

Co-operative Accountability and Identity: An Examination of Reporting Practices of Nova Scotia Co-operatives

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Co-operative members benefit in proportion to their economic and social participation in the co-operative. Co-operative purpose is guided by co-operative values and principles. This study looks at the extent to which the content of financial reporting by Nova Scotia co-operatives accounts to members and reflects co-operative specific values and principles.

Introduction

Co-operatives present a significantly different organisational model that has to be considered if they are to appropriately account to their stakeholders. There are a number of characteristics which differentiate co-operatives from other forms of enterprise and central to these is the relationship of the co-operative member as owner, controller and economic participant in the co-operative (Birchall, 2005). Typically, each member has one vote, irrespective of the member's financial dealings with the co-operative, and the members elect a board to oversee the co-operative. The members benefit in proportion to their dealings with the co-operative. As such this particular member structure sets co-operatives apart from other investor owner business and non-profit models. It also indicates the co-operative member as a key stakeholder and primary user of financial reports (Hyndman et al, 2002), (CICA, 1984), and suggests the centrality of member accountability.

In addition to their distinct membership structure, co-operatives also exhibit a number of shared values and principles articulated in the International Co-operative Alliance (ICA) *Statement on Co-operative Identity* (1995). These include values of self-help, self responsibility, democracy, equality, equity, solidarity, honesty, openness, social responsibility and caring for others. The practical application of these values is expressed through the principles of: voluntary and open membership, democratic member control, member economic participation, autonomy and independence, education training and information, co-operation among co-operatives and concern for the community.

Co-operatives, then, appear to present aspects of for-profit and non-profit organisations linked to a unique member ownership structure. Michelsen (1994) sees this organisational duality

in co-operatives resulting in a complex interaction between social and market enterprise oriented goals.

But to what extent is this co-operative duality and difference reflected in co-operative financial statements and how are co-operatives able to account to their members through financial reporting in respect of both their economic and social goals? Measures of accountability to members would include adherence to reporting standards, and timeliness, frequency, access to and understandability of reports. This research considers one specific aspect of accountability: financial reporting content in relation to generally accepted accounting principles (GAAP) and co-operative principles. As part of the process of exploring this, we carried out a review of financial statements of co-operatives in Nova Scotia, looking at a group of co-operatives with a common cultural and geographical base and comparable legislation but representing diverse sectors.

Methodology

Hyndman et al (2002, 2004) as part of an assessment of financial accountability of UK and Irish credit unions to members, conducted a basic content analysis of a sample of financial statements. They sought to assess the quality of financial reporting by measuring the extent to which the financial statements included a number of items of financial information that one would expect to find if complying with appropriate GAAP. We have drawn on this approach in this stage of our research and conducted a content analysis of Nova Scotia co-operative financial statements. The content analysis has been broadened in order to also explore the extent to which aspects of the co-operative identity, in terms of values and principles, are evident in co-operative financial reporting.

This review has gathered information on types of content and is not a detailed analysis of

the content of each set of financial statements. It is one part of a wider research project that is seeking to identify and apply the co-operative difference in respect of co-operative accounting and generally accepted accounting principles.

Hyndman et al (2002) included some sixteen information types, six of which related to the broad content of financial statements and ten of which related to specific accounting policies and notes. This study has adapted that list, taking account of differing co-operative forms and the Nova Scotia financial reporting framework, and included some additional information types in order to explore the extent to which co-operative specific characteristics can be evidenced within the reporting (see table 1 below).

Financial statements broad content

The first set of six information types give an overview of general compliance with GAAP in relation to the basic content. The type of the report was included as an indicator of the extent and nature of external scrutiny and assurance currently taking place. Because a full independent audit is optional for many co-operatives we also collected data on other forms of report.

Section 16, of the Nova Scotia Co-operative

Associations Regulations (2004), states that the annual general meeting should consider the “gain and loss statement, the balance sheet and the reports of the directors and of the auditor”. Part 13 of the Canada Co-operatives Act (1998) states that “comparative financial statements” should be presented to the members. CICA accounting standards (2006) state “Financial statements normally include the balance sheet, income statement, statement of retained earnings, and cash flow statement” (section 1400.10) and also that “Notes to financial statements, and supporting schedules to which the financial statements are cross referenced, are an integral part of such statements” (section 1400.11). Items 2 to 6, on Table 1 were therefore included on the basis that it would be reasonable to use them as indicators of general compliance with GAAP in relation to financial statements basic content.

Accounting policies and notes

The notes are an integral part of financial statements, providing additional detail and disclosure. They “are often essential to clarify or further explain the items in the financial statements” (CICA, 2006, section 1400.11). As

Table 1

List of information types reviewed within annual financial reports

Financial statements basic content

1. Financial statements report (audit, review, compilation or other report)
2. Statement of income & retained earnings (or similar)
3. Balance sheet
4. Cash flow statement
5. Prior year period comparison
6. Notes to financial statements

Accounting policies and notes

7. Basis of preparation (ie accrual or cash)
8. Accounting policy - Capital assets
9. Accounting policy - Revenue recognition
10. Capital assets
11. Reserves

Co-operative identity content

12. Nature of operations
13. Members' shares
14. Patronage dividends/returns
15. Economic dependence (co-operative and members, or co-operative and other co-operative)
16. Related party
17. Education, training or information
18. Links with other co-operatives
19. Donations
20. Volunteers
21. Social & environmental reporting

such their inclusion, or omission, can provide a further indication of the quality of the reporting.

Co-operatives are diverse in terms of activity and membership forms (eg shareholding membership in market based associations and non-shareholding membership in civil society nonprofit associations) and are to be found in both the commercial and non-profit sectors. Bearing this in mind, this part of the survey was limited to just five items likely to have relevance to a variety of co-operatives (numbers 7–11 in Table 1). The accounting basis and capital assets policy could be expected to have relevance to all forms of co-operative in terms of clarifying the application of accrual accounting and indicating the accounting approach taken in relation to investments in capital assets. The reserves note is included because of the requirement of all Nova Scotia co-operatives to maintain an appropriate general reserve as indicated in section 10 of the Nova Scotia Co-operative Associations Regulations (2004): “Every association shall create a general reserve by setting aside annually from the net savings an amount as set out in the by-laws of the Association”. It was also considered reasonable to expect a policy on revenue recognition given its relevance in assessing income of a wide range of co-operatives. In addition many co-operatives invest in equipment or other capital assets which could be expected to require presentation and disclosure in the notes.

Co-operative identity content

Alongside collecting information in relation to compliance with GAAP, we also explored co-operative specific content in the financial statements and the degree to which financial reporting gives expression to co-operative differences from other forms of organisation (items 12–21 in Table 1). This can be seen in terms of a distinct co-operative identity which can potentially be evidenced through information on:

- Member ownership, control and economic benefit
- Autonomy and independence
- Education, training and information
- Co-operation among co-operatives
- Concern for the community

The above list is based on the principles listed in the International Co-operative Alliance (ICA) *Statement on Co-operative Identity* (1995) (see appendix). These globally recognised principles

are seen as the practical expression of co-operative values. They offer a useful starting point for identifying expressions of co-operative identity and assessing the extent to which current financial statements incorporate such information.

Size and types of co-operatives included in the survey

The financial statements included in the survey were those of co-operatives registered with the Co-operatives Branch of Service Nova Scotia and Municipal Relations. This does not include credit unions as they are not registered with the Co-operatives Branch. Access was provided by the Co-operatives Branch at the Halifax office and content data was collected from two hundred and fifty three financial statements, for the year 2005. This represents all of the co-operatives registered with the Co-operatives Branch that had sent in 2005 financial statements by the time of the survey, conducted in October 2006. The survey aimed at gaining a general overview of current co-operative financial reporting content and as such has not focused on characteristics that would be identifiable in relation to any individual co-operative.

The access provided by the Nova Scotia Co-operatives Branch offered the opportunity for the collection of data from a substantial number of financial statements. This has allowed us to look at a group of co-operatives with a common geographical base, operating under comparable legislation, while also representing a diversity of co-operative types and sizes, involved in a wide range of social and economic activities. It is also a useful look at financial reporting in a province that has a co-operative regulatory body as well as co-operative support and development agencies.

The data has been analysed by co-operative size and by co-operative type. Size is based on total assets on the balance sheet of the co-operative and they have been grouped into five categories:

- i. Under \$100,000
- ii. \$100,000-\$249,999
- iii. \$250,000-\$499,999
- iv. \$500,000-\$999,999
- v. \$1,000,000 and over

Having this many groupings aids identification of the strength and direction of trends in relation

to resources, in terms of reported assets, managed by the co-operative. Capital assets (property, plant and equipment), are generally reported by Nova Scotia co-operatives on a historical cost basis. In addition, housing co-operatives that have signed agreements under the National Housing Act (Canada Mortgage and Housing Corporation, 2004a, 2004b, 2004c) are required to report capital assets funded through loans at an amount corresponding to the related mortgage liability. Both historical cost accounting and the housing co-operative approach to reporting certain capital assets present limitations in regard to interpreting the amount of assets reported. Having said that, the broad asset bands quoted above, offer a general basis for comparison of Nova Scotia co-operatives.

The co-operatives have been categorised based on the type of user or stakeholder. These categories or types are in common use and are referred to in Nova Scotia Co-operative Council (2006) literature:

1. **Consumer co-operatives** – Members access products or services through the co-operative. Examples include retail and housing co-operatives.
2. **Producer co-operatives** – Members use the co-operative to process and market goods and services they produce or to buy products and services for use in their business activities.
3. **Worker co-operatives** – Members access employment and control over their working conditions through the co-operative.

Table 2 shows asset size compared to the co-operative type. From this it can be seen that a majority of co-operatives in the survey (168 or 66%), fall in to the category of consumer co-operative, while there are almost equal

numbers of producer and worker co-operatives. There is also variation in asset profiles, with worker co-operatives strongly represented at the smaller asset sizes, while producer and consumer co-operatives are more evenly represented across the sizes, but with consumer co-operatives making up the majority of the larger co-operatives. The consumer co-operative asset strength reflects, in part, the eighty property owning housing co-operatives in that category along with the network of co-operative retail stores.

Analysis

The analysis focuses on four aspects of co-operative financial reporting:

- i. Reports on financial statements
- ii. Broad content of financial statements
- iii. Inclusion of applicable accounting policies and notes
- iv. Co-operative identity

Reports on financial statements

Table 3 provides an analysis of the type of advisory report (audit, review engagement, compilation, other or none) attached to the financial statements. Audit reports have been identified in this survey as a report produced by a qualified accountant who has conducted an audit in accordance with Canadian generally accepted auditing standards. An audit report provides the user with an indication of external, independent scrutiny of the accounts, and a high level of reasonable assurance in regard to whether the financial statements are a fair representation of the financial position of the co-operative.

A review engagement report is not as comprehensive as an audit but is described as offering a “moderate level of assurance” (CICA,

Table 2
Co-operatives by size and type

Size (assets)	Consumer		Producer		Worker		Total	
	No	%	No	%	No	%	No	%
Under \$100,000	45	27%	14	34%	31	70%	90	36%
\$100,000-\$249,999	22	13%	6	15%	8	18%	36	14%
\$250,000-\$500,000	26	15%	8	19%	2	5%	36	14%
\$500,000-\$999,999	28	17%	6	15%	0	0%	34	13%
\$1,000,000 and over	47	28%	7	17%	3	7%	57	23%
Total	168	100%	41	100%	44	100%	253	100%

Table 3

Audit or other report type by size

Size (thousands \$) Content	Under 100		100-249		250-499		500-1,000		1,000 & over		Total	
	No	%	No	%	No	%	No	%	No	%	No	%
Audit report	3	3%	12	34%	20	55%	23	68%	54	95%	112	44%
Review	8	9%	13	36%	10	28%	8	23%	3	5%	42	17%
engage report	17	19%	3	8%	2	6%	0	0%	0	0%	22	9%
Compilation report	3	3%	1	3%	0	0%	0	0%	0	0%	4	1%
Other form of report	59	66%	7	19%	4	11%	3	9%	0	0%	73	29%
No report	90	100%	36	100%	36	100%	34	100%	57	100%	253	100%
Total												

2006, section 5025.12). It does not express an audit opinion on the financial statements, but does provide some assurance based on the reporters' use of enquiry, analytical procedures and discussion, to assess the "plausibility of the financial information" (Institute of Chartered Accountants of Ontario, nd, p8).

A compilation report is not aimed at offering any assurance regarding accuracy, completeness, or compliance with generally accepted accounting principles (GAAP). It advises the user that the financial statements have been compiled from information provided by the organisation but that no verification of the information has been undertaken.

Apart from the above three forms identified, there were a number of other reports not readily identifiable as one of the above but indicating some form of examination or compilation had taken place. These were identified as "other form of report".

As perhaps might be expected, audit reports were most common among the larger co-operatives (the majority of those with assets of \$250,000 or more), while only a small number of the under \$100,000 co-operatives had sought that level of assurance. All co-operatives with assets of \$1,000,000 or more had sought some level of external assurance (audit or review engagement report), but below that, there were co-operatives that had opted for no assurance. It is reasonable to expect smaller co-operatives with more limited resources to weigh up the cost, benefit factors of seeking external assurance and to also take account of their smaller size in allowing members closer day to day involvement and greater access to financial information.

Having said that, all but the smallest of

co-operatives and their members may benefit from external independent scrutiny of their accounting and perhaps some form of independent review for all but the smallest of co-operatives would be beneficial. It is perhaps surprising that three co-operatives with assets of more than \$500,000 had no form of external report attached to their financial statements. Although housing co-operatives and credit unions have to comply with additional requirements which include audit, for most other forms of co-operative there are no defined requirements in relation to the type of report adopted. There are indications that the majority of co-operatives do adopt a level of reporting based upon their size and it might perhaps be useful to explore the possibilities and benefits of developing a set of universally applied thresholds for all co-operatives based on the three levels of reporting recognised by the CICA (ie audit, review engagement and compilation).

Financial statements broad content

Tables 4 and 5 provide an analysis of broad content found in the financial statements and compare this by size and by type of co-operative. Nearly all co-operatives presented both a balance sheet and a statement of income & retained earnings, while a majority also included a cash flow statement, prior year comparative figures and notes to the financial statements. A substantial minority, however, had not included a cash flow statement, prior year figures or notes. This is more pronounced among the smaller co-operatives with assets below \$250,000. In the case of the smallest co-operatives (assets below \$100,000) a majority had not included cash flow, prior year

Table 4**Broad content by size**

Size (thousands \$)	Under 100		100-249		250-499		500-1,000		1,000 & over		Total	
	No	%	No	%	No	%	No	%	No	%	No	%
Balance sheet	85	94%	36	100%	36	100%	34	100%	57	100%	248	98%
Statement of income & retained earnings	86	96%	35	97%	36	100%	34	100%	57	100%	248	98%
Cash flow statement	6	7%	26	72%	31	86%	32	94%	56	98%	151	60%
Previous period	32	36%	24	67%	33	92%	33	97%	57	100%	179	71%
Notes	22	24%	28	78%	32	89%	32	94%	55	96%	169	67%

figures or notes.

The item most frequently missing was the cash flow statement, with some 40% of co-operatives not including this statement. The CICA accounting standards (2006) see the cash flow statement as an "integral part of the financial statements" (section 1540.03). It provides useful information on the co-operative's ability to generate cash, sources of financing and the cash used to meet related running and financing costs. Organisations that are not public enterprises and have relatively straightforward financing and investment activities are not obliged to produce a cash flow statement if the information is apparent in the other financial statements and notes. Its omission from co-operative financial reports is perhaps a reflection of simpler and more straightforward cash flows in the smaller co-operatives, although where co-operatives have also not included notes it is difficult to assess how such co-operatives are appropriately reporting on cash flows. The lack of expertise in preparing a cash flow statement may also contribute to its omission which points to the need for some form of co-operative accounting guidance.

Also of interest is the substantial minority of co-operatives that have not provided notes or included comparative prior year figures.

Seventeen co-operatives were identified where prior year figures were not applicable but that still leaves fifty seven co-operatives (23%) not providing prior year comparison. Both notes and prior year comparison appear fundamental to an understanding of the financial statements presented. In relation to comparative prior year figures, it is not clear that there are any cost or resource reasons for their non inclusion, given that the information is already available from the previous year. On the notes, it is perhaps seen as an additional step by some co-operatives, which requires a level of understanding of GAAP and related disclosure requirements. Smaller co-operatives are likely to have limited accounting resources available to them, which perhaps is part of the reason why only 24% of co-operatives with assets under \$100,000 included notes in their financial statements.

In terms of the type of co-operative, both consumer and producer co-operatives evidenced a relatively high level of inclusion of the various items, while in contrast only a minority of worker co-operatives included a cash flow statement, notes or prior year comparison. This difference is in part explained by the smaller size of many of the worker co-operatives, 70% having less than \$100,000 in assets, and the associated link to limited resources. One would

Table 5**Broad content by co-operative type**

Type Content	Consumer		Producer		Worker		Total	
	No	%	No	%	No	%	No	%
Balance sheet	164	98%	41	100%	43	98%	248	98%
Statement of income and retained earnings	165	98%	41	100%	42	95%	248	98%
Cash flow statement	117	70%	23	56%	11	25%	151	60%
Previous period	131	78%	33	80%	15	34%	179	71%
Notes	127	76%	27	66%	15	34%	169	67%

expect, however, members of worker co-operatives, who depend on the co-operative for their wages, to be concerned about cash flows. This may be satisfied through close day to day involvement of worker members in running the co-operative and the access this offers to other forms of financial information.

Accounting policies and notes to the accounts

Tables 6 and 7 provide an analysis of certain accounting policies and notes compared to size and co-operative type. This is limited to just five items. All co-operatives in the survey have been included in these tables, including those that did not have any notes with their financial statements.

CICA standards, (section 1400.03, 2006), state:

Financial statements should present fairly in accordance with Canadian generally accepted accounting principles, the financial position, results of operations and cash flows of an entity.

An indication of compliance (or not) with GAAP is of importance to the user in understanding and judging the content. International Accounting Standard 1: Presentation of financial statements, suggests the first note should be a statement of compliance with accounting standards (IAS 1.105, 2003). The survey therefore sought to capture the extent to which co-operatives include an explanation of the basis of preparation of the financial statements, either as a statement of compliance with GAAP or of adoption of accrual based accounting. Overall, only 48% of co-operatives indicated the basis of preparation (72% of co-operatives that had included notes). This included co-operatives at all sizes, although again, the smaller co-operatives were more likely to have not made this disclosure.

The most frequently disclosed accounting policy and related note was in respect of capital assets (property, plant and equipment). Overall, 61% of co-operatives included a capital asset policy and 62% included a note (93% of co-operatives that had included notes). Revenue recognition policies were much less evident; with only a small percentage of co-operatives, at all sizes and of all types, including a policy on this. It may be that some co-operatives do not see this as relevant to their activities, although it could be argued that the user of the financial statements would benefit from a clear indication of the co-operative's approach to revenue recognition.

The low level of notes on reserves was perhaps most surprising given the regulatory requirements placed on Nova Scotia co-operatives to build and maintain an appropriate general reserve from retained earnings. Each co-operative decides on a percentage of annual surpluses to be allocated and may also set a maximum for the general reserve, which may be expressed, for example, as a percentage of share and loan capital. The approach adopted by the co-operative would be included in its bylaws.

Only 39% of all co-operatives surveyed included a reserves note (representing 58% of co-operatives that had included any notes). Consumer co-operatives included a reserves note far more often than producer or worker co-operatives and accounted for 92% of these disclosures. Within the consumer co-operative grouping, housing and retail co-operatives were the main reporters on reserves. Housing co-operatives have specific concerns around sustaining adequate maintenance and repair reserves, while retail co-operatives will often have concerns around patronage returns and unallocated retained earnings. Having said that, reserves are important for all co-operative forms,

Table 6

Accounting policies & notes by size

Size (thousands \$)	Under 100		100-249		250-499		500-1,000		1,000 & over		Total	
	No	%	No	%	No	%	No	%	No	%	No	%
Basis of preparation	5	6%	17	47%	25	69%	23	68%	51	89%	121	48%
Fixed assets policy	14	16%	23	64%	30	83%	32	94%	55	96%	154	61%
Revenue recognition policy	4	4%	6	17%	3	8%	4	12%	10	18%	27	11%
Fixed assets note	14	16%	24	67%	32	89%	32	94%	55	96%	157	62%
Reserves note	4	4%	11	31%	17	47%	25	74%	41	72%	98	39%

Table 7**Accounting policies & notes by co-operative type**

Type Content	Consumer		Producer		Worker		Total	
	No	%	No	%	No	%	No	%
Basis of preparation	101	60%	14	34%	6	14%	121	48%
Fixed assets policy	120	71%	24	59%	10	23%	154	61%
Revenue recognition policy	17	10%	5	12%	5	11%	27	11%
Fixed assets note	119	71%	25	61%	13	30%	157	62%
Reserves note	90	54%	5	12%	3	7%	98	39%

especially given the important, often exclusive, role retained earnings can play as a source of capital for co-operatives.

While the larger co-operatives were much more likely to include appropriate accounting policies and notes with their financial statements, there were considerable numbers of co-operatives in the survey that did not provide comprehensive notes. A lack of notes is most evident among smaller co-operatives; however, there are also substantial minorities of the larger co-operatives not providing comprehensive notes. Although it could be expected that most co-operatives would include details or clarification of reserves and the basis of account preparation, it is interesting that only 39% had included information in the notes on reserves, while only 48% had indicated the basis of preparation of the accounts.

Co-operative identity - accounting for the co-operative difference

Tables 8 and 9 assess the extent to which certain items with potentially co-operative specific characteristics appeared in the financial statements and notes to the financial statements and compare them on the basis of size and type of co-operative. This is exploratory in nature and as such is a tentative first step in assessing content in these terms, while also seeking to identify opportunities for reporting on performance in regard to co-operative values and principles. The net has been cast wide in this respect and taking the ICA co-operative principles as a guide, these tables assess the extent to which the ten items are evidenced at any point within the financial statements and notes to the financial statements.

Nature of operations was included as an item because it is relatively commonplace for organisations to indicate their area of activity in the financial statements and because it provides

an opportunity for co-operatives to inform and educate the reader of their identity as a co-operative. A note describing the nature of the enterprise was included by 38% of all co-operatives and by more than 50% of co-operatives with assets over \$500,000. While the survey did not assess content in detail, such notes were generally brief. Some simply described the organisational form, while others gave a short description of the main activity of the co-operative.

Members' shares, patronage return/dividend, economic dependence and related party were included as items because they all potentially reflect aspects of the first three ICA principles of member ownership, control and benefit, as well as the principles of autonomy and co-operation among co-operatives. As such they offer co-operatives an opportunity to report on various aspects of their differing organisational form. Surprisingly, only 28% of co-operatives included a note on member shares. The Canada Co-operatives Act (1998) and the Nova Scotia Co-operative Associations Act (1989, amended 2001), allow for incorporation of a co-operative without member shares. In such situations a non-repayable member fee is charged, as set out in the co-operative's by-laws. Nova Scotia Co-operative Branch indicated, during our survey, that there were one hundred and twelve non share co-operatives in 2005, but did not provide a reference document. This represents a minority of all co-operatives surveyed and does not account for all the co-operatives in the survey that did not provide a note on shares. Furthermore, even if the co-operative technically has no member shares, there is still value in the inclusion of a related note in order to make clear the financial structure of the co-operative to users of the financial statements. Such a note could also clarify the

Table 8

Co-operative specific information in notes by co-operative size

Size (thousands \$)	Under 100		100-249		250-499		500-1,000		1,000 & over		Total	
	No	%	No	%	No	%	No	%	No	%	No	%
Nature of operations	15	17%	16	44%	16	44%	20	59%	30	53%	97	38%
Members' shares	11	12%	12	33%	12	33%	12	35%	23	40%	70	28%
Patronage dividends	1	1%	0	0%	1	3%	6	18%	5	9%	13	5%
Economic dependence	0	0%	2	6%	1	3%	2	6%	4	7%	9	4%
Related party	0	0%	2	6%	8	22%	7	21%	15	26%	32	13%
Education	2	2%	3	8%	6	17%	10	29%	14	25%	35	14%
Links with co-operatives	1	1%	2	6%	4	11%	6	18%	8	14%	21	8%
Donations	0	0%	1	3%	0	0%	1	3%	2	4%	4	2%
Volunteers	3	3%	1	3%	0	0%	1	3%	1	2%	6	2%
Social & environmental	0	0%	0	0%	0	0%	0	0%	1	2%	1	0%

basis of recognition of membership where it is not based on the purchase of member shares.

Patronage returns or dividends were reported in thirteen co-operatives (5%) - ten consumer, retail co-operatives and three producer co-operatives. This may indicate the relevance of the patronage return/dividend as specific to particular forms of co-operative. It appears that many co-operatives are not utilising this approach to reward members and further research into this may prove useful, to explore and quantify the variety of ways in which members seek to benefit from their co-operative. While the thirteen co-operatives in the survey reporting patronage returns or dividends represent a relatively small number, they are among the largest of the co-operatives surveyed.

Related party and economic dependence

disclosures mainly reflected the particular economic relationships that can exist between member and co-operative and between separate co-operatives. It offers an opportunity for the co-operative to describe these aspects of its identity. Thirty two (13%) of the co-operatives included a note on related parties and nine (4%) included a note on economic dependence. While the content of the notes was not assessed in detail, the majority of the disclosures involved members transacting with the co-operative and/or the co-operative transacting with a co-operative supplier of which it was a member.

In relation to member transactions, a number of co-operatives quantified the extent of member patronage, either as a total amount of transactions and/or as a percentage of total transactions. Others did not include any

Table 9

Co-operative specific information in notes by co-operative type

Type	Consumer		Producer		Worker		Total	
	No	%	No	%	No	%	No	%
Nature of operations	71	42%	18	44%	8	18%	97	38%
Members' shares	42	25%	19	46%	9	20%	70	28%
Patronage dividends	10	6%	3	7%	0	0%	13	5%
Economic dependence	5	3%	4	10%	0	0%	9	4%
Related party	24	14%	7	17%	1	2%	32	13%
Education	32	19%	1	2%	2	5%	35	14%
Links with co-operatives	19	11%	2	5%	0	0%	21	8%
Donations	3	2%	1	2%	0	0%	4	2%
Volunteers	3	2%	2	5%	1	2%	6	2%
Social & environmental	0	0%	1	2%	0	0%	1	0%

measures but instead included a more general narrative that explained that a significant proportion of transactions were undertaken with member/s, without quantifying the extent.

While some co-operatives included a related parties and/or economic dependence note, not all co-operatives with similar characteristics did so. This may point to differing interpretations of what is meant by related party and economic dependence and perhaps is an example of a potential area for clarification in the co-operative sphere.

The financial reports were scanned for any reference to: education, training, working with other co-operatives, donations, volunteering and social and environmental activity. There was limited reporting in these areas. Only 14% of co-operatives made reference to amounts spent on education and training, while 8% indicated links to other co-operatives. Six (2%) made reference to volunteer input but none attempted to quantify the value of such input. This is a missed opportunity given the role played by volunteer boards in most co-operatives and the probable level of volunteer activity of the members, especially in smaller co-operatives.

In terms of indications of community, social and environmental reporting included within the financial statements, four co-operatives made reference to donations and one made reference to social and environmental work supported by their co-operative. It should be noted that this survey focused on financial reporting and it may be that co-operatives make use of other information channels in reporting on matters such as member involvement, education, links with co-operatives, and community involvement. Social accounting, for example, may be seen as more appropriate for the dissemination of such information, although there are examples of co-operatives that have given expression to these aspects of co-operative activity within their financial reporting. It is perhaps an area requiring further exploration in terms of approaches to incorporating appropriate performance measures on the social and environmental aspects of co-operative activity, either within the financial statements or as an additional, but linked, report.

Conclusions

This survey of Nova Scotia co-operatives has sought to identify the extent to which the financial statements studied deliver accountability to

members, both in terms of reporting on financial goals and also in terms of the broader co-operative goals reflected in the ICA (1995) co-operative principles. As indicators of accountability the survey has looked at the standard of reporting and the extent of inclusion of broader co-operative performance measures. The standard of financial reporting has been assessed on the broad content of the financial statements, along with certain accounting policies and notes, as basic measures of the degree of compliance with GAAP. Broader co-operative goal reporting within the financial statements has been explored in terms of identifying specific content that reflects one or more of the ICA co-operative principles. Analysis has included a breakdown of co-operatives by size and by broad type.

The analysis suggests that the financial statements of co-operatives in Nova Scotia vary in the degree to which they comply with some of the fundamental aspects of GAAP. Compliance did vary in relation to the asset size of co-operatives and instances of missing broad content were much more common amongst co-operatives with assets below \$100,000. A substantial minority of co-operatives, which included a small number of the larger co-operatives, did have important content missing which impairs co-operative accountability. While there are issues of cost, benefit and resources to consider for all co-operatives, it is perhaps not unreasonable to expect most co-operatives of all sizes, to include certain specific basic content in their financial statements in order to enable the user to have a reasonable level of understanding of the co-operatives financial activities.

The inclusion of third party reports on the financial statements varied considerably. While most co-operatives included one of the three recognised forms of report (audit, review engagement and compilation), many co-operatives had no report. The lack of a report will make it difficult for the user of the financial statements to assess the amount of reliance they can place on the actual content. The adoption of one of the three recognised report formats does add considerably to the level of understanding because it makes clear the extent of external scrutiny of the information and the related level of assurance provided. There is perhaps a discussion to be had concerning guidance for co-operatives on adopting one of the three standard levels of reporting, linked

to their applicability to particular levels of economic activity and expected qualifications and/or experience of the reporter. This could be a useful contribution to the development of a co-operative accounting framework.

The exploration of aspects of co-operative principles evident in the financial statements indicated that member share ownership and patronage returns/dividends were the most frequently encountered examples. Patronage returns/dividends were reported in a small number of larger co-operatives. Good reporting on share structure and patronage returns offers co-operatives an opportunity to explain important aspects of their distinctive organisational form. There appears to be considerable scope for co-operatives to develop this aspect of their financial reporting.

There were only a few limited examples found of other aspects of the wider social values and goals of co-operatives, although there are opportunities within the structure of financial statements, to report on various aspects of co-operative performance. There is considerable discussion around social and environmental accounting and this now includes examples of incorporating forms of social reporting into financial statements. The survey found little evidence of incorporation of social performance measures in the financial statements of Nova Scotia co-operatives but this is perhaps not surprising given the commonplace approach of presenting financial and social reporting separately. There are, perhaps, discussions to be had around: possibilities of incorporating co-operative social performance measures into the financial statements and/or; the linking of the financial statements and social reporting in one document with each relating to the content of the other.

The survey does raise questions over the degree to which co-operatives account to their members and to other stakeholders through their financial reporting. A substantial minority of

co-operatives in the survey present financial information that is incomplete in respect of the content expected under GAAP. There is also the issue of how much and in what ways should co-operative financial reporting differ from standard reporting in order to properly account to members. Both of these concerns, the standard and the nature of co-operative reporting, may find solutions in the development of co-operative specific guidance. Such guidance could operate within the boundaries set by GAAP but would set out co-operative specific recommendations on layout and content and addressing issues of particular relevance to co-operatives and their distinct ownership structures, values and principles. An approach suggested by Hyndman et al (2002), in respect of credit unions, would be the development of a statement of recommended practice. The formation of an accounting co-operative may also be a useful addition to assist smaller co-operatives in particular, in not only complying with GAAP but also applying the co-operative specific recommendations identified in such a statement of recommended practice.

The appropriateness of a statement of recommended practice or guidance designed specifically for co-operatives, in part rests on a discussion to be had around the extent to which co-operatives represent a distinct sector or type of organisation which differs fundamentally from other forms and needs to be taken into consideration when applying GAAP. Whatever the outcome of such a discussion, indications from this survey are that there is scope for improving co-operative financial reporting in the interests of accountability to members and that a form of comprehensive guidance which draws on the experience, knowledge and skills of co-operators, regulators, development agencies and accountants could be an important component of a healthy, dynamic co-operative sector.

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Appendix

The Seven Co-operative Principles (from the ICA Statement of Co-operative Identity, 2006)

1. Voluntary and open membership	Co-operatives are voluntary organisations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.
2. Democratic member control	Co-operatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote) and co-operatives at other levels are also organised in a democratic manner.
3. Member economic participation	Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.
4. Autonomy and independence	Co-operatives are autonomous, self-help organisations controlled by their members. If they enter into agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.
5. Education, training and information	Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of co-operation.
6. Co-operation among co-operatives	Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.
7. Concern for the community	Co-operatives work for the sustainable development of their communities through policies approved by their members.