



HM Treasury

# Increasing audit thresholds for co-operatives and community benefit societies: response to the consultation

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# Contents

Chapter 1	Introduction	2
Chapter 2	Response to questions	3
Chapter 3	Next steps	6
Annex A	List of respondents	7

# Chapter 1

## Introduction

- 1.1 At Spring Budget 2017, the Government announced that the turnover threshold at which co-operatives and community benefit societies are required to appoint an auditor will increase from £5.6 million to £10.2 million and the assets threshold will increase from £2.8 million to £5.1 million.
- 1.2 The Government recognises that account auditing and reporting requirements can be burdensome for small co-operatives and community benefit societies, especially in comparison with those for companies of the same size, including Community Interest Companies (CICs). This change will help reduce the administrative burden faced by smaller societies.
- 1.3 In August 2017, the Government consulted on these proposals, asking for views on whether the proposed changes will help deliver on the aim of helping co-operatives and community benefit societies compete on a level playing field with companies. The consultation included draft legislation and asked whether it achieves the Government's stated intention.
- 1.4 The Government has received 12 responses to the consultation. Most of the representations were from small co-operatives and community benefit societies and trade bodies. Responses were also received by accountancy firms. The majority of responses were supportive of the proposals, putting forward several further proposals that could benefit the sector.

# Chapter 2

## Response to questions

### Question 1

- 2.1 Do you support the proposal outlined in the consultation document? Do you think it will help deliver on the stated aim of helping co-operatives and community benefit societies compete on a level playing field with companies?

### Summary of responses

- 2.2 The Government received a total of 12 responses to this question. All but two of the respondents fully supported the proposals, stating that they will save growing societies thousands of pounds each year in audit fees that companies of the same size do not have to pay. The responses commented that measures such as this, which improve the equivalence of the corporate frameworks for societies and companies, make running a mutual easier. They therefore contribute towards a business policy that serves to promote a more inclusive economy.
- 2.3 One response expressed concerns on the lack of oversight this may bring, saying that these types of organisations are of the very type that need the guidance, discipline and control that a full audit brings about. Another respondent highlighted that audits have an important role in supporting small business and providing assurance to owners/members about the performance of the organisation and expressed concerns about the potential impact on the quality of financial reporting.
- 2.4 One response suggested that for some societies, the main reason they need to conduct an audit is not the thresholds but because of the member voting system. For these societies, the respondent argued that it can be difficult to get the necessary membership level at the meeting required to disapply the legislation. These societies tend to be small clubs, which have large numbers of members, most of whom do not participate in any respect with the running of the club, and may not even have any contact at all with the club.
- 2.5 One respondent suggested that the requirement for dormant societies that are subsidiaries of a larger society or have subsidiaries in turn, should be removed as it can have a detrimental impact on the budget of many societies, especially the smaller ones with less financial capabilities.
- 2.6 In addition six respondents replied, using a template letter provided by Co-operatives UK, the main trade association, suggesting some further measures

to improve the corporate framework for co-operative and community benefit societies, including asking the Government to:

- consult on whether to give the members of small societies the option at their AGM of forgoing the statutory auditors' report if they decide it is superfluous, and take legislative action to achieve this if there is support for doing so
- legislate to remove the lay audit requirement for societies with a turnover under £5,000
- legislate to allow societies with a community benefit asset lock to adopt a stronger charitable asset lock
- consult on whether to introduce an optional statutory asset lock for co-operative societies and take legislative action to achieve this if there is support for doing so
- provide a digital system for societies to more easily file returns with the FCA

## Government response

- 2.7 The Government recognises the concerns expressed by a respondent on the impact of this change on the level of oversight on societies and the quality of financial reporting. This should not undermine the accountability of a society to its members or the powers of the regulator to address any irregularity. Unless the members of a co-operative or community benefit society pass a resolution to disapply the audit requirement, they are still legally obliged to appoint an auditor. The FCA also retains the right to prevent a society disapplying their audit requirement if they have specific concerns. These proposals do not go further than the current limits for companies of the same size and are intended to help co-operatives and community benefit societies use more of their resources to benefit their members.
- 2.8 The Government notes the concerns raised by a respondent on the membership conditions to disapply the audit requirement. However, one of the key characteristics of the co-operative ownership structure is ensuring that societies are accountable to their members when making decisions, such as whether to appoint an auditor. There are no plans to amend the accountability structure of co-operatives and community benefit societies. For the same reason, the Government does not plan to exempt dormant societies from the audit requirements. However, the proposals increase the audit thresholds for all societies, so dormant societies that fall below the new thresholds will not be required to appoint an auditor, subject to a member vote.
- 2.9 The Government also notes the broader suggestions by six respondents on how to improve the corporate framework for societies. However, they fall outside of the scope of this consultation. The Government keeps all representations under review and will continue to engage with all interested stakeholders to help the industry grow and flourish.

## Question 2

- 2.10 Do you think the draft legislation achieves the intention of the policy? Please specify any concerns.

### Summary of responses

- 2.11 The Government received a total of eight responses on this question. All of the responses agreed that the draft legislation achieved the intention of aligning the threshold for societies in line with companies of the same size.
- 2.12 However, most responses (using the Co-operatives UK template letter) noted that the statutory instrument only aligns the audit threshold for non-charitable societies and non-charitable companies. Currently, a charitable company must have an audit if its income is over £500,000, or is over £250,000 and the company has assets of more than £3.26 million. For charitable societies the requirement for a full audit is still turnover in excess of £250,000 and total assets in excess of £2,800,000.
- 2.13 Their view was that to fully achieve the intended alignment between the audit thresholds for companies and societies, this statutory instrument would also need to make the appropriate update for charitable community benefit societies.

### Government Response

- 2.14 The Government notes the suggestion to update the thresholds for charitable societies. However, the Government will not be amending the thresholds for charitable societies at this point.
- 2.15 Community benefit societies that are charities are currently exempt from registration with the Charity Commission, and all the requirements that flow from being a registered charity (such as submission of accounts and reports to the Charity Commission, and several of the Charity Commission's powers). In addition to this, they do not have a principal regulator, something which other exempt charities have. While the thresholds for charitable societies are not different to those for other charities, their level of regulatory oversight is also lower. Full consideration of the impacts of amending these thresholds on the accountability and transparency of charitable societies is out of scope of this consultation. However, the Government will continue to engage with all interested stakeholders on issues to support the sector.
- 2.16 Also, while the Co-operatives and Community Benefit Societies Act (2014) applies to societies throughout Great Britain, charity law in Scotland is a devolved matter. This means that any changes to the requirements for charitable societies would need to be considered in the context of how it would impact on societies across the UK.



# Chapter 3

## Next steps

- 3.1 Having reviewed and carefully considered the responses to the consultation, the Government has decided to proceed with the proposals to increase the thresholds at which co-operatives and community benefit societies are required to appoint an auditor from £5.6 million turnover and £2.8 million assets to £10.2 million turnover and £5.1 million in assets.
- 3.2 The Government plans to lay the Statutory Instrument to enact this change before the end of 2017. This will follow the affirmative procedure. The instrument and new thresholds are expected to come into force from 6 April 2018.
- 3.3 The Government will continue to engage with all interested stakeholders to help the sector grow and flourish.

# Annex A

## List of respondents

Acorn Co-op Support

Albert Goodman

Campbell Stewart MacLennan & Co

Co-operatives UK

ICAEW

K Kelleher

Mazars LLP

Media Co-op

The Midcounties Co-operative Limited

Positive News Ltd

The Co-operative Group

Unicorn Grocery

Working Men's Club & Institute Union Ltd

### **HM Treasury contacts**

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If you require this information in an alternative  
format or have general enquiries about  
HM Treasury and its work, contact:

Correspondence Team  
HM Treasury  
1 Horse Guards Road  
London  
SW1A 2HQ

Tel: 020 7270 5000

E-mail: [public.enquiries@hm-treasury.gov.uk](mailto:public.enquiries@hm-treasury.gov.uk)