

## Technical factsheet

### Co-operative and Community Benefit Societies Act 2014

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## **1. Introduction**

The Co-operative and Community Benefit Societies Act 2014 consolidates a number of acts and statutory instruments relating to co-operative societies, community benefit societies and other societies registered under the Industrial and Provident Societies Act 1965 or Provident Societies Act 1968.

## **2. Effective date**

The Co-operative and Community Benefit Societies Act 2014 is effective for documents issued on or after 1 August 2014. Changes introduced are not linked to an accounting period date. The legislation affecting accounts, audit and annual returns can be found in Part 7 of the new act.

## **3. Previous acts now repealed**

The Co-operative and Community Benefit Societies Act 2014 replaces the following acts, all of which were effectively repealed on 1 August 2014:

- Industrial and Provident Societies Acts of 1965, 1967, 1975, 1978 and 2002
- Friendly and Industrial and Provident Societies Act 1968
- Co-operative and Community Benefit Societies Act 2003
- Co-operative and Community Benefit Societies and Credit Unions Act 2010

## **4. Different labels from 1 August 2014**

Before 1 August 2014, all societies registered under the Industrial and Provident Societies Act 1965 (or its predecessors) were legally referred to as 'industrial and provident societies', whatever they called themselves. From 1 August they will be referred to as 'registered societies'.

Any new societies registered on or after 1 August 2014 will be referred to as a 'co-operative society' or a 'community benefit society'.

The new legislation affects the law in England, Wales and Scotland. The legislation does not affect Northern Ireland. Credit unions and other organisations that aim to make profits that are returned to members through the payment of interest or dividends on money deposited by members are specifically excluded from the definition of 'co-operative society' and are regulated separately.

## **5. Effect on documents issued on or after 1 August 2014**

For any documents issued on or after 1 August 2014 any references to the above repealed Acts should be replaced with reference to The Co-operative and Community Benefit Societies Act 2014. Documents would include accounts of the entity and the accountant's/auditor's letter of engagement. ACCA has updated engagement letters for this legislation, which can be requested by emailing ACCA at [advisory@uk.accglobal.com](mailto:advisory@uk.accglobal.com).

Industrial and provident societies become known as 'registered societies' under the new legislation. Any references to the 'Industrial and Provident Societies Act 1965' or 'Provident Societies Act 1968' will change to the 'Co-operative and Community Benefit Societies Act 2014'. Reporting accountants and auditors have new section numbers in the new act to refer to in the accounts and reports. An example of an accountants' report can be found in Appendix 1.

As the new act is consolidating legislation, it does not bring about substantive changes; for Example, there is no change to the audit exemption limits.

## **6. Effect on charities**

Subject to the correct resolutions having been passed, Section 84(6) means that registered societies that are charities will require an audit if:

- gross income for that preceding year exceeded £250,000 or
- the total value of its assets at the end of the preceding year of account exceeded £2,800,000.

A report under section 85 to be made by a qualified auditor if:

- the society's gross income in that preceding year exceeded £90,000 and
- the total value of its assets at the end of the preceding year of account did not exceed £2,800,000.

Under section 84, no report is required if:

- the society's gross income in that preceding year did not exceed £90,000 and
- the total value of its assets at the end of the preceding year of account did not exceed £2,800,000.

For charities, if audit exemption is not available or not taken under the Companies Act 2006, then the accounts are just audited under the Companies Act 2006.

The Charities Act 2011 provisions in relation to an audit and independent examination only apply to charitable companies where accounts are not required to be audited under the Companies Act 2006.

The Charities Act 2011 applies to England and Wales. This act states that 'charity' means an institution which is established for charitable purposes only and falls to be subject to the control of the high court.

## **7. Charity group accounts**

If the Companies Act requires the preparation of group accounts, then the group accounts must be audited under the Companies Act provisions and no requirement arises for those group accounts to be audited under the Charities Act 2011.

Group accounts must be prepared and audited under the Charities Act 2011 where the aggregate gross income of the group for the financial year exceeds £500,000, unless there is a requirement for group accounts to be prepared under the Companies Act 2006.

If group accounts are prepared on a voluntary basis under the Companies Act 2006, then the group accounts must still be audited under the Charities Act 2011 provisions, irrespective of whether an audit is undertaken under the Companies Act 2006. This will affect the wording in the auditor's opinion, which will refer to the Charities Act 2011 provisions in addition to the Companies Act 2006.

## **8. Charities in Scotland**

If a charity is registered on the Scottish Charity Register, then the Charities and Trustee Investment (Scotland) Act 2005 and The Charities Accounts (Scotland) Regulations 2006 apply, even if the charity is registered in England and Wales.

The audit requirements of the Charities and Trustee Investment (Scotland) Act 2005 and The Charities Accounts (Scotland) Regulations 2006 apply to Scottish registered charitable companies.

If a Scottish registered charity is eligible, then it may opt for exemption from the audit requirements of company law. In the absence of an election for audit exemption under the

Companies Act 2006, then Scottish registered charitable companies will need to be audited under both sets of legislation.

If an election is made for audit exemption under the Companies Act 2006, then an audit or an independent examination as appropriate is still required under the Charities and Trustee Investment (Scotland) Act 2005 and The Charities Accounts (Scotland) Regulations 2006. If the charity is registered in England and Wales then a further consequence of audit exemption under the Companies Act 2006 is that the accounts will also be audited under the Charities Act 2011.

In Scotland an entity that is a registered charity and registered society has to comply both with this Act and with charity legislation. For example, a society with gross income of £100,000 would require a section 85 report under this act and an independent examiner's report under the charity legislation.

#### **9. SORP for charity accounts**

The Charity SORPs (Statement of Recommended Practice) 2005 and effective 1 January 2015 apply to all charities in the UK that prepare accounts on the accruals basis to give a true and fair view of a charity's financial activities and financial position, where a 'charity' is an institution established for purposes that are exclusively charitable. For example, a registered society, even if not registered with the Charity Commission as a charity, may be required to comply with the Charity SORP if it meets the SORP definition of a charity.

#### **10. Requirement for audited accounts**

Sections 83 through to 87 deal with the audit of the society's accounts. These sections are summarised below. Societies will usually be able to claim exemption from audit (subject to steps being taken) under section 84 if their total assets at the previous year end did not exceed £2,800,000 and turnover for that preceding year did not exceed £5,600,000 (registered charities need to substitute £250,000 gross income for turnover of £5,600,000). Small societies, as defined by section 83(4), are generally exempt from audit.

ACCA members/firms would need to be registered auditors if they were appointed under section 83 or 85.

### **11. Section 83, Duty to appoint auditors**

1. In each year of account, a registered society must (subject to subsection (2)) appoint one or more qualified auditors to audit its accounts and balance sheet for that year.
2. If the society is a small society for the year of account, it must
  - make an appointment under subsection (1) for that year, or
  - appoint two or more persons who are not qualified auditors to audit its accounts and balance sheet for that year.
3. For the purposes of this Part a registered society is a 'small society' for a year of account if:
  - a) the total amount of its receipts and payments in respect of the preceding year of account did not exceed £5,000
  - b) it had no more than 500 members at the end of that year and
  - c) the total value of its assets at the end of that year did not exceed £5,000.

### **12. Section 84, Power of certain societies to disapply section 83**

1. A registered society may by resolution disapply section 83 (duty to appoint auditors) in respect of a year of account if:
  - a) the total value of its assets at the end of the preceding year of account did not exceed £2,800,000, and
  - b) its turnover for that preceding year did not exceed £5,600,000.
2. The resolution must be passed at a general meeting at which:
  - a) less than 20% of the total votes cast are cast against the resolution, and
  - b) less than 10% of the society's members for the time being entitled under its rules to vote cast their votes against the resolution.
3. Subsection (1) does not apply to a society that:
  - a) is a credit union
  - b) is a subsidiary
  - c) has a subsidiary
  - d) holds a deposit or has at any time since the end of the preceding year of account held a deposit (other than a deposit in the form of withdrawable share capital), or
  - e) is registered in the register of social landlords maintained under section 20(1) of the Housing (Scotland) Act 2010 (asp 17).
6. Subsection (1) applies in relation to a registered society that is a charity or recognised body as if for paragraph (b) there were substituted:

'(b) its gross income for that preceding year did not exceed £250,000.'

8. Where a society's year of account is for a period other than a calendar year, the figure in subsection (l)(b) (including that provision as it has effect by virtue of subsection (6)) is to be proportionately adjusted.

### **13. Section 85, Duty to obtain report in certain cases where section 83 is disapplied**

1. This section applies to a registered society for a year of account ( 'the year' ) if:
  - a) section 83 does not apply to the society for the year because of a resolution under section 84, and
  - b) the society's turnover in the preceding year of account exceeded £90,000.
2. The society must, within a period of 28 days beginning immediately after the end of the year, appoint a qualified auditor to make:
  - a) a report on its accounts and balance sheet for the year which states, in the auditor's opinion:
    - i. whether its revenue account, any other account to which the report relates, and balance sheet are in agreement with its books of account kept under section 75, and
    - ii. on the basis of the information contained in those books of account) whether the revenue account and balance sheet comply with the requirements of this Act, and
  - b) report to the preceding year of account which states whether, in the auditor's opinion, the financial criteria for the exercise of the power conferred by section 84 were met in relation to the year.

The Financial Conduct Authority has the power to direct a society of any size to appoint auditors and to have their accounts audited for current years and/or previous years.

### **14. Section 87, Auditors: content of report and powers**

1. This section applies where a registered society has appointed auditors under section 83 for a year of account ('the year').
2. The auditors must make a report to the society on
  - a) the accounts examined by them, and
  - b) the society's revenue account and balance sheet for the year.

3. The report must state:

- a) whether, in the auditors' opinion, the revenue account and balance sheet for the year give a true and fair view of the matters mentioned in section 80(1) to (3)
- b) whether that revenue account and balance sheet comply with the other requirements of this act
- c) if the report relates to any other accounts, whether those accounts give a true and fair view of any matter to which they relate.

4. In preparing the report, the auditors must carry out such investigations as will enable them to form an opinion as to:

- a) whether the society has kept proper books of account, and maintained a satisfactory system of control over its transactions, in accordance with section 75
- b) whether the revenue account, any other accounts to which the report relates, and the balance sheet are in agreement with the society's books of account.

5. If:

- a) the auditors are of opinion that the society has failed to comply with section 75, or
- b) the revenue account, any other accounts to which the report relates and the balance sheet are not in agreement with its books of account,

this must be stated in the report.

Various forms relating to registered societies, co-operative societies and community benefit societies can be found on the Financial Conduct Authority website: [fca.org.uk/firms/registered-societies-introduction](https://www.fca.org.uk/firms/registered-societies-introduction)



## **APPENDIX 1**

### **Independent Accountants' Report under Section 85 of the Co-operative and Community Benefit Societies Act 2014**

We report to the members on the unaudited accounts for the year ended 31 December 2014 set out on pages 2 to 8.

#### **RESPECTIVE RESPONSIBILITIES OF OFFICERS AND REPORTING ACCOUNTANTS**

The society's officers are responsible for the preparation of the accounts, and they consider that the society is entitled to opt out of an audit. It is our responsibility to carry out procedures designed to enable us to report our opinion.

This report is made to the society's members, as a body, in accordance with the terms of our engagement. Our work has been undertaken so that we might compile the accounts that we have been engaged to compile, report to the society's members that we have done so, and state those matters that we have agreed to state to them in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the society and the society's members, as a body, for our work or for this report.

#### **BASIS OF OPINION**

Our work was conducted in accordance with the Statement of Standards for Reporting Accountants, and so our procedures consisted of comparing the accounts with the accounting records kept by the society, and making such limited enquiries of the officers of the society as we considered necessary for the purposes of this report. These procedures provide the only assurance expressed in our opinion.

#### **OPINION**

In our opinion:

- a) The accounts, including the revenue account and balance sheet, are in agreement with the accounting records kept by the society under s75 of the Co-operative and Community Benefit Societies Act 2014
- b) Having regard only to, and on the basis of, the information contained in those accounting records the revenue account and balance sheet comply with the requirements of the Co-operative and Community Benefit Societies Act 2014 and

- c) For the preceding year of account, the financial criteria for the exercise of the power conferred by section 84 were met in relation to the year.

ABC

Chartered Certified Accountants

125 High Street

London WC1 8AA

## **APPENDIX 2**

### **Questions and answers**

*How should the society be referred to on your letterhead and website?*

The following wording could be used if registered before 1 August 2014:

'Name of Society' is a registered society under the Co-operative and Community Benefit Society Act 2014.

If registered on or after 1 August 2014, the following wording could be used:

'Name of Society' is a registered co-operative society under the Co-operative and Community Benefit Society Act 2014.

Or

'Name of Society' is a registered community benefit society under the Co-operative and Community Benefit Society Act 2014.

Or

'Name of Society' is a registered society under the Co-operative and Community Benefit Society Act 2014.

*Does the name of the entity need to be changed?*

No, even if the phrase 'industrial and provident society' is included in the name.

*Does the registration number change?*

No, this will remain unchanged.

*Does the society need to change its rules or constitution?*

No, although if any rules do change in the future, rather than referring to 'Industrial and Provident Societies Act 1965' or 'Friendly and Industrial Provident Societies Act 1968' reference should be made to 'Co-operative and Community Benefit Societies Act 2014'

*Can a 'registered society' (i.e. registered before 1 August 2014) change to become a*

*'co-operative society' or a 'community benefit society'?*

No. If registered before 1 August 2014 the Society will remain a 'registered society' unless that registration is cancelled by the Financial Conduct Authority. If a new society is then registered it would be registered either as a 'co-operative society' or as a 'community benefit society'.

*What are the main differences between 'co-operative societies' and 'community benefit societies'?*

Co-operative societies are formed primarily to benefit their own members, who will participate in the primary business of the society. To satisfy the FCA that it will be a bona fide co-operative, a society will normally have to satisfy the following conditions:

### **1. Community of interest**

There should be a common economic, social or cultural need or interest among all members of the co-operative.

### **2. Conduct of business**

The business will be run for the mutual benefit of the members, so that the benefit members obtain will stem principally from their participation in the business.

Participation may vary according to the nature of the business and may consist of:

- buying from or selling to the society
- using the services or amenities provided by it or
- supplying services to carry out its business.

### **3. Control**

Control of the society lies with all members. It is exercised by them equally and should not be based, for example, on the amount of money each member has put into the society. In general, the principle of 'one member, one vote' should apply. Officers of the society should generally be elected by the members who may also vote to remove them from office.

### **4. Interest on share and loan capital**

Where part of the business capital is the common property of the co-operative, members should receive only limited compensation (if any) on any share or loan capital which they subscribe. Interest on share and loan capital must not be more than a rate necessary to obtain and retain enough capital to run the business. Section 2(3) of the 2014 act states that a society may not be a bona fide co-operative if it carries on business with the object of making profits mainly for

paying interest, dividends or bonuses on money invested with or lent to it, or to any other person.

## **5. Profits**

If the rules of the society allow profits to be distributed, they must be distributed among the members in line with those rules. Each member should receive an amount that reflects the extent to which they have traded with the society or taken part in its business. For example, in a retail trading society or an agricultural marketing society, profits might be distributed among members as a dividend or bonus on purchases from or sales to the society. In other societies (for example, social clubs) profits are not usually distributed among individual members but members benefit through cheaper prices or improvements in the amenities available.

## **6. Restriction on membership**

There should normally be open membership. This should not be restricted artificially to increase the value of the rights and interests of current members, but there may be grounds for restricting membership in certain circumstances, which do not offend co-operative principles. For example, the membership of a club might be limited by the size of its premises, or the membership of a self-build housing society by the number of houses that could be built on a particular site.

Whereas the FCA would normally expect a community benefit society to fulfil the following conditions:

### **1. Conduct of business**

The business must be run primarily for the benefit of people who are not members of the society, and must also be in the interests of the community at large. It will usually be charitable or philanthropic in character.

### **2. Interest on share and loan capital**

It is unusual for a community benefit society to issue more than nominal share capital (for example, one £1 share per member). Where it does issue more than nominal share capital or where members make loans to the society, or both, any interest paid must not be more than a reasonable rate necessary to obtain and retain enough capital to run the business.

### **3. Profits and assets**

The society's rules must not allow either profits or the society's assets to be distributed to the members. Profits must generally be used to further the objects of the society by being ploughed

back into the business. Where profits are used in part for another purpose, that purpose should be similar to the main object of the society, for example for philanthropic or charitable purposes. The rules must specify the beneficiary or beneficiaries, if any. Where the rules of the society allow assets to be sold, the proceeds of the sale should be used to further the society's business activities only.

#### **4. Dissolution**

The society's rules must not allow its assets to be distributed to its members on dissolution. The rules should state that on dissolution the assets should be transferred, for example, to some other body with similar objects. If no such body exists, the rules should state that the assets must then be used for similar charitable or philanthropic purposes.

### **APPENDIX 3**

#### **Summary of sections 75 to 102 (being Part 7) of the Co-operative and Community Benefit Societies Act 2014**

##### **S75 and S76**

Duty to keep proper books of account, establish and maintain a satisfactory system of control of these records.

##### **S77 and S78**

Year of accounts, different rules depending on whether registered before 8 January 2012 or after 7 January 2012.

##### **S79**

Duty to prepare one or more revenue accounts for each year of account.

##### **S80**

Revenue account or accounts together with balance sheet as at balance sheet date to give a true and fair view.

##### **S81**

A registered society must, at all times, display a copy of its latest balance sheet in a conspicuous position at its registered office.

##### **S82**

Approval and reports required for revenue accounts and balance sheets of various societies.

##### **S83**

Duty to appoint one or more qualified auditors to audit its accounts and balance sheet for that year. Although a 'small' society may instead appoint two or more persons who are not qualified auditors to audit its accounts and balance sheet for that year. This section also defines a 'small' society.

**S84**

Power of certain societies not to appoint an auditor.

**S85**

Duty to obtain a report from a qualified auditor, if an auditor is not appointed under section 83.

**S86**

FCA has the power to direct a registered society to obtain an audit report on their accounts.

**S87**

Power and responsibility of auditors appointed under section 83.

**S88**

Accountants/auditors appointed under section 82 or 85.

**S89**

Duty of registered society to submit annual return and accounts (together with auditors report under section 83 or report under section 85) to the FCA within 7 months of year end.

**S90**

Duty of registered society to supply annual return and accounts to members if requested to do so.

**S91 to S97**

Auditors eligibility, appointment, resignation, removal and remuneration.

**S98 to S101**

Duty of registered society to prepare group accounts.

**S102**

Definitions used in sections 75 to 101

The Co-operative and Community Benefit Societies Act 2014 can be found at:

[legislation.gov.uk/ukpga/2014/14/contents](http://legislation.gov.uk/ukpga/2014/14/contents)

2014

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