

Cooperatives Audit in Egypt

By: Khalid Hammad Shouker Tantawy, Information Technology Director, Central Department of Research and Training, Central Auditing Organization, Arab Republic of Egypt

jjjidodi@yahoo.com

I- Basis of Establishing Cooperatives in Egypt:

A Cooperative system is an economic system that synergizes financial resources and personal efforts of groups of individuals where those groups are linked by a common desire to achieve their individual, financial and social interests and develop society in general depending on democracy and scientific management. Cooperative societies in Egypt are: economic units based on principles of cooperation, and managed on democratic basis which practice any branch of human, agricultural, industrial, commercial or service activities, so as to realize their members' material and social interests or serve community in general. Cooperative society acquires its legal personality by registering its articles of incorporation and summary of internal regulation. Thus, an Egyptian cooperative society is any entity established by persons whether they are producers or consumers on the following bases:

1. Cooperative society's capital is formed from an unlimited amount of shares, where every person is entitled to subscribe or waive to any other person according to legal stipulations and regulation of each cooperative society.
2. Each cooperative society member has only one voice, whatever amount of shares is possessed.
3. Cooperative society's capital shares should not yield interest of more than 6% of nominal value.
4. Profits apportioned to cooperative society's members shall be in proportion to each member's transactions with cooperative society.
5. Cooperative society's title should be indicative of its legal character, original purpose, domicile, and should not include name of any person whether as a member therein or not.

II- Articles of Incorporation & Internal Regulation:

Articles of Incorporation:

Cooperative society's articles of incorporation should include the following data:

- a. Time and place of drafting articles of incorporations.
- b. Cooperative society's title and working area.
- c. Cooperative society's character and purpose.
- d. Value of both the paid-in capital and the shares therein.
- e. Names of cooperative society's founders, residences and professions.

Internal Regulation:

Cooperative society's internal regulation should particularly include the following data:

- a. Operations practiced by cooperative society and working rules therein.
- b. Cooperative society's working area and domicile where its premises should be within its working area.

- c. Cooperative society's capital formation, value of shares, methods of their payment, recovery and waiver.
- d. Maximum property of shares possessed by a member.
- e. Members' terms of admission, duties and obligations, stipulations of dismissal and recession.
- f. Board of directors' number, duration, terms of reference, consensus, selection, remuneration, committee members' recompense, and representation before third party.
- g. Cooperative society's financial year.
- h. General assembly's terms of references, consensus, convention deadlines, voting methods, and legal quorum for session validity.
- i. Method for dealing with non-members.
- j. Accounting and administrative books maintained by cooperative society, method for preparing and ratifying final accounts.
- k. Formation of various financial reserves.
- l. Apportionment of profits and reconciliation of losses.
- m. Rules for amending cooperative society's order.
- n. Rules for cooperative society's liquidation, consolidation and operations dissolution.

III- Cooperatives Accounting:

1- Cooperative Society's Capital:

Cooperative society's capital should be subject in Egypt to principle of "open-door membership" where every individual is entitled to join the cooperative society or willingly withdraw wherefrom at any time. This principle is equivalent to share-free circulation with regard to companies. In order to achieve "open-door membership" principle in cooperatives, the following points should be taken into consideration:

- a. Membership should be without any limitation thereon.
- b. Member's contribution should be without any limitation.
- c. Price of shares issuing should be unified.

Consequently, cooperative society's capital should be, whether positively or negatively, changed as a result of new memberships or new withdrawals. However, withdrawal should not be left completely without any controls, as there are two significant considerations:

- a. Protection of rights of third parties who have transactions with cooperative society.
- b. Ensuring that cooperative society continues to appropriately practice its activity.

2- Cooperative Society's Reserves:

Cooperative society's reserves are realized profits (surplus) which the cooperative society withholds from being apportioned, whatever its entitlement. Reserves usually appear at the debit (sources of financing) side of balance sheet. However, these reserves may be hidden, i.e., not appearing on the face of balance sheet due to either devaluation of assets, or over-valuation of cooperative society's liabilities with third party, and this case is called "secret reserves". Reserves are considered a "source of auto-financing"; because they originate from the cooperative society itself. Reserves contribute in expanding cooperative society's operations, or replace external financing (loans) so as to avoid their costs.

3- Cooperative Society's Accounts Preparation:

Cooperative society's financial year starts as of January 1st and ends as of December 31st annually. At the end of each financial year, the cooperative society, like any other firm, prepares both final accounts to identify its results of operations and a balance sheet to identify its financial position. The cooperative society's board of directors should prepare the following: income statement and balance sheet. Both income statement (showing profits and losses) and balance sheet are presented, accompanied with their supporting documents, to the external auditor (the Central Auditing Organization) to be examined at least one month before convoking the general assembly. Those two documents, as well as reports of boards of directors and internal auditors are announced at cooperative society's premises eight days at least before the general assembly meeting, and remains announced until being ratified, as every member may have access to these documents.

IV- Cooperatives Auditing:

The cooperatives may be subject to auditing by any of the following three concerned entities:

1- The Certified Public Accountants (CPAs):

The cooperatives may resort to a professional certified accountant who is not member of the general assembly, and who is competent in auditing cooperatives, even if they work with other entities, the experience acquired from private firms may be beneficial to the cooperative society. The CPA performs financial accounting as a method to assist the cooperative society achieve its objectives. When the CPA attends the general assembly's annual meetings, committees and the board of directors, they provide guidance and discuss different issues, draft memoranda, follow-up operations and prepare reports, especially for the general assembly.

2- The Cooperative Central Federation:

Audits may be entrusted to a cooperative central agency which forms accounting federations, i.e., subsidiary societies which are solely designed to provide themselves with service of financial accounting and some methods of follow-up and consultation with regard to cooperatives' various aspects. The relationship between cooperative central federation and cooperative societies, in general, is like the relationship between a lawyer and his clients.

3- The Central Auditing Organization (The Egyptian SAI):

The penal law of Egypt in its article no. 119 states that entities whose funds are considered public finances include: the State, local administration units, public institutions and corporations, public sector units, syndicates and federations, private societies with public utility, cooperative societies, companies where any of the aforementioned entities has a share, and according to the Central Auditing Organization's law no. 144/1988 and amended by law no. 157/1998, the Central Auditing Organization aims basically at achieving control over funds of State and other public entities. The People's Assembly (Egyptian Parliament) may entrust the Central Auditing Organization with auditing one of public corporations and organizations, public sector companies, cooperative societies, or operations and activities performed by such entities. The Central Auditing Organization has to report to the People's Assembly of such special assignments. The report would include actual position of financial and economic conditions.

When controlling such entities, the Central Auditing Organization audits their final accounts, financial positions and balance sheet to ensure correctness and fair representation of activities

according to the generally accepted accounting principles and systems, expressing observations, concluding about errors, violations and defects in applying laws, regulations and resolutions and ensuring sound application of standardized accounting system, correctness of their books and sound recording and treatment of different transactions in accordance with accounting principles.

The Central Auditing Organization staff members comply with public accounting profession principles, duties and ethics and Egyptian Standards of Audit and limited examination and other assurance tasks that particularly include: disclosure, when necessary, of audit-discovered events which do not appear on endorsed papers and accounts, whatever comes to auditor's knowledge of what is missing, falsified or distorted in these papers and accounts and any constraints that affect the auditee's financial position and results of operations, consideration of examination and reporting professional standards and obtaining all explanations that enable him to discover any error or fraud in cooperatives accounts.