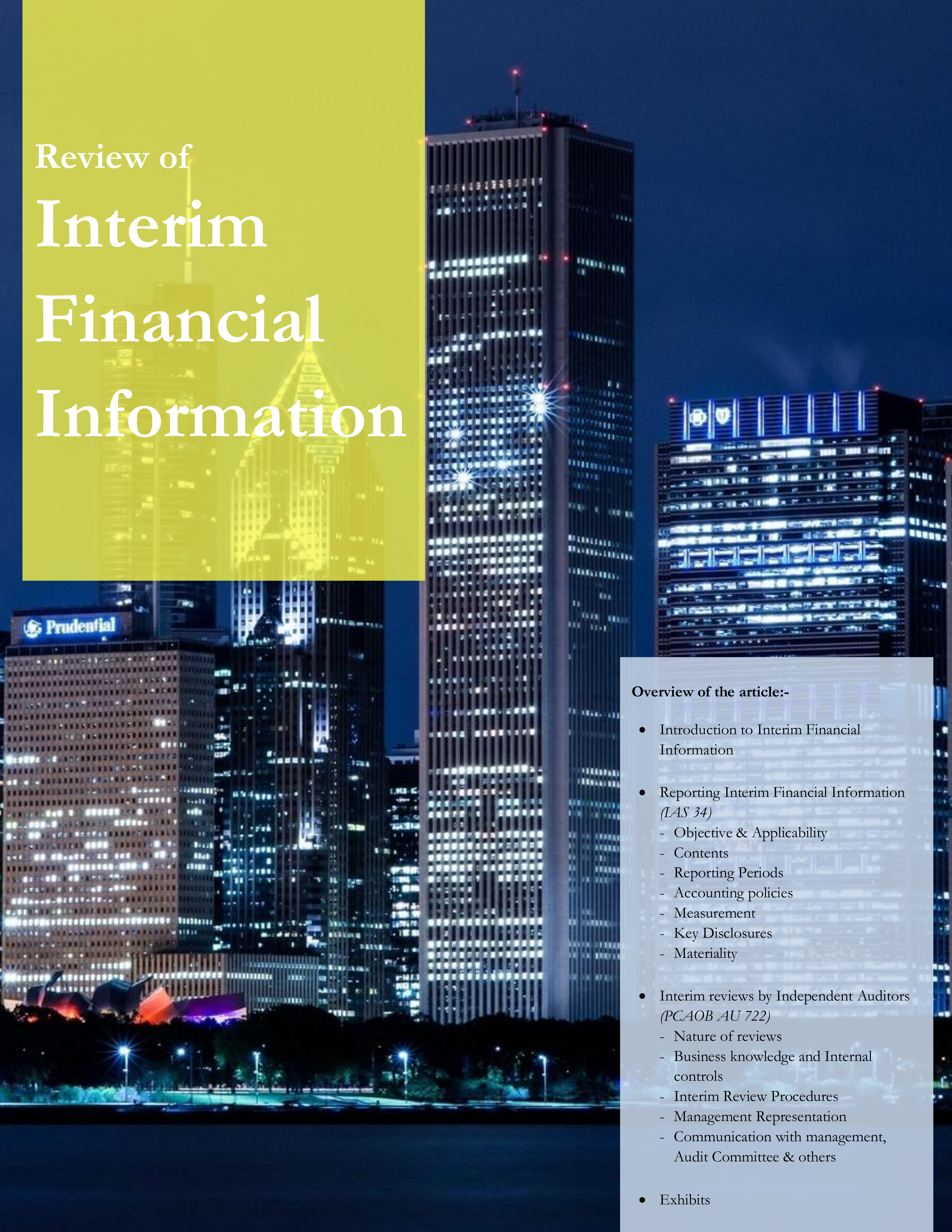

Review of

Interim Financial Information

Overview of the article:-

- Introduction to Interim Financial Information

- Reporting Interim Financial Information *(IAS 34)*
  - Objective & Applicability
  - Contents
  - Reporting Periods
  - Accounting policies
  - Measurement
  - Key Disclosures
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- Interim reviews by Independent Auditors *(PCAOB AU 722)*
  - Nature of reviews
  - Business knowledge and Internal controls
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  - Management Representation
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Introduction

What is Interim Financial Information?

Interim financial information means financial information or statements covering a period less than a full year or for a 12-month period ending on a date other than the entity's fiscal year end.

Interim statements increase communication between companies and the public, and provide investors with up-to-date information between annual reporting periods.

Objectives and Uses of Interim Financial Information

- To estimate annual earnings;
- To make projections;
- To identify turning points;
- To evaluate management performance;
- To supplement the annual report.

Reporting Interim Financial Information

Interim Financial Information is reported in accordance with *IAS 34 – "Interim Financial Reporting"*. So, let's have a look on the reporting requirements specified in IAS 34.

IAS 34 - Interim Financial Reporting

Objective

This standard prescribes the guidelines for an entity regarding the preparation of interim financial statements by providing information about the minimum contents of interim financial reports along with the recognition and measurement principles for such financial reports.

These interim financial reports will provide the most recent activities, financial affairs and circumstances of the reporting entity

Applicability

IAS 34 specifies the content of an interim financial report that is described as conforming to International Financial Reporting Standards. However, IAS 34 does not mandate:

- which entities should publish interim financial reports;
- how frequently; or
- how soon after the end of an interim period.

Such matters will be decided by national governments, securities regulators, stock exchanges, and accountancy bodies.

Contents of Interim Financial Reports

It encompasses either a complete set of financial reports as defined in IAS 1 or set of condensed financial reports, for the specified interim period.

Complete set of financial reports	Condensed financial reports
The interim financial reports may have the following contents as per the requirements of IAS 1 Presentation of Financial Statements: • Statement of profit or loss and other comprehensive income for the period • Statement of financial position as at the end of the period • Statement of changes in equity for the period • Statement of cash flows for the period • Notes to accounts • Comparative year information • Opening Statement of financial position in respect of retrospective application or restatement of a change in accounting policy or error, or when entity first adopts the IFRSs.	The following are the minimum contents of interim condensed financial reports, which include: • Condensed statement of profit or loss and other comprehensive income for the period • Condensed statement of financial position as at the end of the period • Condensed statement of changes in equity for the period • Condensed statement of cash flows for the period • Selective notes to accounts

Reporting Periods

The periods to be covered by the interim financial statements are as follows:

- **Balance sheet (statement of financial position)** as of the end of the current interim period and a comparative balance sheet as of the end of the immediately preceding financial year.

- **Statement of comprehensive income (and income statement, if presented)** for the current interim period and cumulatively for the current financial year to date, with comparative statements for the comparable interim periods (current and year-to-date) of the immediately preceding financial year.

- **Statement of changes in equity** cumulatively for the current financial year to date, with a comparative statement for the comparable year-to-date period of the immediately preceding financial year.

- **Statement of cash flows** cumulatively for the current financial year to date, with a comparative statement for the comparable year-to-date period of the immediately preceding financial year.

If the company's business is highly seasonal, IAS 34 encourages disclosure of financial information for the latest 12 months, and comparative information for the prior 12-month period, in addition to the interim period financial statements.

Accounting policies

The same accounting policies should be applied for interim reporting as are applied in the entity's annual financial statements, except for accounting policy changes made after the date of the most recent annual financial statements that are to be reflected in the next annual financial statements.

A key provision of IAS 34 is that an entity should use the same accounting policy throughout a single financial year. If a decision is made to change a policy mid-year, the change is implemented retrospectively, and previously reported interim data is restated.

Measurement

Measurements for interim reporting purposes should be made on a year-to-date basis, so that the frequency of the entity's reporting does not affect the measurement of its annual results.

Key measurement points:

- **Revenues** that are received seasonally, cyclically or occasionally within a financial year should not be anticipated or deferred as of the interim date, if anticipation or deferral would not be appropriate at the end of the financial year.

- **Costs** that are incurred unevenly during a financial year should be anticipated or deferred for interim reporting purposes if, and only if, it is also appropriate to anticipate or defer that type of cost at the end of the financial year.

- **Income tax expense** should be recognised based on the best estimate of the weighted average annual effective income tax rate expected for the full financial year.

(Refer Appendix B to IAS 34 to get more guidance for applying the basic recognition and measurement principles at interim dates to various types of asset, liability, income, and expense).

Key disclosures in the explanatory notes

The explanatory notes required are designed to provide an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the last annual reporting date. IAS 34 states a presumption that anyone who reads an entity's interim report will also have access to its most recent annual report. Consequently, IAS 34 avoids repeating annual disclosures in interim condensed reports.
(Refer Exhibit 1 for examples of specific disclosure requirements of IAS 34)

Disclosure in annual financial statements

If an estimate of an amount reported in an interim period is changed significantly during the financial interim period in the financial year but a separate financial report is not published for that period, the nature and amount of that change must be disclosed in the notes to the annual financial statements.

Materiality

In deciding how to recognise, measure, classify, or disclose an item for interim financial reporting purposes, materiality shall be assessed in relation to the interim period financial data.

Interim reviews by Independent Auditor

PCAOB Standard AU Section 722, Interim Financial Information

Review of the interim financial information is conducted in accordance with *PCAOB Standard AU Section 722,* Interim Financial Information. So, let's have a look on the guidance provided in AU 722.

Nature of Review

PCAOB AU 722 provides guidance on determining the nature, timing and extent of procedures to be applied in conducting a review of interim financial information.

The objective of a review of interim financial information differs from that of an audit conducted in accordance with PCAOB Standards.

A review of interim financial information does not provide a basis for expressing an opinion about whether the financial statements are presented fairly, in all material respects, in conformity with GAAP.

A review of interim financial information provides with a basis for communicating whether the auditor is aware of any material modifications that should be made to the interim financial information for it to conform with GAAP.

A review consists principally of performing analytical procedures and making inquiries of persons responsible for financial and accounting matters.

However, a review does not contemplate: tests of accounting records through inspection, observation or confirmation;

- tests of controls to evaluate their effectiveness;
- obtaining corroborating evidence in response to inquiries; or
- performing certain other procedures ordinarily performed in an audit.

What is the PCAOB?

The PCAOB i.e. Public Company Accounting Oversight Board is a nonprofit corporation established to oversee the audits of public companies in order to protect investors and the public interest by promoting informative, accurate, and independent audit reports.

The PCAOB also oversees the audits of brokers and dealers, including compliance reports filed pursuant to federal securities laws, to promote investor protection.

The PCAOB is directed by the Sarbanes-Oxley Act of 2002 to establish auditing and related professional practice standards for registered public accounting firms to follow in the preparation and issuance of audit reports.

Key Elements of AU 722

a) The auditor's knowledge of the entity's business and internal control

As per PCAOB AU 722, the independent auditor should have sufficient knowledge of the company's business and internal control as they relate to the preparation of both annual and interim financial information to:-

- identify the types of potential material misstatements in the interim financial information and the likelihood of their occurrence and
- select the inquiries and analytical procedures that will provide a basis for communicating whether any material modifications should be made to the interim financial information to conform with GAAP.

In addition to this, the independent auditor should perform limited procedures to provide a basis for determining whether he has become aware of any material modifications that, in the auditor's judgment, should be made to the disclosures about changes in ***internal control over financial reporting*** in order for management's certifications to be accurate and to comply with the requirements of **Section 302 of the Sarbanes-Oxley Act**.

b) Interim review procedures

The procedures for conducting a PCAOB AU 722 review mainly consist of analytical procedures, inquiries and other procedures that address significant accounting and disclosure matters relating to the interim financial information to be reported.
These procedures will allow the independent auditor to obtain a basis for communicating whether he is aware of any material modifications that should be made to the interim financial information for it to conform to GAAP.

The inquiries made, and analytical and other procedures performed, should be company specific and based on the independent auditor's knowledge of the company's business and internal control.

Analytical procedures

The objective of analytical procedures is to enable the independent auditor to identify and provide a basis for inquiring about relationships and unusual items that might indicate a material misstatement. PCAOB AU 722 provides guidance on the types of Analytical procedures which could be performed by an auditor.
(Refer Exhibit 2 for examples on Analytical procedures)

Inquiries and other procedures

PCAOB AU 722 requires the independent auditor to make certain queries and perform other procedures in order to gain knowledge on any significant event, matter and transaction occurred during the interim period.
(Refer Exhibit 3&4 to see examples of Inquiries and other procedures required by an auditor)

c) Written representations from management

Written representations from management are obtained for all interim financial information presented and for all periods covered by the review.
PCAOB AU 722 requires certain minimum representations. However, each management representation letter should be modified to include additional representations required.

d) Communications to management, audit committee and others

Generally, audit committees have established practices to review and discuss the quarterly financial information with management and the independent auditors prior to the filing of the company's interim financial statements.
In addition, the audit committee typically reviews and discusses earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies. Not only are these procedures best practices, but they also satisfy the requirements of the NYSE listing standards.

PCAOB AU 722 requires the independent auditor to determine whether any of the matters described in *Auditing Standard No. 16, Communications with Audit Committees*, as they relate to interim financial information, have been identified.

These matters might include:-

- the process used by management to develop critical accounting estimates,
- significant new accounting policies or a change in a significant accounting policy affecting the interim financial information,
- misstatements that, either individually or in the aggregate, could have a material effect on the entity's financial reporting process, and
- disagreements with management.

If any such matters have been identified, the independent auditor should communicate such matters to the audit committee or be satisfied through discussions with the audit committee that such matters have been communicated to the audit committee by management.

e) Review Report

The Independent auditor may issue a review report as per the relevant regulations and the terms agreed with the company. PCAOB AU 722 provides guidance on content of review report and it also provides illustrative examples of review report which can be issued.
(Refer Exhibit 5 for illustrative example of a review report)

Written by:-

Arpit Goel

Nitin Gupta

Exhibit 1

Examples of events and transactions for which disclosures are required if they are significant

- Write-down of inventories
- Recognition or reversal of an impairment loss
- Reversal of provision for the costs of restructuring
- Acquisitions and disposals of property, plant and equipment
- Commitments for the purchase of property, plant and equipment
- Litigation settlements
- Corrections of prior period errors
- Changes in business or economic circumstances affecting the fair value of financial assets and liabilities
- Unremedied loan defaults and breaches of loan agreements
- Transfers between levels of the 'fair value hierarchy' or changes in the classification of financial assets
- Changes in contingent liabilities and contingent assets.

Examples of other disclosures required

- Changes in accounting policies
- Explanation of any seasonality or cyclicality of interim operations
- Unusual items affecting assets, liabilities, equity, net income or cash flows
- Changes in estimates
- Issues, repurchases and repayment of debt and equity securities
- Dividends paid
- Particular segment information (where IFRS 8 Operating Segments applies to the entity)
- Events after the end of the reporting period
- Changes in the composition of the entity, such as business combinations, obtaining or losing control of subsidiaries, restructurings and discontinued operations
- Disclosures about the fair value of financial instruments

Exhibit 2

Examples of Analytical Procedures

- Comparing current interim financial information with anticipated results

- Consider interrelationships of financial and nonfinancial information that are reasonably expected to exist, including information used by the company (e.g., information in a board of directors' package or senior management committee's briefing materials)

- Comparing ratios and indicators for the current interim period with expectations based on prior periods

- Comparing ratios and indicators for the current interim period with those of entities in the same industry.

- Comparing relationships among elements in the current interim financial information with corresponding relationships in the interim financial information of prior periods (e.g., , expense by type as a percentage of sales, assets by type as a percentage of total assets, and percentage of change in sales to percentage of change in receivables).

- Comparing disaggregated data:

  The following are examples of how data may be disaggregated:

  - By period, for example, financial statement items disaggregated into quarterly, monthly, or weekly amounts.

  - By product line or operating segment.

  - By location, for example, subsidiary, division, or branch.

Exhibit 3

Examples of Inquiries required by an auditor

PCAOB AU 722 requires the independent auditor to inquire of members of management who have responsibility for financial and accounting matters about matters concerning:

- Whether the interim financial information has been prepared in conformity with GAAP applied on the same basis as in the financial statements or information for the latest audited period and prior quarters.
- Whether any significant changes in internal control have occurred during the interim period as compared to latest audited period and prior quarters.
- Significant transactions occurring or recognized in the last several days of the interim period.
- Unusual or complex situations that might have an effect on the interim financial information.
- The status of any uncorrected misstatements that were identified during the previous audit and interim review.
- Matters about which questions have arisen in the course of applying the review procedures.
- Events after the date of the interim financial information that could have a material effect on the presentation of the interim financial information.
- Their knowledge of any fraud or suspected fraud affecting the entity involving management, employees who have significant roles in internal control or others where the fraud could have a material effect on the financial statements.
- Whether they are aware of allegations of fraud or suspected fraud affecting the entity (e.g., received in communications from employees, former employees, analysts, regulators, short sellers or others).
- Significant journal entries and other adjustments.
- Communications from regulatory agencies.
- Significant deficiencies or material weaknesses in the design or operation of internal control over financial reporting, which could adversely affect the registrant's ability to initiate, authorize, record, process and report financial data.

Exhibit 4

Examples of Other Procedures required to be performed by an auditor

- Read the entire document that accompanies the interim financial information (e.g., Interim Report in 6-K) to see whether the other information included in the document, or the manner of its presentation, is not materially inconsistent with the interim financial information.

- Read the minutes of meetings of the board of directors, shareholders and important committees of the entity (and its subsidiaries to the extent such exist).
  If minutes are not available, inquire of management about the matters dealt with at the meeting(s).

- Obtain evidence that the interim financial information agrees or reconciles with the accounting records (e.g., trace and agree financial statement amounts to the company's general ledger or other appropriate records).

- Review the work papers or obtain the report(s) of other auditor, if any, who have been engaged to perform a review of the interim financial information of significant components of the reporting entity, its subsidiaries or its other investees.

- Read the interim financial information to consider whether, based on the results of the review procedures performed and other information that has come to the auditor's attention, the interim information to be reported conforms with GAAP and SEC rules and regulations.

Exhibit 5

Illustrative Example of a Review Report

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of

XYZ Ltd.

We have reviewed the accompanying condensed consolidated statements of financial position of XYZ Ltd. and subsidiaries (the "Company") as of June 30, 2015 and the related condensed consolidated statements of profit or loss, condensed consolidated statements of comprehensive income, condensed consolidated statements of changes in equity, and condensed consolidated statements of cash flows for the six months period ended June 30, 2015. These condensed interim consolidated financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the condensed interim consolidated financial statements referred to above for them to be in conformity with International Accounting Standard 34, 'Interim Financial Reporting', as issued by the International Accounting Standards Board as of and for the six months period ended June 30, 2015.

New Delhi, India

July XX, 2015