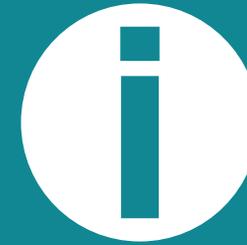


# Audits for Ontario Co-ops



## Introduction

Having financial statements audited can be a challenging and expensive process for many co-ops, and understanding when an audit is required can sometimes be confusing. The Co-operative Corporations Act outlines the specific requirements about when coops need to perform audits and other restrictions or allowances for the process.

## What Is an Audit?

All co-ops have some sort of records of their financial activities and generally include documents like:

- Expense reports or expense statements
- Budget statements
- Accounts payable (what the co-op owes to other bodies) and accounts receivable (what money is owed to the co-op)
- Bank statements and reconciliation reports
- Cash flow statement (summary of cash coming into the co-op and going out of the co-op)

- Income statement (summary of revenues and expenses, showing a net profit or loss)
- Balance sheet (summary of the assets, liabilities and members' equity in the co-op)

These are usually reviewed on a monthly or quarterly basis by the board of directors as part of their governing work.

Audited financial statements are financial statements of the co-op that have been reviewed by an external certified accountant. After the statements have been reviewed, the accountant provides an opinion about the statements and whether or not they represent a fair statement of the financial position of the co-operative. This is done in accordance with Generally Accepted Accounting Principles (GAAP). These statements are presented to the members at the Annual General Meeting (AGM).

There are details in the Act that outline the material that must be included in audited financial statements and how they must be displayed. Co-ops and those that provide financial assistance to co-ops are urged to consult sections 126–137 of the Act for

more details on what is required. There is a cost associated with carrying out an audit, and these costs have risen in recent years due in part to scandals in the corporate world related to accuracy of accounting and financial records. This has added increased pressure on all forms of business to obtain audits and increased demand on the services and liability of auditors that perform these services.

## Who needs an audit?

Since the changes to the Act in 2019, Co-operatives no longer have to provide annual audited financial statements if they meet the new exemption requirements. This will significantly alleviate the cost and administrative burden associated with undergoing an annual audit. In the past, this was particularly challenging for co-operatives with low levels of capital, assets, or revenue. This amendment effectively puts the Ontario Co-operative Corporations Act in harmony with the Canadian Co-operative Corporations Act, and makes co-op audit requirements and exemptions similar to those of other types of business corporations in Ontario.

The exemptions are outlined on the following page:

## ADDITIONAL INFORMATION

[coopzone.coop/en/BusinessSuccessions](https://coopzone.coop/en/BusinessSuccessions)

The above website has the following series of guides:

- The Co-operative Alternative: A guidebook for successfully transferring a business to a co-operative
- Business-owner's Guide: Selling a Business to a Co-op
- The Co-operative Alternative: A guide for co-operative entrepreneurs
- Co-op Steering Committee Guide: Buying a Business
- Companion Guide: Transferring a Business to a Co-op
- Tip Sheets: The 20 Steps of the Business Transfer Process, Checklist for a Business-to-Co-operative Succession Plan, Valuing a Business

## Audits for Ontario Co-ops

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## FACT SHEET

### Exemption from Audit Provisions

The new sections of the Act are set out below: 123 (1) A co-operative that meets the conditions in subsection (2) is exempt, in respect of a financial year, from sections 124 and 125, subsections 126 (1) and (2), section 127, clause 128 (1) (b) and subsection 1128 (3) if, before the beginning of the financial year, one of the following conditions is satisfied:

1. Each member of the co-operative and each stakeholder of the co-operative, if any, or his or her attorney authorized in writing, consents in writing to the exemption.
2. The exemption is authorized by,
  - i. a special resolution of the members of the co-operative, **and**
  - ii. a resolution of the co-operative's shareholders of every class of shares and every series of shares, if any, passed by the directors of the cooperative and submitted to a special meeting of the shareholders of every class of shares and every series of shares duly called for the purpose of considering the resolution and confirmed, with or without variation, by at least two-thirds of the votes cast, whether or not such shareholders or series-holders are otherwise entitled to vote, or such greater proportion of the votes cast as the articles provide.

#### Conditions for exemption:

- (2) Subsection (1) only applies to a co-operative that,
  - (a) has never issued securities or, if it has issued securities, it was exempt from the requirement to file an offering statement under section 34 in respect of the securities;
  - (b) has not received a grant or similar financial assistance from the federal government or a provincial municipal government or an agency of any such government that has a condition requiring the co-operative be audited in the financial year; and
  - (c) satisfies any prescribed conditions. Exemption for certain non-profit housing co-operatives:
- (3) Subsection (1) does not apply to a nonprofit housing co-operative in respect of a financial year if, at the end of the preceding financial year, the co-operative has more than \$50,000 in capital or more than \$50,000 in assets.

### Who Can Be an Auditor?

An auditor must be a qualified person that is independent from the co-op. It is usually a certified chartered accountant, public accountant or an accounting firm. Current board members or employees cannot be auditors, nor can former directors or employees if they occupied that position

in the two years preceding the audit. Other parties that cannot be auditors include firms or individuals that conduct a material amount of business with the co-op.

### How is the Auditor Appointed?

Auditors are appointed by the membership as part of the AGM and holds office until the next AGM. If for some reason the members do not appoint an auditor at the AGM, the directors can do it on their behalf. The board of directors can also appoint a replacement auditor if the auditor resigns or dies.

Auditors can be removed during the course of the year (i.e. between Annual General Meetings) by the vote of the membership, but the auditor has to be given 15 days notice so that they can make an appeal to the membership in person. The membership can also choose to change auditors by appointing a new auditor at the AGM but the auditor must be given written notice of this intention.

#### FOR MORE INFORMATION, CONTACT

**Co-op Development Ontario Co-operative Association**  
519.763.8271 x23  
[info@ontario.coop](mailto:info@ontario.coop)  
[ontario.coop](http://ontario.coop)

**More resources are available at:**  
CoopZone Network  
[coopzone.coop](http://coopzone.coop)

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