

# Annual Reporting System of Cooperatives in Malaysia

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## Abstract

*The cooperative annual reporting system is an essential framework for ensuring financial transparency, effective management, and sustainable growth within the cooperative sector. This study explores the legal and operational structures underpinning cooperative annual reporting in Malaysia, emphasizing its critical role in addressing stakeholder needs and enhancing cooperative governance. Despite the cooperative sector's significant contributions as the third-largest economic sector in Malaysia, challenges persist in maintaining the quality and compliance of annual reports, necessitating an organized and standardized reporting system. This study identifies key objectives of cooperative annual reports, including disclosing financial and operational information, fulfilling legal obligations, and supporting informed decision-making. Findings highlight those financial reports serve as a critical tool for stakeholders, particularly cooperative members and management, by providing insights into profitability, liquidity, governance efficiency, and resource allocation. Non-financial disclosures further enhance transparency, documenting achievements and setting strategic goals for the cooperative's future. Additionally, compliance with legislative requirements ensures that cooperatives maintain integrity and align with national economic objectives. The study concludes that a well-structured reporting system not only improves financial governance but also fosters trust and confidence among cooperative members and external stakeholders. The approach involves a secondary study available from various sources.*

**Keywords:** Annual Reporting, Cooperative, Malaysia

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## 1. Introduction

A cooperative is defined as “an autonomous association of people united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically controlled enterprise” (International Cooperative Alliance, 2023). Internationally, the establishment of cooperatives is overseen by the International Cooperative Alliance (ICA), founded in 1895. The ICA is a non-profit international organisation representing cooperatives and the cooperative movement worldwide. It includes 307 cooperative federations and organisations from 103 countries. (International Cooperative Alliance, 2023). In other words, cooperatives serve as a strategy for communities to achieve their socio-economic objectives.

In Malaysia, the cooperative movement emerged to address the challenges faced by rural farmers who were often exploited by middlemen, as well as urban public servants burdened by

debt. This initiative aimed to alleviate the difficulties encountered by these groups (International Cooperative Alliance Asia-Pacific [ICA-AP], n.d.). Consequently, the first credit cooperative, known as 'Syarikat Bekerjasama-sama Jimat Cermat dan Pinjaman Wang Pekerja-Pekerja Jabatan Pos dan Telekom Berhad,' was established in 1922. Beginning with credit activities in the early 1920s, the cooperative movement in Malaysia has since broadened its scope to include a wide range of economic activities, such as banking, agriculture, transportation, consumer services, construction, housing, and industrial services. By the 1970s, the movement was regulated by the Cooperative Development Department (JPK) which regulated cooperatives except cooperatives in the fishing and agricultural sectors. Agricultural cooperatives were supervised by the 'Lembaga Pertubuhan Peladang' (LPP) from 1972, while fisheries cooperatives were managed by the 'Lembaga Kemajuan Ikan Malaysia' (LKIM) starting in 1975.

On 1 January 2008, the Malaysian Cooperative Commission (SKM) was established under the Malaysian Cooperative Commission Act 2007 as a statutory body under the Ministry of Domestic Trade, Cooperatives, and Consumerism (KPDNKK). This replaced the JPK in regulating the cooperative sector and realising its potential. The Cooperative Act 1993 (revised in 2007) was enforced to align with the establishment of SKM as a regulatory body of the cooperative sector in Malaysia. Then, all cooperatives including those in agriculture and fisheries have agreed to be governed solely by SKM.

The cooperative sector in Malaysia plays a vital role in the nation's economy, positioned as the third most significant sector after the public and private sectors. This prominence highlights the importance of cooperatives in contributing to economic stability and development. In recent years, the Malaysian government has placed a strong emphasis on the significance of cooperatives, especially as outlined in the Twelfth Malaysia Plan (RMKe-12). The plan recognizes cooperatives as key players in rejuvenating the economy, promoting entrepreneurship, and enhancing social welfare. By fostering a spirit of collaboration and mutual support among members, cooperatives can create avenues for small businesses, empowering individuals and communities to achieve greater economic resilience.

The steady increase in the number of registered cooperatives reflects this growing recognition and support. According to the Malaysian Cooperative Statistics Report 2022, there are now 15,315 registered cooperatives, collectively comprising a substantial membership of 7.31 million individuals. This growth is indicative of the cooperative movement's appeal and effectiveness in mobilizing people towards common economic goals, while also promoting social cohesion. Further reinforcing the commitment to this sector is the Malaysian Cooperative Transformation Plan (TransKoM) for 2021-2025. This comprehensive framework envisions cooperatives as a driving force for balanced and inclusive economic growth. The plan aims not only for economic progress but also for sustainable development that integrates social dimensions. By focusing on inclusive practices, the cooperative movement is expected to bridge gaps within communities, ensuring that growth benefits are widespread and equitable.

In conclusion, the cooperative sector in Malaysia is poised to significantly influence the nation's socio-economic landscape. Through government support, growing membership, and structured transformation plans, cooperatives are set to be catalysts for positive change, driving entrepreneurship and contributing to a more resilient and equitable economy.

## **2. Annual Reporting of Cooperative in Malaysia**

To foster cooperative growth, the quality of annual reports must be meticulously monitored to ensure they provide accurate and meaningful insights. Transparent disclosures in these reports play a critical role in building trust among cooperative members, thereby promoting their active participation and sustained engagement (Ziegler et al., 2023). In Malaysia, the preparation of annual reports is a statutory requirement for all registered cooperatives, as stipulated under the Cooperative Act 1993 and the Cooperatives Rules (Suruhanjaya Koperasi Malaysia [SKM], 2006). These reports serve as essential tools for demonstrating accountability and supporting the cooperative movement's development. In general, an annual financial report is a formal record of an organisation's economic activities that indicates its financial position and performance (Sabstu, 2019). The annual financial report presents detailed financial information, enabling stakeholders to assess whether an organisation has succeeded or failed in managing its business activities. In Malaysia, the accounting standards for financial statement reporting fall under the purview of the Malaysian Accounting Standards Board (MASB). MASB was established under the Financial Reporting Act 1997 as the body responsible for financial reporting frameworks regulated by the Securities Commission, Bank Negara Malaysia, or the Companies Registrar (MASB, 2023).

For the cooperative sector, an annual financial report refers to a book or document published by the cooperative at the end of a financial year detailing all operational outcomes, financial positions, and social activities undertaken. These reports must follow a structured format and specific guidelines. (Sabstu, 2019). In essence, cooperative annual financial reports include accounts and statements reflecting the financial performance and activities of the cooperative over the past year (Maktab Koperasi Malaysia, 2010). The structure and content of financial statements, accounting standards, and annual report preparation procedures mandated by SKM must be adhered to by all registered cooperatives in Malaysia (SKM, 2020). Cooperatives may choose to adopt either Malaysian Financial Reporting Standards (MFRS) or Malaysian Private Entity Reporting Standards (MPERS).

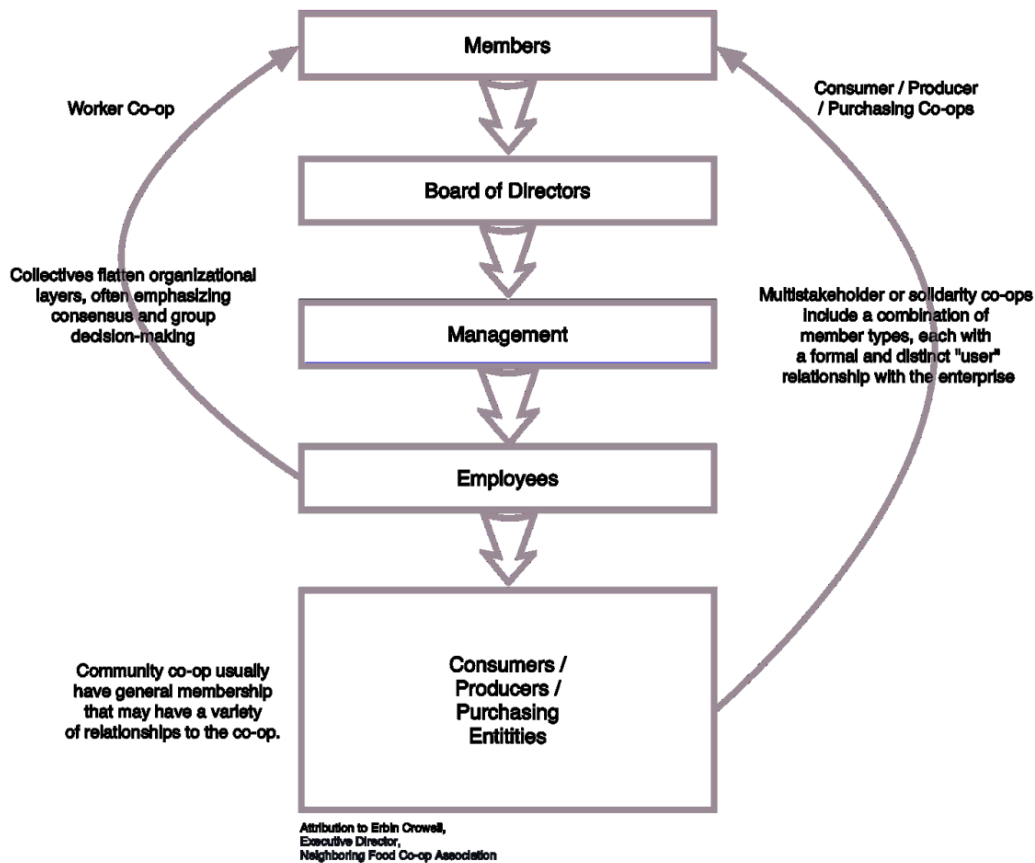
According to Section 59(1) of the Cooperative Act 1993 (Amendment 2007), the annual financial report of a cooperative must encompass a profit and loss account, a balance sheet, a statement of the cooperative's affairs, and an auditor's report. This requirement is elaborated upon in the Cooperative Financial Statement Reporting Guidelines (GP23) issued by SKM, which stipulates that the annual financial statements should include detailed information regarding assets, liabilities, member funds, reserves, income, expenses, as well as profit and loss, profit distribution, and cash flow.

### **2.1 Purpose and Objectives of Preparing Cooperative Annual Financial Reports**

The primary purpose of preparing an annual financial report is to present financial and operational information to stakeholders, particularly cooperative members (Maktab Koperasi Malaysia, 2010). This process, known as financial reporting, involves disclosing an organization's financial information to stakeholders both within and outside the organization. Financial reports can be prepared periodically (monthly, quarterly, or semi-annually) or annually (Maktab Koperasi Malaysia, 2010). The preparation of financial reports for cooperatives must comply with the legal requirements outlined in the Cooperative Act of 1993. Additionally, the audited annual financial report must be presented at the Annual General Meeting (AGM), which should be held within six months of the end of the cooperative's fiscal year.

According to GP23, the primary objectives of preparing a cooperative's annual report include presenting the cooperative's financial structure and business results for the financial year. These reports also fulfil the legal requirements established by SKM, ensuring that cooperatives prepare and present financial documents in accordance with the specified guidelines, instructions, or notices related to the format and content of financial statements and accounting standards. The main aim of the cooperative's annual financial report is to inform members and stakeholders about the cooperative's economic activities, particularly its financial performance over the fiscal year. Additionally, the report provides details on investments, fixed assets, cash reserves, liabilities, member-contributed capital, and net profits generated from cooperative activities. Lastly, these reports emphasize the governance and resource management practices of the Cooperative Board of Members (ALK), assessing their effectiveness in managing the cooperative.

Figure 1: General Structure of Co-operative Enterprise.



Source: Taylor, K. (2015). Learning from the co-operative institutional model: How to enhance organizational robustness of third sector organizations with more pluralistic forms of governance. *Administrative Sciences*, 5(3)

In addition, preparing the annual report is to provide information related to the financial position, performance and cash flow of the cooperative to consumers in making economic decisions and legal-based actions (Maktab Koperasi Malaysia, 2010). The annual report must be submitted promptly, no later than two months after the end of the financial period to ensure the financial statements are timely sent to the external auditors. Each cooperative is responsible to present an audited financial report to provide a clear and concise explanation of the position

of cooperatives to the users of financial statements (SKM, 2020). The objectives also include monitoring compliance with the Cooperative Act 1993, Cooperative Regulations 1995, and related rules and policies (Maktab Koperasi Malaysia, 2010).

## **2.2 Users of Cooperative Annual Reports**

The primary goal of preparing financial reporting is to provide accounting information to various users. The users of cooperative annual reports are the cooperative members and top management who are concerned with the financial state of the business, particularly profitability and liquidity information. Additionally, external stakeholders like creditors, potential investors, and competitors use these reports to assess the organization's performance and prospects. Below is a summary of users and their purposes:

**Table 1: Users of Annual Reports**

<b>Users</b>	<b>Purpose</b>
Board of Directors & Manager	Assess efficiency and make decisions.
Shareholder	Evaluate cooperative performance.
Potential Investors	Assess and forecast the cooperative future.
Cooperatives Creditors	Evaluate financial capacity to pay liabilities.
Cooperatives Employee	Assess cooperative sustainability.

In summary, cooperative annual report users primarily include cooperative members and external stakeholders like suppliers, banks, creditors, and management (Maktab Koperasi Malaysia, 2010). Internal users include cooperative members, management, Cooperative Board Members (ALK), and Internal Audit Committees, while external users include government bodies like SKM, the Inland Revenue Board (LHDN), suppliers, and banks.

## **2.3 Legal Requirements for Preparing Cooperative Annual Reports**

The preparation of annual financial reports for the public and private sectors is governed by laws or acts specific to the operations of respective organizations. For corporate entities, the legal requirements for annual financial reporting are outlined in Section 245 of the Companies Act 2016 (previously Section 167 of the Companies Act 1965). For public sector entities, such as local governments, these requirements are stipulated in the Federal Constitution, 1957 (Article 99), Section 16 of the Financial Procedure Act 1957, and Section 54(2) of the Local Government Act 1976 (Engku Ismail, 2010). However, the standards developed for the public and private sectors are not suitable for cooperatives due to the unique characteristics of cooperatives regarding ownership structure (governance), purpose of establishment, values, and principles (International Cooperative Alliance, 2024). Cooperatives play a unique role in both the economy and society by prioritizing the needs and objectives of their members rather than just pursuing profit. This structure fosters a sense of community and collaboration, as members work together for mutual benefit.

The economic objectives of cooperatives often include providing goods and services at competitive prices, ensuring a stable supply of products, and creating job opportunities. By pooling resources, members can access better deals and facilities than they might be able to individually, thus enhancing their economic stability (Beishenaly & Eum (2021). Socially, cooperatives are designed to empower members by promoting democratic control and participation in decision-making processes. Each member typically has an equal vote, regardless of their investment size, which ensures that all voices are heard and respected. This democratic governance can strengthen community bonds and promote social equity (Buch et

al., 2021). Moreover, cooperatives often focus on social objectives such as community development, environmental sustainability, and local investment. They may engage in educational initiatives and provide various support services that benefit not just their members but also the surrounding community. As such, cooperatives exemplify a model of economic organization that balances profitability with social responsibility, ultimately contributing to the well-being of their members and the larger community (Fernandez et al., 2020). Specifically, the legal requirements for preparing cooperative annual financial reports are detailed in Section 58 of the Cooperative Act 1993 (Amendment 2007), Regulation 31 of the Cooperative Regulations 2010, and Section C of GP23: Guidelines for Cooperative Financial Statement Reporting. Cooperatives registered under the Cooperative Act 1993 in Malaysia are responsible for managing their finances efficiently and presenting information on their financial position and business operations to stakeholders, particularly cooperative members. This responsibility also falls on the Cooperative Board Members (ALK), who must ensure that their organisation prepares the annual report.

Every cooperative must prepare its annual report no later than two months after the end of its financial period. Financial statements must be audited at least once a year and provided 15 days before the Annual General Meeting (AGM). The cooperative must present its audited financial statements at the AGM to ensure members are informed of the cooperative's financial position, financial performance and cash flows.

### **3. Contents of Cooperative Annual Reports**

Cooperative annual reports encompass two types of information: financial and non-financial. Financial information forms the core of these reports, typically including the cooperative's financial statements, statutory board reports, internal audit committee reports, external auditor reports, and the Malaysian Cooperative Commission's (SKM) observations on the cooperative's financial statements.

Cooperative financial statements are comprehensive, accurate, and up-to-date documents reflecting the financial position and performance of a cooperative over a financial period which facilitate precise and effective planning of cooperative activities (JPKM, 1993). According to Section 59(1) of the Cooperative Act 1993 and Regulation 29(4) of the Cooperative Regulations 1995, cooperatives must prepare a complete set of financial statements providing a detailed account of their financial standing and operational outcomes for a given financial period. These statements typically include Balance Sheet, Profit Distribution Account, Profit or Lost Account, Trading Account, Cash Flow Statement and Notes to the Account (SKM, 2022).

Balance Sheet summarises and lists the balances of assets, capital and liabilities after final year-end adjustments. Based on Registrar's guidelines, balance sheet is divided into six parts: Fixed Assets, Semi-Fixed Assets, Current Assets, Current Liabilities, Member Funds, and Non-Current Liabilities. Next, the Profit Distribution Account Reports the audited net profit distribution over the financial period, governed by Section 57 of the Cooperative Act 1993. Then, Profit or Lost Account Details all revenue earned by the cooperative, including income from products, services, contributions, commissions, bank interest, and investment dividends. It also itemises expenses, categorised as sales or activity expenses and general expenses like wages, depreciation, meeting allowances, and postage. Net profit or loss is determined by subtracting total expenses from total revenue.

A Trading Account reflects profits or losses from business activities over a financial period. Cooperatives involved in manufacturing or trade must prepare separate trading accounts for each activity as required by the Cooperative Financial Statement Reporting Guidelines (GP23), effective 1 January 2013. In line with the development of the field of accounting, most cooperatives need to prepare cash flow statements to track cash sources and usage, enabling members to evaluate how cooperatives generate cash, settle liabilities, and distribute future dividends. The statement must be presented at the Annual General Meeting (AGM) as stipulated in Regulation 29(4) of the Cooperative Regulations 1995. The final parts of cooperative financial statements are Notes to the Accounts. Sabstu (2019) stated that the Notes to the Account provide detailed explanations of the balance sheet, profit distribution account, trading account, income and expense account, and cash flow statement. Notes also disclose accounting policies, component recognition, and additional information crucial for understanding the financial statements.

In Malaysia, public limited companies are legally required to ensure financial information is accessible to stakeholders. Such legal provisions ensure the timely dissemination of financial achievements to meet stakeholders' needs. Therefore, audited annual reports are essential for providing financial data to users and facilitating informed decision-making. In addition to reporting financial information in the cooperative annual report, there is also a section that reports non-financial information of the cooperative. Non-financial information is important and is shared with members during the AGM. It includes past discussions and decisions from previous AGMs, achievements in economic and social activities from the previous year, performance and significant decisions executed during the financial period. Typical non-financial components include the Notice and AGM agenda, chairperson's statement, corporate information, minutes from the previous AGM, Board of Directors' reports and cooperative annual budget (SKM, 2022).

#### **4. Conclusions**

The cooperative annual reporting system is a cornerstone of effective financial governance within cooperative organizations. Its primary function is to facilitate the comprehensive collection, recording, and dissemination of financial data, which is crucial for various stakeholders, including members, management, and external auditors. By implementing a well-structured reporting system, cooperatives can achieve efficient financial management, ensuring that resources are allocated optimally and that financial health is monitored consistently. This systematic approach allows for accurate reporting which is crucial for maintaining transparency and accountability in operations.

For stakeholders, understanding the structure and functionality of this reporting system is essential. It plays a pivotal role in enhancing governance efficiency, as it provides a clear framework for decision-making processes and allows for effective oversight. Additionally, robust financial reporting aids in identifying and managing risks that the cooperative may face, thus contributing to the organization's resilience and sustainability.

The implications of the cooperative annual report extend beyond mere financial figures; they embody the cooperative's overall performance and strategic direction. Annual reports serve as an intermediary tool that enables cooperative members to assess the organization's accomplishments over the past year, providing insights into its operational strengths and challenges. This evaluation process not only fosters member engagement but also lays the

groundwork for future planning and development, empowering cooperatives to set realistic goals and strategies based on historical performance data. A well-structured cooperative annual reporting system is indispensable for effective governance, risk management, and performance evaluation. It acts as both a reflective tool for past achievements and a strategic guide for future initiatives, ensuring that the cooperative continues to thrive in the long term.

The preparation of annual reports for cooperatives represents the final step in the accounting and financial system of the cooperative. As such, cooperative members need to possess the skills necessary to analyse and evaluate both financial and non-financial information found within these reports. This ability will enable them to provide valuable insights that can enhance the cooperative sector in Malaysia. An organized reporting system guarantees that the information presented in these annual reports is of high quality, offering useful insights for users, particularly current and prospective cooperative members. In conclusion, the cooperative's annual reporting system should align with its foundational objectives, ensuring that cooperative finances are managed efficiently and with integrity.

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