptions   | Powers of Investigation – Current and Proposed | Measure of Social and Ecological Effectiveness                        |
| Investigation Powers   |  | Provisions of Society Rules to allow for scrutiny                     |
| Super Audit of Financial Auditors by Financial Reporting Council |  |   |
| Training Independence & Qualification of Auditors                |  |   |

This Report is structured according to those three divisions and, within each part, seeks to explain the UK approach to the matters listed in the Guidance for the Chapter prepared by Prof Muenkner.

## **1. Legally Required Audit**

All references are, first, to the Industrial and Provident Societies Act 1965 (IPSA 1965) or the Friendly and Industrial and Provident Societies Act 1968 (FIPSA 1968) currently in force and, second, to the new consolidating law – the Co-operative and Community Benefit Societies Act 2014 (CCBSA 2014) which replaces that legislation from 01.08.14. In some places changes to be introduced by secondary legislation are known but precise references are not yet available.

### ***1.1. Accounts***

Registered societies 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 – s1 FIPSA 1968, s 75 CCBSA 2014

### ***1.1.1 Minimum Standards***

Societies must produce accounts to at least the minimum standards required by the legislation and their own rules. Briefly, that is a revenue account dealing with the affairs of the society as a whole or two or more revenue accounts covering the whole year which deal separately with different businesses of the society. These, together with any balance sheet, must give a true and fair view of the income and expenditure of the society and of its affairs at the date of the balance sheet– s 3 FIPSA 1968 ss 79 & 80 CCBSA 2014.

The principles set out in Financial Reporting Standards published by the Accounting Standards Board are generally relevant (but see also 'Group Accounts' below). Some societies are affiliated to sponsoring bodies or are regulated by other organisations which may issue accounting requirements more rigorous than those described above.

### ***1.1.2. Publication and Display of Accounts***

Every society must display its latest balance sheet in a conspicuous position at its registered office – s 40 IPSA 1965, s 81 CCBSA 2014.

In addition, a society must give a copy of its latest annual return, including the accounts and auditor's report, 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 - s 39 IPSA 1965, s90 CCBSA 2014

As a general rule, every published revenue account or balance sheet must be signed by the secretary and two members of the society committee and have been audited or subject to an accountant's report incorporated in the account or balance sheet - s 3A(1) FIPSA 1968, s82 CCBSA 2014.

A society may publish an unaudited interim revenue account or balance sheet if it is published with the latest audited year end revenue account or balance sheet and is marked in clearly and prominently with the words “UNAUDITED REVENUE ACCOUNT” or, as the case may be, “UNAUDITED BALANCE SHEET” - s3A(6A) FIPSA 1968, s 82(2) CCBSA 2014.

### ***1.1.3. Date of society's financial year end***

Generally, each year of account begins immediately after the previous one ended. However, societies can choose their own year-ends, subject to certain conditions:

- A newly registered society must have an accounting year of at least 6 months
- No society's accounting year may extend beyond 18 months
- Notice to us to change the year end by extending a year of account cannot be given to us than five years after the end of a year of account that was itself extended so as to change the year end.

If the society does not choose a financial year end, its financial year will automatically end on the last day of the month in which the anniversary of its registration falls – s39 IPFA 1965, ss 77-78 CCBSA2014

#### ***1.1.4. Group Accounts***

Societies with one or more subsidiaries at the end of a 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 and must be submitted to the FCA with the auditor's report in your annual return – s13-15 FIPSA 1968, 98 CCBSA 2014.

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 booklet.

A parent society is exempt from the group accounts requirement if it is a wholly owned subsidiary of another corporate body.

Group accounts need not deal with a particular subsidiary if the FCA approve the parent society committee's opinion that to do so:

- (a) is impracticable, or would be of no real value to the society's members, in view of the insignificant amounts involved, or
- (b) would involve expense or delay out of proportion to the value to those members, or
- (c) give a result that would be misleading, or harmful to the business of the society or any of its subsidiaries, or
- (d) 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.

If one or more of those reasons cover all the subsidiaries no group accounts need be filed at all. An exemption, once granted, can be continued in later years for the subsidiaries it covers without further application if the auditors certify their agreement that the committee's opinion and the grounds for it have continued throughout the later year – s 14 FIPSA 1968, s 99 CCBSA 2014.

The Accounting Standards Board has published Financial Reporting Standard Number 2 (FRS2) Accounting for Subsidiary Undertakings. Paragraphs 25 and 26 refer to the exclusion of subsidiary undertakings from the consolidated financial statement. These paragraphs in FRS2 do not override the provisions of the legislation. Paragraphs 19 and 61 of FRS 2 state that the FRS requirements should be complied with except where they are contrary to any statutory framework under which the undertakings report.

## ***1.2. Audit requirements exceptions and other reports***

Every society must appoint one or more qualified auditors in each year of account, to audit its accounts and balance sheet for that year unless it is subject to an exception - s 4 FIPSA 1968, s 83 of CCBSA 2014.

### ***1.2.1. The Audit***

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. To prepare the report, the auditors have power to carry out any necessary investigation, access the society's books and other documents at any time, and to demand information and explanations from the society's officers. They can also attend and be heard at society general meetings and must be given all communications about the meeting that members receive – s 9 FIPSA 1968, s 87 CCBSA.

### ***1.2.2. The Auditor***

The term “qualified auditor” means someone eligible for appointment as a statutory auditor under Part 42 of the Companies Act 2006 – s 7 FIPSA 1968, s 91 CCBSA 2014. They must be a member of a recognised supervisory body (which includes 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.

The Financial Reporting Council is responsible for disciplining and overseeing auditors according to professional standards see <https://www.frc.org.uk/Our-Work/Conduct/Professional-discipline.aspx>. It is currently investigating the KPMG Audit in respect of the audit of the accounts of the Co-operative Bank PLC before it needed restructuring to avoid insolvency and collapse last year and ceased to be controlled by the Co-operative Group which now holds only 30% of its equity - <https://www.frc.org.uk/News-and-Events/FRC->

[Press/Press/2014/January/Investigation-announced-in-connection-with-KPMG-Au.aspx](#) .

The auditor must not be an employee or officer of the society or its holding or subsidiary society or 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 society for such a lack of independence – s 8 FIPSA 1968, s 92 CCBSA.

Auditors are appointed and removed by the members' meeting but no annual resolution is required to reappoint the same auditor from one year to the next. The removal or replacement of the existing auditor requires a resolution of which 28 days' notice is given to the members and the auditor. The auditor can make oral and written representations to the meeting considering the resolution – ss 5-6 FIPSA 1968, ss 93-96 CCBSA 2014.

### ***1.2.3. Small Society Exemption***

A society with turnover and assets of less than £5000 and fewer than 500 members may appoint two or more lay auditors instead unless we direct it to use qualified auditors for the current year of account - s 4(2) to (8) FIPSA 1968, s 83(2) to (4) CCBSA 2014.

If the society's rules only permit a full professional audit, appropriate rule amendments must be registered with the FCA before the small society exemption can be used.

The following societies can never use the small society “lay audit” exemption:

- Housing Associations registered with the Homes and Communities Agency, Welsh Ministers or The Scottish Housing Regulator;
- a subsidiary of another society;
- a society with one or more subsidiaries (whether those subsidiaries are companies or societies);
- a society that has to prepare accounts under the Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 1993.

Anyone can be a lay auditor if they are not an officer or employee of a society and are not a partner, or an employee or employer of, any society officer or employee. Societies use lay auditors so that people other than committee members check the accounts against the books.

A society must prepare fully audited accounts if the FCA serve notice requiring it to do so.

#### ***1.2.4. Opting Out of Full Audit Requirements***

A less stringent requirements applies to some societies. This is only open to societies:

- which meet certain financial thresholds
- which are not in a category required to have a full audit
- whose rules do not require a full audit and
- whose members pass the an opt out resolution by the necessary majority.

#### ***Thresholds:***

| Non-charity  | Charity  |
|--|--|
| Value of assets in aggregate at the end of the previous year of account less than £2.8m, and | Value of assets in aggregate at the end of the previous year of account less than £2.8m, and |
| Turnover for the previous year less than £5.6m   | Turnover for the previous year less than £250k   |

- s 4A FIPSA 1968, s 83 of CCBSA 2014

#### ***Societies Needing Full Professional Audit:***

A full professional audit is always required for a society which had a turnover in excess of £5,600,000 (£250,000 if charitable) or total assets in excess of £2,800,000 in the preceding year of account.

Any society that is, or at any time during the accounting period was, in one of the following categories cannot use this exemption:

- a Scottish registered social landlord
- a subsidiary of another society;
- a society with one or more subsidiaries (whether those subsidiaries are companies or societies);
- a society that must prepare accounts under the Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 1993; and
- a society which takes deposits requiring PRA regulation under the Financial Services and Markets Act 2000 - that does not include a deposit in the form of withdrawable share capital.

- a credit union

- s 4A FIPSA 1968, s 83 of CCBSA 2014

### ***Society Rules***

The society's rules must allow an opt out from a full audit. If the rules only permit a full professional audit, then the appropriate rule amendments must first be passed and registered with the FCA.

### ***Opt Out Resolution***

An audit opt out resolution must be passed at a general meeting where:

- less than 20% of the votes cast are against the resolution; and
- less than 10% of all members entitled to vote cast a vote against it.

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

The resolution only operates for one year of account. A resolution must be passed in each year of account that a society wishes to opt out of the full audit requirement

### ***The Report***

Societies which have chosen to opt out of the requirement for a full audit must, if their turnover was greater than £90,000 in the year of account, appoint a qualified auditor to prepare a report on the accounts and balance sheet – s 3A (2), 85 CCBSA 2014.

The accountant's report is less onerous than an auditor's report. It must state whether, in the opinion of the qualified auditor making the report:

- 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;
- on the basis of the information contained in the books of account, the statutory account comply with the requirements of the legislation; and
- the financial criteria allowing the production of a report instead of a full audit have been met.

s 9A FIPSA 1968, s 85(2) CCBSA 2014

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.

The accountant preparing the report has similar powers to those of an auditor to carry out any necessary investigation, to access the society's books and other documents at

any time and to demand information and explanations from the society's officers. They are also entitled to attend and be heard at society general meetings and to receive all communications about the meeting that members receive – s 9B FIPSA 1968, s88 CCBSA 2014.

### ***1.2.5. FCA Power to Direct a Full Audit***

The FCA can direct that a full audit take place in respect of any year in which a society used either the small society or the “opt out resolution” possibilities outlined above. The FCA direction will require the society to appoint one or more qualified auditors to carry out a full audit of one or more years and, if an annual return has already been filed, to file a new one to reflect the full audit – S 9C FIPSA 1968, s 86 CCBSA 2014

## **1.3. Conclusions about Legally Required Audit**

These legal rules reflect the general UK approach of leaving the monitoring of managers and executives to the members (or in companies shareholders) as owners of the enterprise. All of the above rules about accounts and auditing are aimed at providing information to the members to allow them to carry out that function. If they fail to do so, that is seen as their responsibility and if the business fails it will go into insolvency and they will lose the value of their stake in it. There is generally no role for the State to do more than that.

The trend to exempt smaller societies from full audit requirements extends to those with turnover of less than £5.6 million. However, members must agree with a minimum turnout requirement and those with turnover of more than £90,000 are required to prepare a less stringent accountant's report. In addition certain types of society such as housing associations (not co-operatives) and credit unions must always prepare full accounts and the FCA can always require full accounts even where a society has opted out (see 1.2.4 above). Small companies have wider exemptions from any audit at all.

## **2. Discretionary Regulatory Monitoring**

### **2.1. Legal Basis**

Because co-operatives are registered only on the basis of being co-operatives and their registration can be cancelled if they are no longer co-operatives, the FCA checks whether the organisation is a co-operative.

The basis of registration as an industrial and provident society (IPS) before 1<sup>st</sup> August 2014 was that the society was either a “bona fide co-operative” or a community

benefit society – s 1(2) IPSA 1965. A society only needed to be one or the other under that provision and it registered **as** an IPS.

From 1<sup>st</sup> August 2014 registration is **as either** a co-operative or a community benefit society and a society must meet the requirements for the category in which it is registered - s 2 CCBSA 2014. The requirement for a co-operative is to be a bona fide co-operative. A community benefit society must conduct business for the benefit of the community.

In both cases, the Financial Conduct Authority (FCA) must be satisfied that the registration requirement is met. The FCA also has power to cancel the registration of a society that no longer meets the appropriate registration condition. Up to 1<sup>st</sup> August 2014, cancellation is possible only if the society meets neither registration requirement – s16(1)(c)(ii) IPSA 1965. For societies registered after that date, failure to meet the particular condition which allowed the society to be registered as a co-operative or as a community benefit society is the basis of any cancellation of registration – s5(5) CCBSA 2014.

This is an administrative discretion and the way in which the FCA exercises it is largely a matter for them, subject only to broad Administrative Law requirements.

## **2.2. Checking Society Statutes for Compliance**

On initial registration, the FCA will look at the rules of the proposed society and assess whether they meet its requirements for registration (see Chapter 1 UK Report for PECOL) - s 1(2) IPSA 1965, s 2 CCBSA 2014.

On each occasion on which a rule amendment is passed by the society's members, it must be submitted for registration with the FCA to be valid and will only be registered if it is consistent with the registration requirements – s 10(1) IPSA 1965 and s 16(1) CCBSA 2014.

Those requirements represent a form of monitoring of co-operative practice but are very minimal. They only involve considering the rules (i.e. statutes) of the society.

## **2.3. A New Approach**

Until 2014, the approach of the registration authority to other forms of scrutiny of whether societies operate as a co-operative was variable. The Registrar of Friendly Societies (the authority until 2001) did occasionally respond to complaints from members by threatening to cancel registration but that was quite unusual. From 2001 when the Financial Services Authority took over the function, any such intervention became even less usual and that has continued to now.

In 2012 the Financial Conduct Authority took over the registration function. As part of the legal changes to facilitate that, a new duty was imposed on that Authority as follows:

“The FCA must maintain arrangements designed to enable it to determine whether persons are complying with requirements imposed on them by or under... the legislation relating to mutual societies”

- The Financial Services Act 2012 (Mutual Societies) Order 2013 SI 2013/496 Art 2(a) Schedule 1 para 5(1)

In preparation for the more proactive role that the FCA would have to play, an advice and opinion were commissioned which can be referred to at <https://drive.google.com/?pli=1&authuser=0#folders/0B3k1mlyJumBSbGFQeUxBMllam8>.

The process of converting that advice into published Guidance about how the FCA will implement its duty and carry out its mutual society functions has begun.

It seems likely that societies will be required by that guidance to impose the following requirements on their committee or board in their rules:

- report to members each year to confirm continuing compliance with the registration requirements;
- file a statutory declaration by responsible persons when loan securities are issued that those requirements will continue to be met after the issue,
- only offer shares if the terms of the offer have been approved by the FCA in advance; and
- confirm in their annual return that there has been no material change to the conduct of the society’s affairs which would alter the statements contained in the application for registration.

This represents a new “hands on” approach by the FCA and implies a form of annual reporting on continued adherence to Co-operative Principles.

## **2.4. Legal Powers of the Registration Authority**

The legislation has always provided some powers for the registering authority to investigate societies or appoint others to do so. From 1<sup>st</sup> August 2014, those powers are substantially increased and updated and the need for member initiative to trigger the use of the power is reduced.

### **2.4.1. Members' Rights to Information**

The UK system emphasises the availability of information to members and those dealing with corporate bodies such as co-operatives and other requirements complement that. Members and others are entitled to a copy of the annual return and accounts - s 39 IPSA 1965, s90 CCBSA 2014. Documents and information are also available from the public records.

In addition, society members and anyone else with an interest in society funds, can insist on inspecting the society's register of members, usually at the society registered office. Societies must provide access to that register, apart from details of the financial stake of other people, at all reasonable hours in line with society rules about times and methods of access – ss 44-46 IPSA 1965 ss 103-104 CCBSA.

The FCA will have a number of powers under CCBSA 2014 and The CCBS (Investigations) Regulations 2014 SI 2014/0000 which will apply the provisions of Part 14 of the Companies Act 1985 to societies. That will provide the FCA with the powers exercised by the Department of Business Innovation and Skills (BIS) in respect of companies registered under the Companies Act 2006.

#### **2.4.2. FCA Power to Require Documents and Information**

Under Part 14 of the Companies Act 1985, as it will be applied to societies by The CCBS (Investigations) Regulations 2014 SI 2014/0000, the FCA will be able to direct a society to produce documents or information.

They will also be able to authorise an investigator to exercise that power on their behalf and that person will have power to enter and remain on premises used for the society's business to assist them in obtaining documents or information. It will be an offence for anyone to destroy, mutilate or falsify documents relating to the society's affairs or to knowingly provide false information when those powers are used. The investigator could either be a member of FCA staff or someone hired specially to do the work.

That power will replace the FCA's weaker and more limited powers under section 48 of the IPSA 1965

#### **2.4.3. FCA Ordered Inspection of Books by Accountant or Actuary at Members' Request**

The FCA can appoint an accountant or actuary to report on the society's books. That power needs a request by at least 10 society members who deposit money with us as security for the cost of the process.

At the end of the inspection, the FCA can order the costs to be paid by the applicants, the society, or present or former members or officers. To prepare their report, the inspector can make copies of the society's books at any reasonable time but cannot formally question people under oath – s 105 CCBSA 2014.

#### **2.4.3. FCA Ordered Inspector's Investigation or Society Special Meeting at Members' Request**

The FCA can appoint an inspector to look into the society's affairs and report to us or call a special meeting of society members. At least 10% of a society's members, or 100 members if that is a smaller number, have make a request supported by evidence that there are good reasons to do this and that the request is not malicious. Notice of the request must be given to the society. Before we act on the request, we may require the applicants to give security for the cost of the inspector's work or of calling the meeting. At the end of the process, costs will have to be met by the applicants, the society, or present or former society members or officers as we direct – s 49 IPSA 1965, S 106 CCBSA 2014.

An inspector appointed under that provision has power to see the society's books, accounts or other documents and to question society officers, members and employees on oath about the business. The FCA decide the time, place and agenda of any special meeting that they call and the meeting has all the powers of a members' meeting under the society's rules and can appoint its own chair – s 107 CCBSA 2014.

#### **2.4.4. Inspections and Investigations under the Companies Act 1985**

From 1<sup>st</sup> August 2014, SI 2014/0000 will place societies in the same position as companies in respect of inspections and investigations under Part 14 of Companies Act 1985. That involves substantial new powers for the FCA.

Where it appears to the FCA that a society's affairs are being or have been conducted:

- with intent to defraud creditors;
- for any other fraudulent or unlawful purpose;
- in a manner unfairly prejudicial to any of its members; or
- without giving members information they might reasonably expect

they can appoint inspectors with extensive powers to obtain documents and question people under oath. Obstruction of the work of the Inspectors can be treated as contempt of court.

The inspectors investigate the society's affairs and report to us. We can choose whether or not we publish the report.

These powers deal with general business misconduct by societies rather than matters specifically concerned with the registration requirements for co-operatives and community benefit societies.

The provisions of the Part 14 Companies Act 1985 concerned with investigations of company ownership do not apply to societies as issues about control are not linked with holdings of society shares.

## **2.5. Conclusions about Legally Required Audit**

The inclusion of these provisions is tenuous as they do not amount to very extensive controls or an audit in the usual sense of the word. However, they are the only external legally based mechanisms that deal with the operation of a society as a co-operative. They only apply to those co-operatives registered as industrial and provident societies (from 01.08.14 as co-operative societies).

A co-operative registered as a company or using one of the partnership business structures available in the UK will not be subject to scrutiny about whether they meet Co-operative Principles, although general investigation powers about fraud apply to companies and limited liability partnerships. The failure of BIS to date to take any steps to stop the use by the Co-operative Bank PLC of the name “co-operative” when it is owned 70% by stock exchange investors and only 30% by the Co-operative Group is evidence of the weakness of the provisions applicable in those cases. See <http://www.iansnaith.com/?p=670> for a full legal analysis and comment on that issue.

## **3. Self regulation**

It is open to co-operatives under their own rules or, more commonly, by decision of their directors to establish their own ways of monitoring their operation as a co-operative over and above the minimum legal requirements. I have referred to this as “self regulation” as it is a practice not required by law and not even imposed by the exercise of administrative discretion on the part of the FCA to enforce the registration conditions for co-operatives.

The development of performance indicators to achieve this has long been encouraged and facilitated by Co-operatives UK as the federal body of UK Co-operatives.

The full document setting out their approach to non-financial performance indicators can be found at

[http://www.uk.coop/sites/storage/public/downloads/non\\_financial\\_performance\\_indicators\\_-\\_guidance\\_0.pdf](http://www.uk.coop/sites/storage/public/downloads/non_financial_performance_indicators_-_guidance_0.pdf).

The non-financial indicators are said to cover:

“issues that members, and key stakeholders too, may value in terms of co-operative, social and environmental performance.” - Co-operative Performance Indicators (Non-financial) Guidance on co-operative, social and environmental performance indicators for members of Co-operatives UK page 1.

Ten core indicators were chosen by the Co-operative Performance Committee of Co-operatives UK as reflecting three key dimensions of non-financial performance: co-operative, social, and environmental. An attempt is also made to relate them to the ICA Principles.

The ten are:

Indicator 1: Member economic involvement: The indicator of member economic involvement involves the proportion of trade with members – sales to members as a percentage of total sales for consumer co-operatives, wages in worker co-operatives.

Indicator 2: Member democratic participation: Proportion of members voting in elections for large co-operatives and percentage attendance at members' meetings for smaller ones.

Indicator 3: Participation of employees and members in training and Education: average hours of training per employee and per active member.

Indicator 4: Staff injury and absentee rates: Average number of accidents or injuries, and average working days lost through injury, illness, etc, per employee per year.

Indicator 5: Staff profile – gender and ethnicity: percentage of males and females and percentage from each ethnic group considered in the wider context of a local or regional profile for businesses.

Indicator 6: Customer satisfaction: percentage of all customers satisfied on the basis of feedback questionnaires

Indicator 7: Consideration of ethical issues in procurement and investment Decisions: This involves setting a policy and then gathering information about compliance according to the policy set. Issues about which a policy might be set include: Human rights; Labour practices; Environmental issues; Animal welfare; Business conduct; Arms trade; and Issues around certain products (e.g. tobacco). The policies and record of suppliers and firms in which investments might be made could then be considered alongside the origin of goods bought and so forth. The key would be to have a policy and a system of reporting on it.

Indicator 8: Investment in community and co-operative initiatives: measurement of (a) proportion of pre-tax profits invested in the community over a one-year period and (b) proportion of pre-tax profits that a co-operative invested in other co-operatives over a one-year period.

Indicator 9: Net carbon dioxide emissions arising from operations using measures established by Government and others.

Indicator 10: Proportion of waste recycled/reused using measures established by Government and others.

In each case specific data is used to report these matters in figures so that some comparison can be made between one co-operative and another and between a co-operative and another type of business. The Guidance tries to provide flexibility to suit all types of co-operative but that inevitably limits the possibility of uniform application and comparisons.

This is not a development based on any legal requirement but it is an attempt to comply with both the letter and the spirit of the Co-operative Principles. It gives members and others a basis to assess how far a particular co-operative is operating in accordance with a co-operative ethos. It amounts to a development of good practice and an attempt to promulgate it.

The focus on providing members and others with clear information in statistical form reflects the approach of the legal rules to financial accounting and is therefore comparable with other systems of Co-operative Audit.

**Ian Snaith**  
**March 2014**