33° Congreso Internacional del CIRIEC
Valencia, 13 – 15 junio de 2022

Nuevas dinámicas mundiales en la era post-Covid; desafíos para la economía pública, social y cooperativa

Financial reporting in Co-operatives: an international perspective

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Abstract

The cooperative and mutual enterprise (CME) model does not fit with the norms and standards established for either purely private, or purely philanthropic or state organized enterprise (Mazzarol *et al.*, 2018). Instead, cooperatives are signing up to and adhering to the cooperative values of self-help, self-responsibility, democracy, equality, equity, and solidarity. e Currently, accounting regulation and standards for cooperatives are fragmented at national and international levels (Mantzari et al., 2021). In most national contexts, existing accounting frameworks do not allow cooperatives to report their performance and difference in line with cooperative values and principles. Consequently, internationally, cooperatives are not able to concretely demonstrate and explain the cooperative difference and socio-economic contribution through their accounting and accountability reports. This fact undermines the visibility of cooperatives and their socio-economic contributions. The paper explores the current status and challenges of financial reporting frameworks and practices of cooperatives internationally, by comparing issues arising in financial reporting for cooperatives in Canada, Spain, the United Kingdom, Kenya, Madagascar, Tanzania and Peru. The aim is to provide insights about the current practices and challenges in relation to cooperative accounting internationally. Co-operatives in different countries face challenges in relation to accounting for member participation; capital/equity versus liability; classifying funds; distribution of funds etc. The different accounting standards for cooperatives, even in the same type of cooperative sector, mean that there is lack of comparability, faithful representation, and understandability.

Keywords: Co-operatives, country studies in international accounting, International Financial Reporting Standards, local GAAP.

1. Introduction

Co-operatives often face challenges from operating in an environment not suited to their needs and this involves key aspects such as their accounting and accountability activities which cannot be properly explained and understood in a language focusing on shareholder firms and the needs of their investors. The cooperative mutual model presents an alternative to the current profit maximization models but also to philanthropic or public sector models into which we currently categorize businesses (Mazzarol *et al.,* 2018). There is a need for accounting and accountability for cooperative purposes based on a more holistic framework of accounting that aligns accounting on financial health with the cooperative principles. Accounting standards and financial reporting designed to provide relevant and key information to members in cooperatives can better facilitate governance within a cooperative by holding to account and ensuring they fulfil their responsibility of membership. To address this need for accounting and reporting for cooperative purposes, the International Co-operative Alliance General Assembly in Kigali Rwanda in October 2019 called for the International Cooperative Alliance (ICA) to explore the development of an international cooperative SORP (Statement of Recommended Practice) in accounting designed to permit cooperative reporting to focus on performance in line with cooperative values and principles. One of the first steps in this endeavor is to understand accounting models in different contexts in order to learn from each other, identify the common challenges they face, and propose some of the next steps that can be taken to help cooperatives demonstrate that they serve the cooperative principles. This paper compares the current state of accounting and reporting for cooperatives in Canada, Spain and the United Kingdom. Also, it explains some of the challenges faced by cooperatives in countries in the Global South such as Kenya, Madagascar, Tanzania and Peru, to account for members' economic participation, particularly via capital contributions.

2. Canada

2.1. A general description of the accounting framework in Canada

In Canada, accounting standards for all entities outside the public sector are issued by the Accounting Standards Board (AcSB). The AcSB adopted International Financial Reporting Standards (IFRS) as the accounting standards used by publicly accountable enterprises, which are defined as those entities which hold assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. Private enterprises and not-for-profit organizations can choose to use separately developed standards for those entities or IFRS. Separate accounting standards exist for pension plans. Accounting standards adopted by the AcSB (including IFRS) are published in the CPA Canada Handbook–Accounting (Accounting Standards Board).

The Chartered Professional Accountants of Canada (CPA Canada) provides funding, staff, and other resources to support an independent standard-setting process that is delivered through Canada's accounting, audit and assurance standards boards and oversight councils. Canada's financial reporting and assurance standards boards and oversight councils comprise (CPA Canada):

- the Accounting Standards Oversight Council
    - Accounting Standards Oversight Council (AcSOC) is responsible for oversight of standard setting for the Accounting Standards Board and the Public Sector Accounting Board (domestically) and contributes to the development of internationally accepted standards (IFRS).
- the Accounting Standards Board
- the Public Sector Accounting Board
- the Auditing and Assurance Standards Oversight Council
- the Auditing and Assurance Standards Board

2.2. A general description of the regulatory framework for cooperatives in Canada

In Canada, a cooperative must incorporate under a specific cooperative Act at the provincial, territorial, or federal level. Each co-op is regulated by the jurisdiction in which they incorporate. In total, there are 14 cooperative acts: 1 Federal, 10 provinces and 3 territories (Industry, Science, and Economic Development Canada):

1. Federal
2. Yukon
3. Northwest Territories
4. Nunavut
5. British Columbia
6. Alberta
7. Saskatchewan
8. Manitoba
9. Ontario
10. Quebec
11. New Brunswick

12. Nova Scotia
13. Prince Edward Island
14. Newfoundland and Labrador

The Federal legislation governs those cooperatives that are registered nationally. The *Canada Cooperatives Act* (S.C. 1998, c. 1) and *Canada Cooperatives Regulations* (SOR/99-256) govern the incorporation, operation and liquidation of non-financial cooperatives that carry on business in more than one jurisdiction. In other words, cooperatives that carry on their business in two or more provinces and have a fixed place of business in more than one province.

The Act establishes the rules for the incorporation of cooperatives, content and adoption of by-laws, composition of capital (member shares, investment shares, loan capital), holding of meetings (annual, special, or meetings of investment shareholders), composition and operation of the board of directors, and form and content of records to be kept (articles, by-laws, list of members, investment shareholders, etc). The Act sets out requirements for the audit and filing of financial statements. It also defines the terms and conditions governing the amalgamation, liquidation, and dissolution of a cooperative.

The *Canada Cooperatives Act* includes special provisions applicable to non-profit housing cooperatives and worker cooperatives. Some sections of the Act have been tailored for cooperative federations (Industry, Science, and Economic Development Canada).

Credit unions in Canada are either provincially or federally regulated. Regulators have oversight over individual credit unions; and credit unions are required to meet standards and work with public agencies to ensure they are among the country's soundest financial institutions (Canadian Credit Union Association).

The Bank Act is the primary legislation governing banks and federal credit unions in Canada. The Financial Consumer Agency of Canada (FCAC) is responsible for administering sections of the Act designated as consumer provisions, in addition to monitoring the financial institutions' compliance with codes of conduct and public commitments (Financial Consumer Agency of Canada).

Canada has two operational structures for credit unions: the 'autonomous independent' credit union and the 'federated network' of credit unions. The former permits each credit union to operate in an independent manner within the established statutory and regulatory framework of the provinces in which they reside. The latter requires its member credit unions to operate within the provincial statutory and regulatory framework but additionally with stricter compliance to the rules, regulations and opportunities established by the network of which it is a member (Rixon & Goth, 2017).

According to the definition of 'publicly accountable', banks, credit unions and insurance companies typically meet this criterion. Consequently, all credit unions in Canada were required to adopt IFRS.

While credit unions meet the 'publicly accountable criterion', this is not the case for all non-financial cooperatives. For example, some of the largest non-financial cooperatives in Canada (Calgary Co-operative Association and United Farmers of Alberta) have not adopted IFRS while others such as Federated Co-operatives Limited have adopted IFRS. If an organization is deemed not to be publicly accountable, they have the option to voluntarily adopt IFRS or they may continue to use accounting standards for private enterprises (ASPE).

In Canada, the Centre of Excellence in Accounting and Reporting for Co-operatives (CEARC) has also developed a series of International Statement of Recommended Practices (iSORPs). A SORP is a form of sector-specific guidance on accounting and reporting. It supplements existing accounting standards and provides recommendations on how to apply standards within the context of a particular sector, how to account for sector specific transactions and how to report on activities. CEARC developed discussion papers and invited feedback from practitioners and academics in developing the following iSORPs (Centre of Excellence in Accounting and Reporting for Co-operatives):

iSORP 1 - Objectives, scope and purpose

iSORP 2 - Reporting cooperative members' funds

iSORP 3 - Reporting payments to members

iSORP 4 - Reporting on membership

iSORP 5 - Environmental sustainability reporting guidelines

iSORP 6 - Co-operative non-financial reporting

3. Spain

3.1. A general description of the accounting framework in Spain

The Spanish accounting framework can be described as a dual model. On the one hand, as it is mandatory in the European Union (EU), consolidated financial statements of companies who have issued any kind of listed financial instruments (equity or liability) are prepared under IFRS as adopted by the EU. Companies that do not issue listed financial instruments can choose either IFRS or the Spanish Generally Accepted Accounting Principles (GAAP) to prepare consolidated financial statements, but if IFRS option has been exercised, there is no turning back[1].

[1] Eroski is the only cooperative in Spain which prepares consolidated financial statements under EU-IFRS, as it is mandatory, because Eroski issued listed subordinated financial instruments. At the best of our knowledge no cooperative in Spain has chosen to voluntarily apply IFRS to its consolidated financial statements.

On the other hand, there is a corpus of domestic accounting standards, the Spanish GAAP, strongly influenced by IFRS. For non-public sector entities there are four Standards Setters (Ucieda-Blanco and Gómez-Carrasco, 2020), which are governmental entities. The Bank of Spain issues accounting standards for financial entities, the Directorate General for Insurance and Pension Funds (DGSFP) issues accounting standards for insurance companies. For the remaining companies, which are the majority, the Accounting and Auditing Institute (ICAC) issues accounting standards. Finally, the Securities and Exchange Commission (CNMV) issues "Circulares" some of which have accounting and reporting content relevant to consolidated financial statements (in addition to IFRS) and to parent-only financial statements of listed companies (in addition to accounting standards issued by ICAC or by the applicable accounting standards (Bank of Spain, DGSFP).

The Spanish GAAP applied to unconsolidated financial statements can be summarized as follows. The Code of Commerce and the Corporation Law establish general provisions for all kind of corporations[2]. Financial entities must apply the Circular 4/2017 issued by the Bank of Spain, insurance companies must apply the accounting standards for insurance companies (Royal Decree 2014/1997) issued by the DGSFP and the remaining firms must apply the accounting standards issued by the ICAC, which is the General Accounting Chart (thereafter PGC-2007) approved by Royal Decree 1514/2007, and small and medium-sized enterprises (SMEs) are required to apply the PGC for SMEs (Royal Decree 1515/2007) the fundamental accounting standards. The PGC-2007 is developed further by ICAC's Resolutions.

In addition, ICAC issues industry-specific accounting standards, such as for civil construction concession holder entities (Ministerial Order EHA/3362/2010), estate entities, (Ministerial Order EHA/733/2010) and industry-specific accounting standards prior to PGC-2007 which remains in force in all aspects which do not contradict PGC-2007 (e.g., real estate companies, building companies, grape and wine-making companies, and sports companies).

A special mention must be made of the specific accounting standards for cooperative entities (Ministerial Order EHA/3360/2010) which are not properly as industry-specific, on the contrary they have been developed by the ICAC to address the specificities of the "accounting subject" for types of reporting entities in this case cooperatives. In addition, ICAC issued a PGC for non-for-profit entities (Royal Decree 1491/2011). Entities that are required to apply specific accounting standards, including not-for-profit entities, must apply also the PGC-2007 in all aspects not regulated by the specific accounting standards.

As mentioned earlier, Spanish Standards Setters are governmental entities, however professional organizations, such as the Spanish Association of Accounting and Management (thereafter AECA), play a role. AECA Statements are widely used by practitioners, they have served as a reference for the drafting of previous accounting reforms (PGC-1990, PGC-2007) and have been assimilated to 'commercial customs and traditions' by the Accounting Law according to the Spanish Supreme Court (Ucieda-Blanco & Gómez-Carrasco, 2020).

[2] The case for cooperatives will be addressed later.

3.2. A general description of the regulatory framework for cooperatives in Spain

In Spain, cooperatives are a legal entity distinct from public or private corporations (corporate enterprises). The Spanish regulatory framework for cooperatives can be defined as multi-legislative. Exclusive jurisdiction in matters of cooperatives rests with regional governments called Autonomous Communities.

A cooperative must apply the regional cooperative law of the region where the cooperative mainly develops its activity (to date there are 16 regional cooperative laws). If the cooperative develops its activity in various regions, the State (national) Co-operative law (Law 27/1999) is applied, except when the activity is carried out mainly in one region (Autonomous Community). In addition, there is an industry specific cooperative law, Law 13/1989 on credit cooperatives, applicable to all credit cooperatives regardless of the region in which they operate. All of them are inspired by the ICA's Cooperative Principles as pointed out in the preamble of each cooperative law.

All cooperative laws regulate accounting. They establish regulation on bookkeeping and accounting, and financial statements. All of them require that the cooperatives follow the accounting requirements of the Code of Commerce and the accounting standards (Spanish GAAP) but allow for the peculiarities established by the cooperative law.

The main peculiarities relate to the net income calculation, where the transactions of goods from the members to the cooperative are included as expenses. Also, any prepayments to worker members ("*anticipos societarios*") are included as expenses.

Co-operative laws differ in the measurement rule, some of them establish market prices, other "actual liquidation prices", that is an internal price established by the cooperative after deducting the remaining cost to sell the products delivered by the members, and other cooperative laws establish an upper limit on the previous measurement rules.

Another special expense established by cooperative laws is the remuneration on members' shares, called interest.

Co-operative laws require separate accounting for "cooperative net income" and "non-cooperative net income". The first is that obtained from transacting with members following the cooperativized activity, that is the activity of common enterprise which is the objective of the cooperative and the latter are the remaining income and expenses.

Co-operative laws establish rules regarding the distribution of net income, differentiating cooperative net income from non-cooperative net income. The first is distributable to members after the mandatory allocation to cooperative funds (mandatory reserve fund and education, training, and promotion fund) and the latter is, depending on the cooperative law, not distributable to members or it is allowed a partial distribution to members. The total of partial non distributable non-cooperative net income is allocated to the mandatory reserve fund.

The mandatory reserve fund is not distributable to members, even in case of liquidation of the cooperative. The education, training, and promotion fund is allocated to activities in accordance with the 5th Cooperative Principle of the ICA.

Another regulation in the Co-operative Law with great impact on accounting concerns is members' shares. The traditional members' shares are redeemable at the withdrawal of the member and this characteristic, as we will see later, has an important impact on accounting.

The financial reporting framework of cooperatives is addressed in the next section. Apart from specific financial reporting standards, cooperatives have a special rule in corporate tax, Law 20/1990 on the Fiscal Regime of Co-operatives.

3.3. Specific cooperative accounting and reporting issues

The particularities of cooperatives and the accounting requirements of the cooperative laws attracted the attention of some scholars creating an accounting "niche" in Spain historically. For a review of the accounting for cooperatives in Spain from the beginning to the incipient accounting reform of 2007 see Polo-Garrido (2006).

Cooperatives must apply the Spanish GAAP to business entities, the PGC. The first one was the PGC-1973 while the first mandatory PGC was the PGC-1990. The fact that cooperatives had to apply accounting standards developed for investor-owned firms resulted in calls by scholars and the cooperative sector to clarify the specificities of cooperatives (Juliá-Igual & Polo-Garrido, 2006).

The ICAC responded to those demands and in 2003 issued the Order ECO/3614/2003 which approves the standards on the accounting aspects of cooperative societies (thereafter 2003 cooperative accounting standards).

The Order was structured in 15 standards addressing the following aspects: equity delimitation (share capital, other contributions by members, cooperative, specific reserve funds, subordinated funds maturing in the liquidation of the cooperative); education, training and promotion fund; delimitation of liabilities in cooperatives; net income (concept and net income statement); acquisitions of goods from members; acquisitions of work services from worker members and workers; income from operations with members; distribution of net income; remuneration of members' shares; income tax and specific information to be incorporated in the notes of the financial statements.

In 2007, with the passage of the Law 16/2007 that aimed at reforming and adapting the commercial legislation to achieve international accounting harmonization in line with the norms of the EU, the Spanish GAAP and later the PGC-2–7 were adapted to the EU-IFRS requirements.

The reform had a significant impact on the equity-liability distinction in cooperatives and motivated a wave of related studies[3]. At that time, the AECA study commission "Co-operatives and other enterprises of the Social Economy" was set up[4]. In 2009, the Commission issued its first paper "Equity in cooperatives" which had a strong influence on the current cooperative accounting standards.

The PGC-2007 defines liabilities in line with IAS 32 implying a reclassification of the traditional redeemable members' shares of cooperatives from equity to liability. For this reason, the PGC-2007 introduced a transitory disposition which established that until 31st December 2009[5] the criteria that establish the delimitation between equity and liability in the cooperative accounting standards of 2003 may still be applied. The aim was to provide time to modify the cooperative laws to introduce a new optional regime of members' shares which qualifies as equity for accounting purposes[6].

In 2010, the current cooperative accounting standards (Order EHA/3360/2010) were issued. These standards cover the accounting aspects of cooperative societies, completing the Spanish accounting reform of adapting to the EU-IFRS. The 2010 cooperative accounting standards mainly keep the structure and present almost the same number of standards as the 2003 cooperative accounting standards. The main change is on equity-liability distinction developing the criteria contained in the IFRIC 2 "Members' shares in Co-operative entities and similar instruments" applied to the Spanish context. Also, the presentation of the education, training, and promotion fund in the balance sheet changes from a mezzanine section in 2003 to the liability section in 2010. All the other standards remain the same as the 2003 cooperative accounting standards.

The following provides a short summary of the accounting treatment of the main specific cooperative accounting and reporting issues in Spain.

Equity-liability distinction and remuneration of members, shares

As is well known, the redeemability of the members' shares at cessation of membership qualifies it as a liability under IAS 32 and the criteria developed by IFRIC 2. Without being fully accepted by the cooperative sector, these criteria were introduced in the 2010 co-operative

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[3] See for instance, Marí-Vidal (2006), Fernández-Feijóo & Cabaleiro-Casal (2007) and Polo-Garrido (2007).

[4] At that time the name was Commission on accounting for cooperatives. The Commission was relaunched got its current name in 2020. Not-for-profit entities are the subject of study of another AECA commission named Not-for-profit entities Commission.

[5] Later extended one year more (31/12/2010)

[6] On the possible effects of the accounting reclassification of members' shares see for instance Polo-Garrido (2014) and Bastida-Vialcanet & Amat-Salas (2014). On the drivers about the amendment of characteristics of the members' shares to keep accounting classification as equity see Polo-Garrido & Mari-Vidal (2020).

accounting standards, but they were moderated by consultations with the ICAC. The consultation BOICAC nº 86/2011, number 7, establishes that members' shares redeemable at the liquidation of the cooperative in a limited life cooperative is equity and the consultation BOICAC nº 87/2011, number 7, establishes the classification of members' shares as equity where they are redeemable only in the event of compulsory cessation of membership due to retirement or disability.

The accounting treatment of the remuneration of members' shares, the so-called interest, is a distribution of the net income when it is discretionary and an expense when it is mandatory.

Accounting for member economic participation

Regarding the accounting treatment of the transactions between the members and the cooperative (patronage), these are considered as an expense (transactions of goods from the members to the cooperative or work services provided by worker members) or income (transactions of goods from the cooperative to the members of services provided by the cooperative to the members). After the treatment of these components of net income, the surplus can be distributed to members according to the level of transactions with the cooperative always following the provisions of the cooperative law. These distributions named "*retornos cooperativos*" are a distribution of the net income and not a component (expense) of the net income. In other words, in accounting it is a distribution of profits to equity holders or owners.

The education, training, and promotion fund

*A*ccounting for the education, training and promotion fund is the result of considering the cooperative as a business entity. There was a traditional accounting debate as to whether to treat the fund as a special reserve or provision. she 2003 cooperative accounting standards followed an eclectic approach presenting this fund in a mezzanine section in the statement of financial position, but closer to the concept of provision because of the endowment of the fund was classified as an expense, although presented at the bottom of the net income. In this way, the net income of the cooperative differentiates the economic net income as business entity in the final bottom line from the surplus of the cooperative which included the genuine cooperative expenses.

The 2010 cooperative accounting standards establishes an accounting treatment clearly as provision with the endowment of the fund as an operative expense and its presentation in the statement of financial position in the liabilities section. It is worth mentioning the AECA's document on the education, training, and promotion fund, because the document resolves specific issues which are not sufficiently developed in the 2010 cooperative accounting standards, such as income attributable to the fund, capital grants attributable to the fund, application of the fund to non-current assets, application of the fund by cooperative's own means, presentation in the statement of financial position, information disclosure in the notes, etc.

Co-operative accounting standards were issued in 2010 but cooperative accounting continues to develop in Spain and the aforementioned AECA commission plays an important role and is also issuing new documents embracing non-financial (sustainability reporting) issues.

Currently, the business entity approach to cooperatives is not yet much debated in Spain, but there are attempts to develop financial reporting to inform and account on the socio-economic impact of cooperatives.

4. United Kingdom

4.1. A general description of the accounting framework in the United Kingdom

The accounting standards and formats available for financial reporting for cooperatives in the UK are currently either for-profit, such as the IFRS or UK variants of these, such as the Financial Reporting Standards (FRS), or philanthropic. There is no specific cooperative format. Most co-operatives use accounting standards created for investor-led businesses focusing on ensuring comparability of metrics which target the information needs of analysts working for institutional investors and other capital providers. These standards and metrics are not developed based on the purpose of a co-operative and the needs of co-operative members. As such, they are in opposition to co-operative values and principles.

The UK is currently dealing with the complications of leaving the European Union (EU). Prior to leaving the European Union in January 2021, the UK adopted International Financial Reporting Standards (IFRS) in line with the EU. IFRS applies to listed companies; companies which are not listed are permitted but not required to adopt IFRS. The UK has adopted the *IFRS for SMEs* Standard as FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*—but with significant modifications.

Currently the UK adopted international accounting standards comprise:-

- The European Union adopted international accounting standards at the end of Transition Period (31 December 2020).
- The international accounting standards adopted by the Secretary of State for the Department of Business, Energy and Industrial Strategy (BEIS) between 1 January 2021 and 21 May 2021.
- The international accounting standards adopted by the UK Endorsement Board after delegation of adoption powers (from 22 May 2021).

The UK Endorsement Board (UKEB) was established in 2021 to develop a strategy for the UK's engagement with the International Accounting Standards Board in the light of the UK leaving the European Union, to act as the UK voice as regards IFRS. The UKEB uses the term "international accounting standards" to cover "International Accounting Standards (IAS)IFRS and related Interpretations (SIC-IFRIC interpretations), subsequent amendments to those standards and related interpretations, future standards and related interpretations issued or adopted by the International Accounting Standards Board (IASB)" (UKEB, 2022).

The UKEB is part of the Financial Reporting Council three-year plan. The Financial Reporting Council (FRC), established in 1990, oversees accounting standards and corporate governance at listed companies, as well as actuarial standards. Since 2016 the FRC has also been the UK Competent Authority for Audit. The FRC was reviewed in 2018 and found to be unfit for purpose (Kingman, 2018). It is due to be replaced by the Audit, Reporting and Governance Authority, with a more coherent structure and a clear statutory basis, in the second quarter of 2023.

In addition to the accounting standards, the UK has a range of Statements of Recommended Practice (SORP) for industries and sectors. SORPs supplement accounting standards and other regulatory requirements to reflect the particular circumstances and transactions that are unique in a sector or industry and deal with issues that are addressed in accounting standards, but further guidance is required (Financial Reporting Council, 2021). They are not accounting standards. The SORP setting bodies within each industry or sector works with the FRC to set out guidance and to align that guidance with existing UK Generally Accepted Accounting Practice (GAAP) or FRS, usually FRS102 or IFRS. The UK currently has SORPs for higher education, authorized funds, Limited Liability Partnerships, charities, social housing providers, Investment Trust companies and pension schemes. The SORPS are updated regularly by the relevant SORP setting committee, in line with the accounting standards.

IFRS are adopted into UK law through Companies Acts, the latest of which was in 2006, implemented in stages through to 2009. Other relevant legislation for cooperative accounting and reporting are the Co-operative and Community Benefit Societies and Credit Unions Act, 2010; the Co-operative and Community Benefit Societies Act, 2014 and the Charities Act, 2011 updated in the Charities Act, 2022. The Charity SORP, Limited Liability Partnership, or the social housing SORP might apply to a cooperative depending on whether it is a registered charity or the type of cooperative it is.

4.2. A general description of the regulatory framework for cooperatives in the United Kingdom

There is no legislative definition of a 'cooperative' in the UK. Unlike in many other countries, UK cooperatives are free to use any legal form they choose (Snaith, 2014, p. 736), or indeed none at all. Most choose to register as what were referred to prior to 1 August 2014 as 'industrial and provident societies', and now 'registered societies. New societies can register as either a 'cooperative society' or a 'community benefit society' (Co-operative and Community Benefit Societies and Credit Unions Act, 2010) (Adderley et al., 2021). There are important distinctions between the two legal forms–the community benefit society is for public benefit; the "bona fide" cooperative society is for the benefit of the members–but both adhere to the cooperative principles.

In not having a legislative definition of 'cooperative', great flexibility is afforded to UK cooperatives in how they choose to structure. But if a cooperative is a registered social housing association, it will use the social housing SORP.

Table 1 gives an overview of the possible legal forms a cooperative can take in the UK, the regulator for the forms, and the accounting formats required/available.

Table 1. Possible legal forms to set up a cooperative. Source: adapted from Co-operatives UK, 2017a: 34.

Legal form	Members limited liability?	Can it issue shares?	Can it pay a return on shareholdings?	Does it have to register with a regulatory body?	Accounting and reporting format
Partnerships	No	No	No	No	Tax accounts
Associations	No	No	No	No or Charity Commission if a regd. Charity	Tax accounts
Trusts	No	No	No	No or Charity Commission if a regd. Charity	Various depending on type of trust.
Limited Liability Partnership	Yes	No	No	Companies House	LLP SORP
Company Limited by Guarantee	Yes	No	No	Companies House and Charity Commission (if registered as a charity)	UK GAAP (non-profits) or FRS102 or Charity SORP
Company Limited by shares	Yes	Yes	Yes	Companies House	FRS 102 (small companies), IFRS
Community Interest Company (limited by guarantee)	Yes	No	No	Companies House and CIC Regulator	FRS102 or micro entity for Public Benefit Entity if under schedule 1.
Community Interest Company (limited by shares)	Yes	Yes	Yes – capped	Companies House and CIC Regulator	FRS 102 or micro-entity for Public Benefit Entity if under schedule 1.
Charitable Incorporated Organisation	Yes	No	No	Charity Commission	Charity SORP

Co-operative Society (previously Industrial & Provident Society)	Yes	Yes	Yes	Financial Conduct Authority	FRS102
Community Benefit Co-operative Society (previously IPS for the benefit of the community)	Yes	Yes	Yes	Financial Conduct Authority	FRS102 for Public Benefit Entity and potentially Charity SORP

Whilst the flexibility to choose legal status allows cooperatives to operate in many different ways and sectors, it also creates problems. It is not possible to collate all the relevant data for UK cooperatives because of this flexibility, so there is a danger that they are rendered invisible in the national statistics. And, since there is no requirement to report against the cooperative principles, there is isomorphic pressure on cooperatives to conform to the norms of the forms under which they are registered (Chieh & Weber, 2015). None of the available accounting formats allow for the centrality of mutuality in the cooperative model. Whilst Community Interest Companies can accommodate both private (return on investment) and public (community) benefit, and require a report demonstrating the community benefit, they do not specifically encompass mutuality in the sense of democratic participation.

The underpinning problem in reporting for cooperatives, whichever available accounting and reporting format they adopt, is that of participation and democratic governance which is not recognized by the investor-oriented, philanthropic, or public sector-organized models. Several specific accounting and reporting problems stem from this.

4.3. Specific cooperative and reporting issues

Members' funds

A continuing problem for cooperatives is that initial capital contributions from members tend to be quite low, particularly in UK consumer cooperatives which dominate the UK cooperative landscape, where membership often costs as little as £1. Co-operatives do not usually issue shares above nominal value. This means cooperatives do not use share premium accounts.

A further complication is caused by the requirement to classify cooperative member shares as equity or liability. This is an accounting issue at an international level (López-Espinosa et al., 2009, 2012). The definition of equity under IFRS and FRS102 is the residual interest in the entity after the deduction of liabilities (IAS 32.11/IFRS 9). A liability is understood as an obligation to another party. If equity is withdrawable, it is classified as a liability for the cooperative. This problem has been exacerbated by the removal (in updating IFRS) of the rather ambiguous boundary between debt and equity which previously allowed for preference shares (even redeemable) to be treated as a form of equity capital.

The treatment of members' shares under these definitions separates the member from the cooperative by classifying the member as "another party", thus ignoring and obscuring the importance of social relations within the cooperative through member participation. It does not recognise the member as part of the cooperative; participating as opposed to investing. This treatment of withdrawable equity as a liability reduces the cooperative's financial capital base in reports which makes the cooperative appear weak within an investor-oriented analysis framework. This is a problem particularly for worker cooperatives when members wish to retire and withdraw funds from the cooperative. The way in which capital is raised impacts the ways in which the costs of raising capital are treated. Not having share premium accounts means that the costs of raising capital cannot be taken from this reserve.

Benefits to members

There is also confusion, stemming from the equity/liability divide discussed above, about the ways in which returns on capital should be treated–as interest or dividend. Whilst flexibility in possible treatments is welcome because of the range of cooperative types and tax situations, the lack of clarity adds to the difficulties in demonstrating cooperative performance in line with the principles. Patronage 'dividends' in cooperatives are tied to economic participation rather than financial capital invested. They are different for consumer and housing cooperatives from worker and producer cooperatives. For consumer and housing cooperatives the dividend is a form of cost reduction for the member purchasing goods and services; for the worker and producer cooperatives the dividend is a form of increase in remuneration. Neither can accurately be described as distribution of profits as in investor-oriented firms.

Taxation

Co-operatives do not enjoy tax benefits in the UK unless they are registered as charities. Whilst Community Benefit Societies can register as charities, other registered cooperatives cannot. The most usual form for a charity is a company limited by guarantee, a charitable incorporated organization, or an association. These legal forms can voluntarily adopt a cooperative constitution, but the tax regime does not support cooperatives. Co-operatives which can demonstrate "mutual trading", i.e., that they trade exclusively with members, are exempt from corporation and business tax.

Reporting on non-financial participation and membership contributions

As noted in the overview above, cooperative financial reporting is not linked to the seven cooperative principles. Some cooperatives address this issue by reporting against the principles in their non-financial reporting–through key performance measures (Co-operatives UK 2017b; 2019). Another issue which arises, chiefly for smaller and start up cooperatives, is that of accounting for volunteer time or "sweat equity".

5. Some countries in the Global South

The National Cooperative Business Association - Cooperative League of the USA (NCBA CLUSA) International has implemented community and cooperative development programs in Africa, Latin America and Asia for nearly 90 years, and has direct and empirical knowledge of the challenges that cooperatives face worldwide to account for what has value for their members, communities and other cooperative stakeholders. Information and analysis shared in this section results from a current NCBA CLUSA project focused on cooperative capitalization[7], which has been able to support 61 cooperatives in Kenya (11), Madagascar (7), Peru (14) Tanzania (29), with more than 110.000 members in total and joint annual net revenue of $34 million USD in 2021. They are mostly agricultural producer cooperatives (52) but also savings and credit cooperatives or credit unions (9) interested in advancing their members' capital contributions, i.e., contributions to cooperatives' capital or equity. In fact, since the project baseline in 2019, they have increased their member equity by 128% to $13 million USD for (individual) member capital accounts, and by 420% to $33 million USD for cooperative (collective) reserves in 2021.

5.1. A general description of the accounting framework in Kenya, Madagascar, Peru and Tanzania

Like in most of the Global North, cooperatives in many countries in the Global South are required to use the same accounting standards that are in place for conventional investor-owned enterprises or for non-profits.

In Kenya, a country with one of the biggest cooperative sectors in Africa, there are no special accounting standards for cooperatives. All cooperatives are required to comply with International Accounting Standards and financial reports must comply with IFRS, both established by the Institute of Public Accountants of Kenya, as stated in Article 25 of the *Cooperatives Societies Act* (2012). Similarly, in Peru, cooperatives must comply with IFRS[8].

[7] This is the Creating an Environment for Cooperative Expansion project funded by USAID's Cooperative Development Program (https://ncbaclusa.coop/project/usaid-cdp-creating-an-environment-for-cooperative-expansion/).
[8] https://www.mef.gob.pe/es/?option=com_content&language=es-ES&Itemid=101380&lang=es-ES&view=article&id=5256

In Madagascar, IFRS have not been adopted, and there is only one general accounting standards for all types of organizations and companies– the *Plan comptable général* (2005) by the Conseil Supérieur de la Comptabilité (or Higher Accounting Council). Cooperatives have very inconsistent guidance from regulators for compliance with accounting and taxation rules.

In Tanzania, the *Cooperatives Societies Act* (2014) states in Article 55 (2) that cooperatives' reporting must comply with "the best accounting standards." But the public entities in charge of promotion and supervision of cooperatives (see below) must comply with International Accounting Standards and can demand those are the ones to be used.

5.2. A general description of the regulatory framework for cooperatives in Kenya, Madagascar, Peru and Tanzania.

In all four countries, cooperatives can be incorporated under a national cooperative legislation. In Kenya, this is the *Cooperatives Societies Act* (2012); and counties –as part of a descentralization strategy– are in the process of establishing complementary cooperative laws. In Madagascar, it is *Law 99-004 on Cooperatives* (relative aux coopératives). In Perú, the *General Cooperative Law* or Law Decree 85 (1981) is still in place, although a law for agricultural cooperatives –Law 31335– was recently passed in 2021. In Tanzania, it is the *Tanzania Cooperative Societies Act* (2013) with its Regulations of 2015, and also for savings and credit cooperatives (or SACCOs) the *Tanzania Microfinance Act* (2018) with the Regulations of 2019.

In regard to entities in charge of cooperative promotion and supervision, in Kenya, the Commissioner for Co-operative Development –as established by the *Cooperatives Societies Act* (2012)- and the State Department for Cooperatives, are responsible for promotion and oversight of cooperatives, respectively. Madagascar, despite having adopted a National Strategy for the Development of Cooperatives, still has a very weak enabling environment for cooperatives, and the Ministry of Industry, Commerce and Artisanry leads in the promotion of cooperatives. In Perú, the supervisory entities established by the cooperative law were dissolved in the 1990's and currently there is only a Department for Cooperatives within the Ministry of Production, while the Ministry of Agriculture has programs to support agricultural cooperatives. The Tanzania Cooperatives Development Commission and the Co-operative Audit and Supervision Corporation are the public entities in charge of promotion and supervision of cooperatives, respectively, in Tanzania.

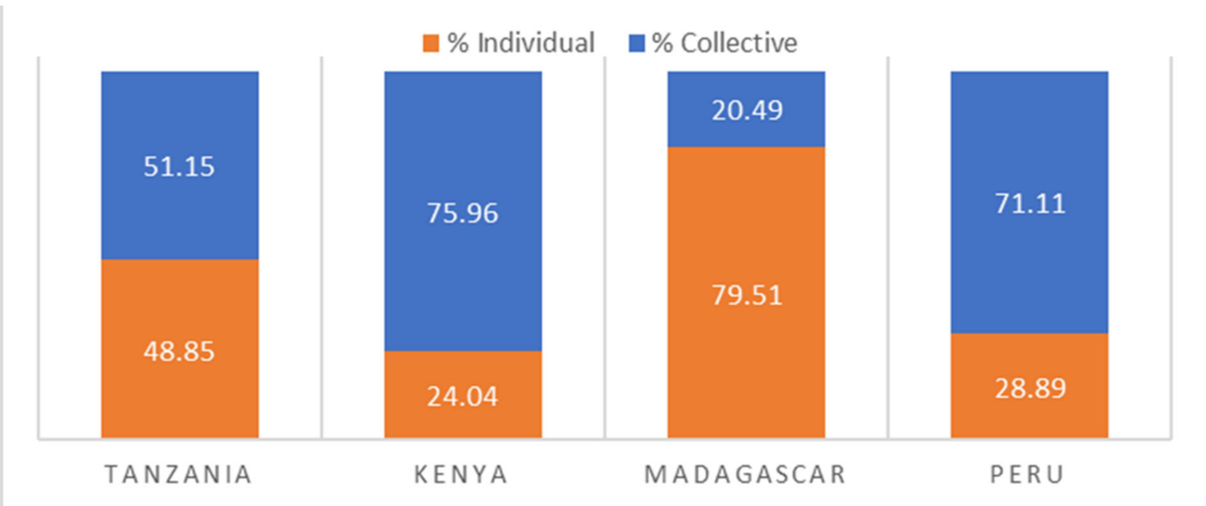
5.3. Specific cooperative accounting and reporting issues for cooperatives in Kenya, Madagascar, Peru and Tanzania.

As mentioned above, cooperatives in these four countries from the Global South with different levels of development of the cooperative sector also lack special accounting standards. This creates significant accounting and reporting problems for cooperatives' management, and communication challenges both internally with membership and external with other organizations, since established accounting standards need to be "adapted" or circumvented in different ways in order to account for economic transactions that are unique to cooperatives: the "cooperative act" or relationships among members and of members with the cooperative.

These problems and challenges are particularly significant for economic transactions related to member contributions to member individual capital accounts (shares; "*partes sociales*" in Spanish), indivisible reserves and other collective funds. First of all, it leads to an understanding by many of the cooperative equity or capital as only individual and voluntary capital accounts or the additional shares acquired by members after the initial required share. But a cooperative's equity or capital should also include members' individual contribution required for membership (initial shares or "*aporte societario*" in Spanish.) as well as joint contributions to cooperative reserves, both mandated by the cooperative law and voluntarily decided by members in General Assemblies.

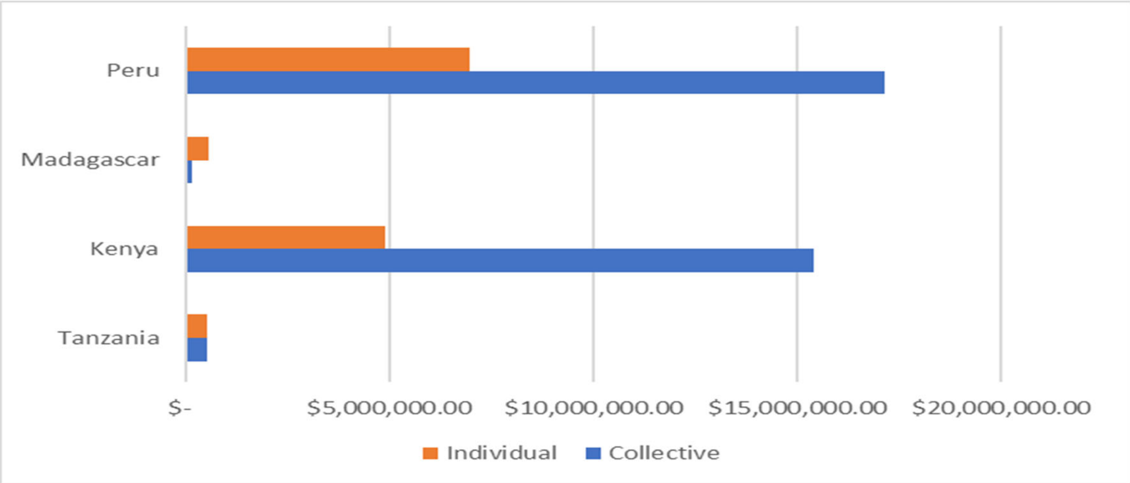
Conventional accounting standards also disincentivize collective reserves, even indivisible ones, and voluntary contributions to individual members' capital accounts, precisely because they cannot be counted as equity but as a liability. Despite these and other barriers and challenges (most notoriously the current crises exacerbated by the Covid-19 pandemic), cooperative members in most of the 61 studied cooperatives were able to continue their contributions to their cooperatives' capital. Except for those in Madagascar (where the cooperative sector is very nascent), these are all well established cooperatives, most with relatively mature or consolidated governance and management systems. NCBA CLUSA was able to study these capital contributions and their disaggregation or composition, as it is illustrated in the three graphs below (graph 1 graph 2 and graph 3).

Graph 1. Percentage of individual and collective equity in Tanzania, Kenya, Madagascar and Peru. Source: Piñeiro-Harnecker (2021)



Graphic 1 shows individual contributions being relatively high in Madagascar, because these are nascent cooperatives where most contributions are the initial ones required for membership, as it is shown in the graph 2 below.

Graph 2. Cooperative capitalization (USD) in Tanzania, Kenya, Madagascar and Peru. Source: Piñeiro-Harnecker (2021)



The study of these cooperatives showed that cooperative members' *voluntary* contributions to their individual capital accounts (beyond requirements for membership) were minimal in many cases, and they were tied to interest rates of local banks, making them more or less attractive to members (see Graph 3 below). But that voluntary collective contributions were significant and their size depended on the requirements for mandatory contributions (some cooperative legislations establish really high percentages of surpluses for mandatory reserves and funds), cooperatives' capital needs (depending on their purpose and economic sector), the strength of the cooperative's governance system, their access to specialized cooperative accounting (to help navigate the mentioned challenges), and culture regarding savings and risk aversion.

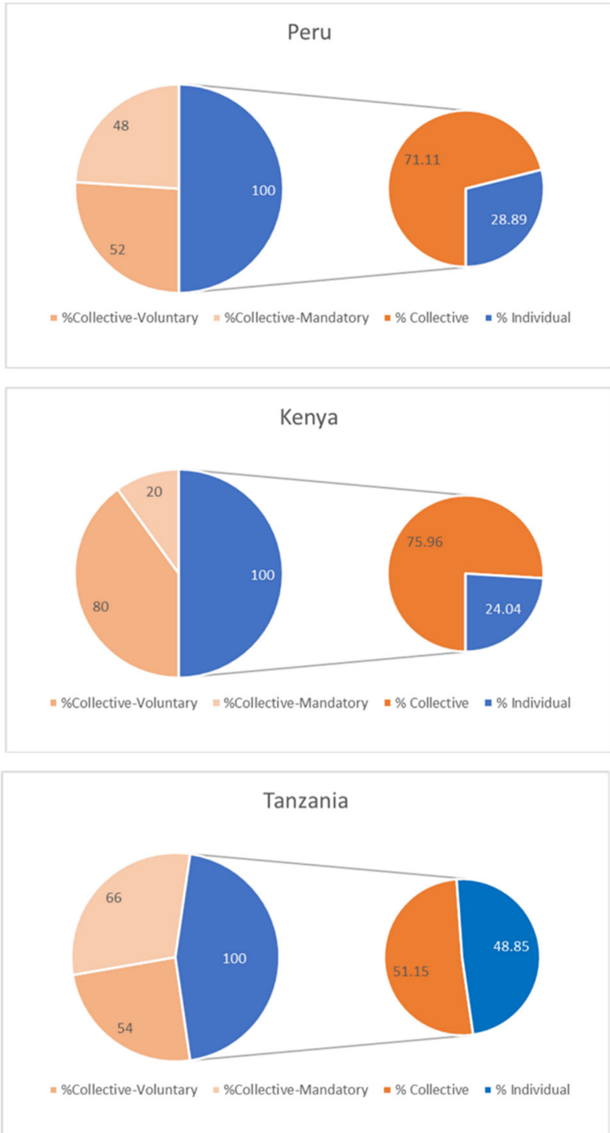
Using qualitative research methods, it was evident that one of the key factors determining cooperatives' capitalization was first of all, their ability to account for members' contributions. That is, to have access to the very few accountants who know how to adapt established accountant standards so that cooperatives can clearly and effectively account for their members' capital contribution. Due to the complexities that result from trying to use accounting standards that are not aligned with the cooperative identity, accounting for such transactions requires access to such specialized and hard to find services.

Therefore, cooperatives in these countries in the Global South also require distinct ("special") accounting standards for them to be able to:

- account for cooperative capital/equity in its broad understanding, not just members' individual capital accounts or shares

- count cooperative capital/equity as equity-like, overcoming the equity-liability dichotomy
- defend the coop identity— overcome pressures to behave like investor-owned firms, avoid “financialization”

Graph 3. Collective voluntary *versus* mandatory in Tanzania, Kenya and Peru. Source: Piñeiro-Harnecker (2021)



6. Conclusions

This paper contributes to the study of comparative international accounting regarding cooperatives entities, which is so far to date almost non-existent.

The study shows that accounting for cooperatives is fragmented at national level and to some extent inside country level.

Therefore, the key challenge that the cooperative movement is facing is its fragmentation as well as the fragmentation of legal and accounting frameworks applicable to cooperatives or the lack of accounting regulation for cooperative purposes (cooperative values and principles), even though some jurisdictions, such as Spain, have developed cooperative accounting standards. Some jurisdictions do not recognise that cooperatives offer an alternative approach to business from that of the investor looking for profits or the philanthropist acting purely altruistically. In terms of financial reporting practices, a number of cooperatives in different countries face problems in relation to accounting for capital / equity versus liability; classifying funds; distribution of funds; member economic participation, etc. The different accounting standards for cooperatives, even in the same type of cooperative sector, mean that there is lack of comparability, faithful representation, and understandability and it is difficult to conduct research. Even if there is demand for accounting information, there may be concerns about the costs to develop accounting standards for cooperatives at a local and international level.

The paper highlighted the similarities and differences of accounting practices internationally and the need to collaborate, cooperate and work in networks to learn from each other and address the challenges faced. There is a need to do more research and collect more evidence on these issues and it is important to combine the efforts of academics, the cooperative movement, practitioners, and accounting bodies.

Co-operatives differ from investor-owned firms (IOFs) in terms of their ownership structure, purpose and identity, yet there is little recognition of this in accounting and reporting. Co-operatives and the users of cooperative reports would benefit from cooperative-specific guidance aimed at:

- Improving the relevance, comparability and understandability of information
- Recognition of cooperative members as one of the main audiences of cooperative annual reporting
- Improving the quality and of financial reporting by cooperatives
- Explaining and recommending treatment of cooperative sector specific transactions
- Explaining and recommending cooperative specific non-financial reporting content, including non-financial measures of cooperative performance
- Clarifying, explaining and interpreting application of particular accounting standards to the cooperative context.

Also providing cooperatives with:

- A means of improving the visibility of cooperatives in accounting and standards setting
- A forum for debate and consultation within the cooperative sector
- A focus for the development of a cooperative accounting framework, built on the experience, knowledge, and skills of cooperators.

Whilst it is important to recognise the benefits to members which are poorly addressed in the currently available accounting and reporting formats, it is also important to recognise the role of cooperatives in creating a more equitable wider society. Maddocks (2019a, 2019b) draws attention to social or general interest cooperatives whose mission extends beyond cooperative member-benefit, which dominates discussions of cooperative accounting, to include a wider community benefit. Spencer (2020) argues that the concept of the common good is a much more useful concept than that of public benefit. It aligns with that of wider community benefit which can be seen underpinning the definition of members meeting *their common economic, social and cultural needs and aspirations.* (ICA, 2021). Linking financial accounting to the principles would demonstrate that all cooperatives are contributing to the wider community benefit of the societies in which their members are participants (Alcock & Mills,2017; Limnios *et al*, 2018).

It is important that the cooperative financial accounting can support the demonstration of how cooperatives meet the minimum ICA requirements of what a cooperative should be, particularly with respect to the seven cooperative principles.

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