

Original Article

# Role of External Audit for Cooperative Management in Vietnam

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**Abstract:** *The goal of cooperative auditing is to ensure compliance with the law, as well as the cooperative's internal regulations, other public financial results, increased efficiency of activities, and, most of all, ensuring the benefits of members. A special characteristic of cooperatives is a large number of members, as a large membership cannot directly participate in the management of a cooperative, but it is realised through delegates. In such cases, in order to preserve the democratic nature of the cooperative, there is a need for the decision-making system, which is controlled by a cooperative audit, to be transparent. Besides financial audits, cooperative audits are expected to verify compliance with cooperative values and principles, as well as with relevant legislation. That is why the cooperative audit is considered an efficient control mechanism that enables cooperative members to exercise their voting rights. A number of studies have been carried out so far to study the impact of both external and internal factors on the performance of cooperatives in Vietnam. However, the research has not yet focused on the role of audits in these economic entities. From all of the above facts, this research will be carried out to answer three questions: What is the current status of cooperative auditing activities in Vietnam? Does cooperative auditing bring real benefits? And what are the benefits of cooperative auditing for management as well as for members? Clarifying these contents will be the basis for affirming the role of external audits in cooperative governance in Vietnam.*

**Keywords:** Audit, Cooperative, Vietnam.

## I. INTRODUCTION

The International Cooperative Alliance (ICA) (1995) defines a cooperative as "an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically controlled enterprise." Many studies have proved that the setting up of cooperatives on the emerging continents of South America, Asia, and Africa, including developed countries like Europe and North America, indicates the key role played by these organisations in one's economy around the world (Dogarawa, 2010; Kari & Othman, 2008; Shabri, Ram Al Jaffri, & Bakar, 2016).

In Vietnam, from 1955 to 1986, the cooperative model was identified as one of the two official economic forms (besides state-owned enterprises), which promoted collective strength to bring benefits to farmers. However, since 1986, this traditional cooperative model no longer played a key role as it was not suitable for the transformation economy context. In the early 2010s, when the Cooperatives Law 2012 was issued, which reflected innovative thinking about a new cooperative model and contributed to improving production relations following market orientation, the development of cooperatives entered a new stage. The attractiveness of the new cooperative model is evidenced by the rapid growth in the number of cooperatives as well as the voluntary participation of the members in these organizations. In the period 2002–2021, the whole country established 20,234 cooperatives, 21 cooperative unions, and 33,307 cooperative groups. The structure of cooperatives changed in a positive direction. By the end of 2021, non-agricultural cooperatives and agricultural cooperatives will have nearly 3 million members (Vietnam Cooperative Alliance, 2021). The question is why, in Vietnam, the percentage of cooperatives that operate effectively is just around 59% (Vietnam News Agency, 2021). Meanwhile, experience in many countries in the world shows that up until now, cooperatives have been an effective operating model suitable for an increasingly competitive context, and more importantly, cooperative power supports its members in coping with difficulties and avoiding high risks of loss.

In theory and by law, in order to achieve their goals, cooperatives are required to maintain their credibility. However, fraud in cooperative societies is not new within the context of developing countries (Rahim, Nawawi, & Salin, 2017). Fraud can be committed by an employee at any level within an organisation, as well as by those outside the organisation (IPPF 2009), indicating the importance of a good control system. In practice, cooperatives face a lot of governance problems brought on by mismanagement, partiality, theft of resources, conflict of interest among officials, hiring and dismissal of staff, and a lack of accountability among leaders and members (Nay-ud, 2022).

In this context, a cooperative audit can be a good solution. According to Aren et al. (2014), auditing is the process by which independent and competent experts collect and evaluate evidence about quantifiable information about an economic entity, with the aim of confirming and reporting on the degree of correspondence between this information and established standards. The goal of cooperative auditing is to ensure compliance with the law, as well as the cooperative's



internal regulations, other public financial results, increased efficiency of activities, and, most of all, ensuring the benefits of members. A special characteristic of cooperatives is a large number of members, which then leads to the separation of ownership and management, as a large membership cannot directly participate in the management of a cooperative, but it is realised through delegates. In such cases, in order to preserve the democratic nature of the cooperative, there is a need for the decision-making system to be transparent which is controlled by a cooperative audit (Zakić, Nikolić, & Kovačević, 2018). Besides financial audits, cooperative audits are expected to verify compliance with cooperative values and principles, as well as with relevant legislation. That is why the cooperative audit is considered an efficient control mechanism that enables cooperative members to exercise their voting rights (Cracogna, Fici, & Henry, 2013).

Experience from many countries shows that restoration of trust in cooperatives cannot be achieved without a reliable and standardised system of cooperative audits, especially regular financial audits (Benson, 2014; Henry, 2005; Zakić & Kovačević, 2015). In many countries, audit activities have emerged with clear legal requirements. In Germany, all cooperatives are required to be audited at least once every 2 years, while cooperatives with capital of 2 million euros or more are required to be audited once a year. In Austria and France, auditing includes the process of registering the establishment of cooperatives. All cooperatives have undergone evaluation by the Auditing Association since their establishment. In Poland, independent audits of cooperatives are mandatory and are conducted every three years (VCA, 2021). In Thailand, a cooperative audit is a service conducted by the government and is performed at least once a year (Krasachat & Chimkul, 2009). In Malaysia, auditing activities are also respected but not mandatory (Kari & Othman, 2008). The financial records of only about 40 percent of cooperatives in Ethiopia are audited each year, even though the government cooperative agencies have a large staff of auditors to undertake annual audits of primary cooperatives and cooperative unions at no cost to the cooperatives audited (Benson, 2014).

A number of studies have been conducted so far to study the impact of both external and internal factors on the performance of cooperatives in Vietnam. However, the research has not yet focused on the role of audits in these economic entities. At the same time, there is also some research in some countries, such as Malaysia, Indonesia, and Nigeria. Shows the relationship between the activities of audit activities and the performance of cooperatives (Babalola, 2014; BAKAR, JAAFAR, AWALUDIN, & AMAN, 2020; Rizki & Anisykurlillah, 2018). Nonetheless, empirical research that provides similar evidence in Vietnam is lacking. The pressing need is evidenced by the increase in the number of weakly operating cooperatives and dissolute cooperatives. From all of the above facts, this research will be carried out to answer three questions: (1) What is the current status of cooperative auditing activities in Vietnam? (2) Does cooperative auditing bring real benefits as expected by society for this activity? (3) What are the benefits of cooperative auditing for management as well as benefits for members?

This article is structured as follows: Section 1 describes the methodology of this research. Section 2 mentioned the factual situation of cooperatives in Vietnam and the benefits and limitations of cooperative audits for cooperative management. The final section proposes interventions to improve the cooperative audit in Vietnam.

## II. METHODOLOGY

### A. Survey procedure

The survey was designed in two steps to collect data for this study.

Step 1: Surveying 222 cooperatives in 10 provinces, representing cooperatives in different economic regions, urban and rural areas, plains, coastal areas, and mountainous areas of Vietnam.

The questionnaire used in the survey includes three parts: (1) groups of basic information about the cooperative's production and business activities; (2) groups of information to evaluate the internal control system (such as its existence, effectiveness, efficiency, etc.); and (3) groups of information to assess the need and ability of the cooperative to pay for audit services.

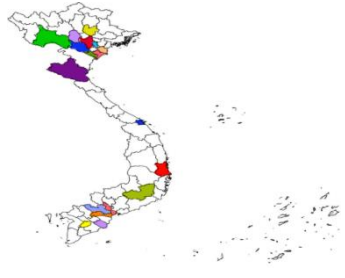
Step 2: In-depth interview with 14 cooperatives in 8 provinces. From the survey results of step 1, 14 cooperatives have been selected for in-depth interviews. These cooperatives are cases of success or failure with the internal control system. The purpose of this interview is to better explain the situations that occurred, thereby drawing lessons learned that can be a reference for other cooperatives. Stories about these cooperatives can be developed as a case study for later training purposes.

### B. Research sites

To conduct the study, we plan to survey 250 cooperatives in six provinces. However, in the process of survey and data collection, due to some difficulties in accessing the site, only 222 questionnaires with sufficient information to be analysed were collected (*Figure 1*).

By geographical region, there are 116 cooperatives in the Red River Delta and Northern Mountainous provinces (which account for 52.3% of the survey), mainly in Son La, Phu Tho, Thai Binh, and Hanoi, the largest number of cooperatives in the country. Followed by cooperatives in the Central Coast and Central Highlands provinces with 63 cooperatives (accounting for 28.4%) and located mainly in Lam Dong. Meanwhile, there are 43 cooperatives in the Southeast region and Mekong River Delta surveyed, mainly in Tra Vinh and Hau Giang provinces (which account for

76.7% of the total sample of the region). Divided by residential area, in the total sample, there are 11.3% of cooperatives in urban areas and 88.7% in rural areas (*table 1*).

Area	Number of Cooperatives	
Midland and Northern mountains	77	
Red River Delta	39	
North Central Coast and South Central Coast	23	
Central Highland	40	
Southeast Delta and Cuu Long River Delta	43	
<b>Total</b>	<b>222</b>	

*Figure 1: Distribution of samples by location*

**Table 1: Basic information of samples**

Indicators	Number	Proportion (%)
<b>Divided by city/rural</b>		
• City	25	11,3
• Rural area	197	88,7
<b>Divided by year of establishment</b>		
• Before the establishment of Cooperative Law in 2012 (and converted under the Cooperative Law 2012)	100	45,0
	122	55,0
<b>Member of Vietnam Cooperative Alliance</b>		
• Cooperative is a member of the Vietnam Cooperative Alliance	201	90,5
• Cooperative is a member of the Vietnam Cooperative Alliance	21	9,5
<b>Sector</b>		
• Agricultural Cooperative	162	73,0
• Non-Agricultural Cooperative	28	12,6
• Combined Cooperative	32	14,4

The average age of cooperatives is 17.4 years, and some cooperatives have been established for more than half a century. Accordingly, 55% of cooperatives were established after the 2012 Cooperative Law, and 45% of cooperatives were established before 2012. All cooperatives established before 2012 have converted under the 2012 Cooperative Law. The survey results also show that most of the surveyed cooperatives are members of the Provincial Cooperative Alliance (accounting for 90.5%), and only 9.5% of cooperatives are registered to join the Provincial Cooperative Alliance. In terms of field of operation, the majority of surveyed cooperatives are agricultural cooperatives (73.0%), followed by combined cooperatives (agriculture and non-agriculture activities) accounting for 14.4%; non-agricultural cooperatives accounted for only 12.6%. This ratio has a high similarity with the actual data of existing cooperatives by sector. Accordingly, as of December 31, 2021, the whole country has 27,342 cooperatives, and agricultural cooperatives account for over 68%.

### C. Data Analytic Methodology

The basic analytic methods used for the research include: (1) The descriptive statistics method, which consists of frequency distribution, mean score percentages, and standard deviations, was utilised to describe and assess the status of the audit application in the surveyed cooperatives. (2) The comparative method, including the T-test technique and comparison of mean values between two samples, is used to identify similarities and differences in the performance of the two groups of cooperatives: the audited cooperative group and the non-audited cooperative group; and (3) The method of synthesis, which summarises the results of the conducted research and compares them with the experience lessons learned from other countries, then draws implications for developing cooperative audits in Vietnam.

## III. RESULTS AND DISCUSSION

### A. Current situation of cooperative audit activities in Vietnam

There are only 52 cooperatives among the 222 survey samples that have been audited by external organisations (independent audit firms, cooperative alliances, and state audits) (accounting for 23.4%).

#### a) Based on industry criteria:

Based on industry criteria, the number of agricultural cooperatives choosing to be audited by external organizations is the largest compared to mixed cooperatives and non-agricultural cooperatives.

#### b) Based on total asset criteria:

Cooperatives with total assets of 1 billion or more have been audited, accounting for 12.2% (the cooperative with the largest total assets is 22 billion VND).

Cooperatives with total assets of less than 1 billion VND have been audited, accounting for 11.3% (cooperatives with the smallest total assets are 100 million VND).

**Table 2: Based on Industry Criteria**

Types of cooperatives	Number of samples	Number of cooperatives audited	Percentage of audited cooperatives in the sample
Mixed cooperatives (agricultural & non-agricultural)	32	10	31%
Agricultural Cooperative	162	33	20%
Non-Agricultural Cooperatives	28	9	32%
<b>Total</b>	<b>222</b>	<b>52</b>	

c) Based on the criteria of the number of members:

Cooperatives with a membership of 100 or more members have had audits, accounting for 5.9% (the cooperative with the largest number of members has 3,065 members).

Cooperatives with less than 100 members have been audited, accounting for 17.6% (cooperatives with at least 7 members).

Most cooperatives are audited by external organisations due to the requirements of support or loan programs, not the needs of the cooperatives themselves. The object of these audits is also mainly a financial statement audit or a combination of a financial statement audit and a compliance audit. Operational audits to evaluate the effectiveness and efficiency of common activities at cooperatives have not been implemented, although this goal is extremely necessary for cooperatives.

#### B. Benefits of cooperative audit for cooperative governance

**Table 3: The Level of Diversity in Organising Common Cooperative Activities Increased in the Audited Group of Cooperatives**

		Mean	Std. Deviation	Std. Error Mean
The level of diversity in the organization of general activities	The audited cooperatives group (n= 52) (Audited group (52)	6.90	2.312	.321
	The non-audited cooperatives group (n=170) Non-audited group (170)	5.82	2.259	.173

**Table 4: Inspection Results**

Levene's Test for Equality of Variances			t-test for Equality of Means						
	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
								Lower	Upper
Equal variances are assumed.	.078	.780	3.001	220	.003	1.080	.360	.371	1.790
Equal variances are not assumed.			2.965	83.022	.004	1.080	.364	.356	1.805

Note: The difference is statistically significant at  $\alpha = 1\%$

It can be seen that for the group of cooperatives that are audited, there is a greater degree of diversity in the organisation of common cooperative activities than for the group of cooperatives that external organisations do not audit.

**Table 5: Compliance in the Design and Operation of Cooperatives is higher when Cooperatives are Audited**

	Mean	Std. Deviation	Std. Error Mean
Compliance in organizing cooperative activities	The audited cooperatives group (n= 52)	2.50	.505
	The non-audited cooperatives group (n=170)	2.10	.685

**Table 6: Inspection Results**

Levene's Test for Equality of Variances			t-test for Equality of Means						
	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
								Lower	Upper
Equal variances are assumed.	.093	.761	3.897	220	.000	.400	.103	.198	.602
Equal variances are not assumed.			4.570	113.723	.000	.400	.088	.227	.573

*Note: The difference is statistically significant at the  $\alpha = 1\%$  level.*

According to the above research results, similarly, the organisation of cooperative activities will have a greater degree of diversity when carried out by a cooperative group that is audited by an outside organization. Compliance in designing the cooperative's organisation and operations also performs better when the cooperative is audited.

**Table 7: The Contribution of Accountants in Cooperative Management Increases by the Consulting Effectiveness of External Audit Activities**

		Mean	Std. Deviation	Std. Error Mean
Evaluate the contribution of the Accounting Department to the cooperative's management	The audited group (n= 52)	3.60	.534	.074
	The non-audited cooperatives group (n=170)	2.96	.831	.064

**Table 8: Inspection Results**

Levene's Test for Equality of Variances			t-test for Equality of Means						
	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
								Lower	Upper
Equal variances are assumed.	.507	.477	5.207	220	.000	.637	.122	.396	.879
Equal variances are not assumed.			6.526	132.714	.000	.637	.098	.444	.830

*Note: The difference is statistically significant at the  $\alpha = 1\%$  level.*

Research results also show that thanks to the effectiveness of consulting from external audit activities, the level of contribution of accountants in the management of cooperatives has increased much more than that of other cooperatives. The commune does not receive advice from an external audit organisation.

**Table 9: The Level of Member Benefits Increases in the Audited Cooperative Group**

		Mean	Std. Deviation	Std. Error Mean
Level of member benefits	The audited group (n= 52)	3.65	1.341	.186
	The non-audited cooperatives group (n=170)	3.25	1.363	.105

**Table 10: Inspection Results**

Levene's Test for Equality of Variances			t-test for Equality of Means						
	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
								Lower	Upper
Equal variances are assumed.	.032	.857	1.863	220	.064	.401	.215	-.023	.825
Equal variances are not assumed.			1.879	85.737	.064	.401	.213	-.023	.825

*Note: The difference is statistically significant at the level  $\alpha = 10\%$*

For cooperative groups that are audited by outside organisations, the benefits to cooperative members also increase significantly compared to groups that do not undergo audits, such as lower cost purchases, product sales, technical support, reduced risks in production and business, etc.

### **C. Difficulties of Cooperatives when Performing Audit Activities:**

a) Firstly, the level of awareness of the Cooperative Board of Directors about cooperative audit activities is limited.

There are only a few cooperatives that carry out audit activities in the true nature of independent audit activities due to limitations in awareness and capacity of cooperatives out of 52 cooperatives surveyed that have external audit activities.

b) Second, the cost of auditing activities at cooperatives is still low.

For external audit activities: Recently, audits for cooperatives carried out by a number of provincial-level cooperative alliances have been sponsored by DGRV; most cooperatives do not have to pay audit fees.

However, through an actual survey of cooperatives, only 18.7% of cooperatives responded that they perform external auditing activities and pay audit service fees ranging from less than 5 million to over 50 million VND. There is only one cooperative that can pay over 50 million VND; some cooperatives are paid by other entities, such as the Provincial Cooperative Alliance or the state budget.

The majority of cooperatives have not performed external audit activities (81.3%), so no costs have arisen for this activity. It can be seen that the cost of paying for external audit activities is very low, and many cooperatives are not interested in implementing this audit activity in their management. Some cooperatives have chosen an auditing company based on the criteria of cheap price without paying attention to the basic factors of quality as well as whether the Ministry of Finance licenses the company. This choice has caused these cooperatives to pay a high price when their financial statements are audited but not recognised.

The reason is that these cooperatives have weak potential, do not have funds for audit activities, and the awareness of the cooperative management board is not high. Many cooperatives needed to be audited, but they were unable to pay audit fees at the market price of independent audit firms and were only able to pay low audit fees, resulting in a weak ability to monitor the internal control system.

**Table 11: Actual level of payment for independent audit activities at cooperatives**

Level	Evaluation Criteria	Evaluation Status at Cooperatives
1	Over 50 mil VNĐ	1 (0,5%)
2	From > 20 to 50 mil VNĐ	5 (2,3%)
3	From 10 to 20 mil VNĐ	8 (3,6%)
4	From 5- 10 mil VNĐ	5 (2,3%)
4	Lower 5 mil VNĐ	9 (4,1%)
5	Paid by another entity	13 (5,9 %)
6	There are no reviews	181 (81,3%)

#### IV. CONCLUSIONS

Through a survey of cooperatives that have performed audit activities, the audit report will be provided to the following agencies: general state management agencies, tax authorities, and the Provincial Cooperative Alliance; banks; credit institutions; and the Cooperative Development Support Fund (for loan purposes). Some cooperatives perform audits to improve governance and the quality of their operations. Survey results show that nearly 63% of cooperatives assess the need for an external cooperative audit. Only 37.4% of cooperatives believe that it is not necessary to have audit activities for cooperatives (for these cooperatives, there is no need to perform audits, no funds to arrange for audit activities, or management awareness is still weak).

Therefore, in the future, to ensure the cooperative operates effectively, auditing is a channel to help the cooperative's leadership monitor and periodically evaluate the cooperative's activities. So, it is necessary to carry out audit activities for the cooperatives. However, it also considers setting criteria for the scale of the cooperative, such as total assets, charter capital, industry sector, or number of members, to make appropriate regulations for implementing the charter and internal audit.

For cooperatives that evaluate audit activities as necessary/relatively necessary/extremely necessary, they all need to perform audit activities and choose a subject to perform them in accordance with their abilities (27% chose the Cooperative Audit Center under the Vietnam Cooperative Alliance and the Center's branches in the Provinces/Cities under the Provincial Cooperative Alliance to perform audit activities; 24.3% of cooperatives chose to do it themselves through the internal audit department (despite the fact that most cooperatives have not yet established an internal audit department); 14.9% of cooperatives choose services performed by chartered audit enterprises and very few cooperatives use assets, Public finance should choose the state audit to perform only 3.2%. The remaining 10% chose another department, but it is unclear which department will perform the audit. A small portion of the cooperatives surveyed do not have any opinion on choosing which entity to perform audit activities for their units because most of these cooperatives believe that audit activities are not necessary (29.6%).

Through research, most cooperatives with a large scale in terms of charter capital, industry, total assets, and number of members all need to carry out independent audits to improve management efficiency and the transparency of the cooperative's financial situation. Most cooperatives that need to be audited want to have both operational audits, compliance audits, and financial statement audits performed according to the audit frequency appropriate to the characteristics and scale of each cooperative. These cooperatives also expect audit activities to be carried out by the Cooperative Audit Centre under the Vietnam Cooperative Alliance and the Centre's branches in the provinces and cities under the Provincial Cooperative Alliance, by the State Audit Enterprise, or performed by the Internal Audit Department. These cooperatives are willing to pay part of the costs of audit activities. Some require support from outside sources, such as the state budget, the Vietnam Cooperative Alliance, and the Provincial/City Cooperative Alliance.

Establish a legal framework for cooperative auditing to improve governance and the quality of cooperative operations. Audit requirements can be attached to cooperatives that are large enough in terms of the number of members, industry sectors, total assets, and charter capital; cooperatives with export activities or cooperatives that need to mobilise capital from banks and financial institutions; or as requested by relevant parties as appropriate. Audits can be financial statement audits, operational audits, compliance audits, thematic audits, or integrated audits, depending on the needs and scale characteristics of the cooperative.

From the current state of the quality of the cooperative's internal control system it shows that performing audits at cooperatives is extremely necessary for the internal management requirements of cooperatives. Cooperatives carry out independent audits through the services of independent auditing firms or the consulting services of inspection and consulting teams at the Provincial Cooperative Alliance. Independent audit reports should also be considered a mandatory requirement for cooperatives when participating in state development projects or incentive programmes.

It is necessary to develop a roadmap for implementing audit work appropriate to each stage of the development of the cooperative. The subject performing the charter audit activity allows cooperatives to choose an auditing firm or an organisation belonging to the Vietnam Cooperative Alliance and its branches.

For consulting training: (i) Training needs to be based on an analysis of the needs of cooperatives, and training programmes and content need to be designed to suit each stage of cooperative development. Cooperatives at different stages of development need to participate in different training support programmes. (ii) The consulting activities of consulting centres in LMHTX provinces should aim at raising awareness among the cooperative management board and cooperative members about the role of cooperative management and governance in the internal control system. Strengthen the role of all cooperative members in the internal control system; advise cooperatives on identifying and assessing risks; and build components of the internal control system to control risks. (iii) Develop the document "Handbook for Building and Perfecting the Internal Control System for Cooperatives" to serve the management work at each cooperative; Provide knowledge to managers about control principles and risk approaches in building internal control systems; Raise awareness and understanding among cooperatives on risk identification, risk assessment, and risk updating to perfect the appropriate internal control system during operations. (iv) Advise and guide cooperatives to build an appropriate capacity framework for the capacity requirements of each job position undertaken in cooperative management. For the positions of members of the Board of Directors/Supervisory Board and the position of Chairman of the Board of Directors/Head of the Supervisory Board (which are positions that, according to current law, must be members of the cooperative), there need to be regulations on the content of the Board of Directors/Supervisory Board. Minimum training content and a regular knowledge update program are required to have enough working capacity and cooperative management capacity when they take this position. (v) Orient and support cooperatives to apply digital transformation to the internal control system and organise training classes associated with digital transformation, such as training on accounting software and training on the application of tracking codes and output.

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