INTERIM FINANCIAL REPORTING: THEORY AND PRACTICE IN IRELAND

ROBERT KIRK

University of Ulster at Jordanstown

ABSTRACT

The paper investigates the accounting theory and practice in the preparation of interim financial statements with particular reference to the current regulatory framework contained within the Stock Exchange requirements.

Recent developments are discussed including the proposals of the Cadbury Report and the ICAEW consultative document to improve the informational content of these reports.

The main part of the paper investigates current practice in Ireland and outlines the weaknesses in the current system and puts forward a number of recommendations that should be seriously considered by a future standard setting body for incorporation into current practice.

INTRODUCTION

Various studies have been carried out both in the United Kingdom and the United States which have identified the importance of interim financial statements to certain user groups. In the US, for example, Newall (1969) selected a random sample of financial analysts and asked them to indicate on a scale of values how useful they found quarterly statements. Eighty one per cent considered the statements to be 'very useful' or 'quite useful'. Watts and Zimmerman (1986, pp 49-52) observed that interim information was providing relevant and useful information to the average shareholder. Similar research in the UK noted that information provided in interim reports was being applied by institutional shareholders for their investment decision making purposes (Lee and Tweedie, 1981 pp 56-57). Arnold and Mozier (1984) carried out a survey of 505 investment analysts. The results showed that analysts placed the profit and loss account and balance sheet in equal first place in terms of useful information. However, interestingly, interim information came in as high as third in importance, confirming the early study of Lee and Tweedie. The publication of half yearly or interim reports should not, therefore, be viewed merely as an exercise in public relations with a company's shareholders. Interim reports are an important aspect of financial reporting, providing information which is both timely and relevant to users.

It is recognised, however, that much of the information provided in the statements is already available to investment analysts by way of special briefings or by personal contact with the financial directors of listed public limited companies. At their very least, therefore, the publication of interim reports has helped to narrow the gap between the information received by the average shareholder and that by the analyst.

Interim reporting has attracted considerable attention in the last two years particularly since the publication in December 1992 of the Cadbury Report on the Financial Aspects of Corporate Governance. Attention has now been clearly focused in the United Kingdom on both the publication of and auditor involvement in interim reporting. Already, the Institute of Chartered Accountants in England and Wales (ICAEW) have published a consultative paper *Interim financial reporting* (ICAEW, 1993) in order to assist the Accounting Standards Board (ASB) clarify the accounting issues involved in interim reporting. The Auditing Practices Board (APB) has also recently issued guidance on the audit review of interim reports *Review of Interim Financial Information* (APB, 1993) following on from the Cadbury recommendations. Hussey and Woolfe (1994) carried out an extensive survey of 223 distributed interim reports on behalf of the Research Board of the ICAEW to collect evidence on existing practice in Great Britain. This was to provide the launching pad for an extensive review of current regulations and to identify possible changes which might be implemented in practice to improve the quality of current interim reporting.

This paper sets out to investigate whether or not the current regulatory environment in Ireland is being complied with and if Irish listed companies are supplying any additional information over and above current Stock Exchange regulations. Comparisons are made with other countries throughout the paper and the problems of interim reporting are examined through a survey carried out on a sample of interim reports from 45 listed companies in Ireland. A number of recommendations are made at the end of the paper as possible suggestions to improve the current reporting environment. The paper, however, assumes from the outset that the production of these reports does provide useful and relevant information to the user.

THE CURRENT REGULATORY ENVIRONMENT

Although research has clearly highlighted the importance of interim financial reports to users, the current informational content and detail of disclosure is surprisingly light in practice.

The requirement to publish interim financial statements was not formalised until the advent of the London Stock Exchange's *Admission of Securities to Listing* (the Yellow Book) issued in 1964. A number of companies, notably ICI Plc, had, however, been publishing interim reports voluntarily for some years prior to 1964.

The present reporting requirements which have emerged from the initial Stock Exchange rules have largely concentrated on providing summarised profit and loss account data. In addition, comparative figures for the corresponding half year and an explanatory statement are also required.

The report must either be circulated to all shareholders or else inserted as a paid advertisement in two leading daily newspapers (since 1 December 1993, only one is required) no later than 120 (Great Britain) or 180 (Republic of Ireland) days after the end of the period to which it relates.

The explanatory statement should relate to the group's activities and profit or loss for the period and should also include sufficient information to make an informed investor aware of the trends for the period together with details of any special factors which might have influenced the period in question. It should also refer to the group's prospects and enable a comparison to be made with the corresponding period of the preceding financial year.

There are no regulations in relation to providing an audit opinion and in nearly all cases no audit has been carried out. That fact, however, should be disclosed in the interim report.

At present there are no accounting standards on interim reporting although it was on the agenda of the old Accounting Standards Committee (ASC) for some years. There is also very little mentioned in the Companies Act except in relation to what is legally permitted to be distributed.

The current reporting environment is likely to change in the near future with the publication of the Cadbury Committee Report *The Financial Aspects of Corporate Governance* (Cadbury, 1992). It makes four specific recommendations for interim reports (section 4.56):

- Balance sheet information should be included with the interim report and the report should be reviewed by the auditors
- The Stock Exchange's continuing obligations should be amended to include the details in the point above and the APB asked to develop appropriate review guidance
- The ASB in conjunction with the Stock Exchange should clarify the accounting principles which companies should adopt in their preparation of interim reports
- Cash flow information should be seriously considered for inclusion at a later stage in the report.

The rationale behind these proposals is the need for greater 'glasnost' or openness on the part of directors of listed companies about the financial performance of their companies. Cadbury (1992) took the view that the existing half yearly statements were the appropriate vehicle for achieving these objectives and they felt that an extension towards quarterly reporting (as in the USA and Canada) was unlikely to be cost effective.

The ICAEW's consultative document (1993) has proposed a substantial increase in the level of disclosure. Apart from summarised profit and loss, balance sheet and cash flow data, the document recommends the separate disclosure of discontinued activities, three exceptional items (per FRS 3) and the Statement of Total Recognised Gains and Losses (STRGL). In addition, there is a requirement to disclose earnings per share and segment information as well as a narrative explanation of the main operating, investing and financing activities.

THE SURVEY

A survey was carried out in Ireland of all public limited companies listed on both the Dublin and Belfast Stock Exchanges. A response rate of 38% was achieved and 45 usable reports from those exchanges formed the basis for the results. The interim statements chosen were those published and distributed for periods ending during 1992 and 1993. No companies were chosen that simply provided their information in newspapers as it was felt that this medium provided minimum useful information to the investor. It is difficult to determine whether or not they are really publishing relevant financial information to their users or simply attempting an alternative form of advertising.

The presentation of these interim statements varied greatly from letter headed paper (seven companies) to single folded cards (31 companies) and short booklets (seven companies). The latter form of presentation usually provided the most in depth coverage for the reader.

The cards and booklets were provided on an A5 (33 companies) or B5 format (two companies). The letter headed reports and one booklet were published mainly on A4 sized paper (six companies). The other four companies produced varied sizes of report.

All but one of the companies in the survey published half yearly or six monthly reports. (Lyons Irish Holdings Plc reported a 28 week period).

Table 1 summarises the main contents of Irish interim reports. The table reveals high compliance with the mandatory Stock Exchange requirements of providing an explanatory statement on the group's activities for the period (Chairman's Statement) and with the profit and loss account data. Additional voluntary information on extracts from the balance sheet, segment reporting and financial highlights are provided by a minority of companies.

Table 1: The Contents of Interim Reports

	Number	%
* Chairman's statement (table 5)	41	91
* Profit and loss disclosures (table 2)	45	100
Balance sheet extracts	14	31
Segment information	6	13
Notes to the interim financial statements (table 4)	20	44
List of directors/executives	7	16
List of principal locations	3	7
List of principal products/services	1	2
List of principal subsidiaries/related cos	3	7
Financial highlights (1 company also in graphics)	5	11
Audit review	2	4
Environmental statement	1	2
Directors responsibility statement	1	2
* Mandatory disclosure		

Table 2 specifically investigates the profit and loss account data required under the regulations and again reveals a high level of compliance with the mandatory data. Only extraordinary items and minority interests reveal a low incidence of disclosure and this can probably be explained by their

non-applicability in those situations. Additional information was mainly provided by companies in the form of extracts from the audited set of financial statements for the previous year.

Table 2: Profit and loss disclosures

	Number	%
* Turnover	40	89
* Exceptional/Extraordinary items	22	49
* Profits/losses before taxation	44	98
* Taxation	43	96
* Interim dividends	31	69
* Retained profit	29	64
* Earnings per share per SSAP 6/FRS 3	44	98
alternative basis	6	13
Dividends per share	15	33
* Minority interests	19	42
Interest payable	26	58
* Comparable information for the same period in the previous year	44	98
Extracts from the audited set of accounts for the previous year	33	73

* Mandatory disclosure

PROBLEMS REVEALED WITH INTERIM REPORTING

Most of the problems associated with interim reporting can be equally applied to annual financial reports. There are, however, a number of peculiar problems associated solely with interim statements and these are discussed below in the context of the survey findings.

Publication Period

The publication of interim reports is only relevant if they are timely and one of the problems that shareholders have faced is the length of time that companies take to provide this information. In the Republic of Ireland, the required maximum period is 180 days after the end of the period of the accounts and in Northern Ireland 120 days. The Canadian Institute of Chartered Accountants Research Report (1991, p 4) noted that in the United States and Canada quarterly reports are required within 45 and

60 days respectively and in Australia, South Africa and Japan half yearly information is required within 90 days.

International comparison suggests that there is a long publication lag in these islands and therefore a need to tighten up the length of the period permitted. In the survey, **Table 3** reveals that the average period actually adopted in practice for the 45 companies was just over 101 days, and 31 companies (69%) were able to publish their reports within 90 days. This is in line with Hussey and Woolfe's 1994 survey (71.7%) in Great Britain so it should not pose too many problems to achieve a reduction in this maximum to 90 days.

Table 3: Time period between the date of publication of the Interim Report and the period end

	Number	%
Under 30 days	1	2
Between 31 and 60 days	14	31
Between 61 and 90 days	16	36
Between 91 and 120 days	9	20
Over 120 days	2	4
No date of publication of interim report provided	3	7
TOTAL	**45**	**100**

The Discrete and Integral Approaches to Reporting

At present one of the most intractable problems in interim reporting is the decision as to which set of basic principles should be adopted in their preparation. Two distinct methods have emerged in practice: the 'discrete' and the 'integral' approaches. The decision hinges on what the primary purpose of a set of interim accounts is. Fried and Livnat (1981) argue that proponents of the integral method believe that it is to aid users in forecasting the future with an emphasis on estimating annual results. The reports should therefore be affected by expectations of annual operations. On the other hand they argue that proponents of the discrete method believe that users are interested in the actual realisation of the interim period itself in order to monitor managerial performance during that particular period. The alternative integral method would tend to smooth out key turning points and short term fluctuations thus obscuring vital information from investors and other users. The Accounting Principles Board (APB) in the United States (AICPA, 1973) identified particular difficulties in determining the results of an interim period:

- Seasonal fluctuations of revenue
- Heavy fixed costs occurring in some periods
- Exceptional incomes/expenses which occur at infrequent intervals during the year but which relate to a full year and must be allocated to interim periods
- Limited time available to complete the financial statements leading to greater estimation and possible distortions.

Either the discrete or the integral approach or a combination of both can be adopted to account for these difficulties. The 'discrete' approach regards the interim period as a separate, discrete, self-contained accounting period. It attempts to match the costs and revenues of each period in so far as these are known at the end of that period. Shrives (1989) has described it as the 'tell it as it is' approach. For example, an exceptional or extraordinary profit or loss would be recorded in that period in full and it would not be spread between the two half years. A narrative explanation would, however, be required to explain any major seasonal variations.

The 'integral' method, on the other hand, regards each interim period as part of a longer annual period and therefore allocates costs and revenues on a proportional basis to each half year based on the anticipated total costs and revenues for that full year. This means that estimates have to be made for the full year and these can be very subjective and any inaccuracies therein will be magnified in importance when reduced to the scale of the interim period figures. Lunt (1979) has described it as the 'part of the year' approach and it has been argued by Lunt and others that this is the preferable basis of accounting because it gives investors a better indication on which to predict performance for the whole year. However, it does involve predictions such as estimating the total tax charge for the full year and the splitting up of exceptional/extraordinary items into their appropriate half years, amongst others.

Shaw (1981) provided a more complex example of the differences between the two techniques. He supplied a hypothetical example of a company which incurs regular, fixed costs to ensure the provision of plant and machinery which is hired out to customers and generates irregular income. Under the discrete method the costs are apportioned on a time basis over the interim periods. Set against the irregular income, this results in different earnings being reported in the two interim periods, with the second period being the highest in his example. Using the integral method the fixed costs are allocated according to the machine hours worked. The reported earnings on this basis are highest in the first period but it does result in a smoother result across the two periods.

The main criticism levelled at the discrete method is that it is a poor forecaster of future periods and the results can fluctuate dramatically from period to period. On the other hand, under the integral approach, the interim statements are prepared with the annual results in mind, thus requiring an estimate to be made of the expected annual results before they can be apportioned or allocated. In the above example, this would be on the basis of total expected machine hours. Therefore, they must be based on management's predictions and as a result could be very subjective. The integral approach can also lead to artificial smoothing for an interim period giving a false impression of the performance for that period.

Courtis (1987) argues that despite the criticisms against the discrete approach it can be very useful in aiding the prediction of future periods. As income for each period is determined independently of any other period, the historical record of events (unadjusted for seasonal factors) can be used to predict future periods. Fried and Livnat (1981, p 509) compared the three alternatives, that is integral, discrete and some combination of the two in terms of potential benefit to be derived from their use. They found that the rankings for the different accounting methods for the various objectives of interim reporting depended to a great degree on the 'nature of the environment and the specific conditions of uncertainty and correlations of the periodic cash flows'. The combination method was ranked below both the discrete and integral methods but there was no clear winner in relation to the other two. Fried and Livnat argued that the accounting principles for interim reporting should not be set uniformly across all industries. Rather the conditions prevailing in a given industry should be determined first (perhaps empirically) before the method of accounting is selected. They also noted that the combination method was dramatically improved if users were made aware of which aspects of the statement were prepared under the discrete and which under the integral methods. Schiff (1978) found in his study that preparers in the United States actually preferred a combination approach to the official APB Opinion 28 which favours the integral approach.

None of the companies in the survey disclosed the underlying approach in their preparation but in some cases it was possible to identify that probably the discrete approach was being adopted. Arnotts Plc, for example, disclosed the fact that their tax charge was an estimate, presumably based on the profits to date at 40%.

The ASB needs to develop some guidance as to the most appropriate basis to adopt if any consistency is to be achieved in interim reporting and to ensure that companies disclose their particular adopted principle in the notes to the accounts.

The ICAEW consultative paper favours the 'discrete approach' arguing that it fits better with the ASB's draft principles, especially in relation to the definition of the key elements of assets and liabilities, identified in chapter three of the *Statement of Principles* (ASB, 1991).

Lack of a Formal Audit

A third major problem at present is the fact that the vast majority of these reports are unaudited and do not legally require an audit. They therefore possibly lack the authority and hence the credibility which annual reports are presumed to possess. Hussey and Woolfe (1994) argue that there are substantial arguments against the introduction of a formal audit and these include the cost, possible increased delays in reporting and the fear of extending auditors' liability. Also, it would be important for the auditing professions viewpoint that the principles in their preparation be standardised first. *The Cadbury Report* (1992) did recommend a review process to be set up but this will require considerable thought as to its precise format before any guidelines can be published. The APB have already set up a working party to investigate the possibility of enforcing this process.

One of the difficulties will be to decide what form an audit report/review should take. Should it be a full audit report or simply a review of its preparation? Should any assurance given be positive or is a negative assurance adequate? In addition to these problems, should the audit report/review be addressed to the shareholders or to the directors of the company or even perhaps to an audit committee?

In the survey, Irish Life Plc and Woodchester Investments Plc were the only two companies to publish an audit review. In both cases the auditors reviewed the process of preparation of interim reports and ensured that they were prepared after adopting accounting policies consistent with those in the statutory annual financial statements. Both reviews had a negative assurance, that is, there did not appear to be anything wrong with their preparation and both were addressed to the shareholders. In addition, Woodchester also presented a 'Directors' Responsibility For Financial Reporting Statement' outlining the overall responsibility that directors have in the preparation of financial statements. Hussey and Woolfe (1994) found that the auditors were only involved in 2% out of their sample of

223 companies and in only one case was a full audit report provided.

An independent audit review would provide a check on directors who presently have a fairly wide scope within which the interim statements could be manipulated particularly when there are many more subjective estimates to be made than would normally be required for the annual report. Certainly if an audit has not been carried out this fact should be clearly stated in the report. Evidence from the survey would suggest that most companies (93%) do record that fact by stating this either at the top of their profit and loss account or in the accompanying notes to the accounts (see **Table 5** on page 15) . It would also help if the directors were to record a "health warning" in the notes to the effect that the accounts do not represent a normal full set of financial statements but instead are an abridged or summarised version.

SEGMENTAL REPORTING

In the survey, seven companies (16%) provided information about their business segments and two other companies information about their geographical performance. This was fairly limited in some instances. Boxmore International Plc merely disclosed the breakdown of their turnover figures between the United Kingdom/Ireland and Continental Europe whereas Jefferson Smurfit Plc disclosed turnover and profit before interest and taxation for their four geographical segments. Avonmore Foods Plc and Greencore Plc were prepared to disclose both turnover and operating profit for their three main business segments and Avonmore , in addition, disclosed their share of their associates operating profits. It is interesting to note that Hussey and Woolfe (1994) uncovered a 39% response to the provision of segment information in their survey. Using the Mann Whitney test, they also provided strong evidence associating the provision of segmental information with the size of the company as measured by turnover. This is probably because larger companies would tend to diversify more both in geographical and class of business terms.

Although these changes are an improvement there is a need for guidance as to which aspects of SSAP 25 *Segmental Reporting* would be of most interest to users in an interim report.

BALANCE SHEET INFORMATION

The Cadbury Report (1992) recommended that some information on this document be made mandatory for interim statements. Only 14 Irish companies (31%) were prepared to circulate this information. However, this compares favourably with the Hussey and Woolfe (1994) survey (21%). In some cases this has resulted in the publication of a full balance sheet under the Companies Act formats (for example, European Leisure Plc and Greencore Plc), and in others a summarised version (for example, CRH Plc and Woodchester Investments Plc). Jefferson Smurfit Plc merely stated the following for their 1992 report:

Jefferson Smurfit Plc
Interim Report Half Year to 31st July 1992

BALANCE SHEET

As noted, our balance sheet is very strong. While we do not publish a balance sheet at the interim stage, the key elements are as follows:

	31st January 1992	31st July 1992
	£IRM	£IRM
Cash and short term investments	919	918
Bank debt	680	695
Group shareholders funds	897	912
Net assets per share	*£3.65*	*£3.75*

However, this was subsequently dropped from the July 1993 interim report. There is, therefore, a need to codify whether or not a full balance sheet should be provided or whether key financial data such as that provided above by Jefferson Smurfit Plc in 1992 is adequate for interim purposes.

CASH FLOW DETAILS

Despite the fact that Financial Reporting Standard 1 (FRS 1) on *Cash Flow Statements* was only published in 1991, there is a dearth of cash flow information provided in current interim reports.

A cash flow statement was provided by only one company in the survey (Aran Energy Plc) and only five others (11%), mentioned cash flow in the Chairman's Statement. This is in line with the Hussey and Woolfe survey where only 3.6% provided any form of cash flow information. For the five that did reveal some information, in all cases only bland references were made to the company's or the group's strong financial position or to having an adequate financial base from which to provide for future recovery and growth. One company, Printech International Plc, did note in their statement that they 'had net cash balances of IR £1.1 million after capital expenditure during the six months to 30th June of IR £1.3 million.' Cadbury (1992) has made one of its long term priorities that of including some cash flow information in the interim statements. It should be noted, however, that the USA and Canada at present merely encourage the presentation of cash flow information but it is not mandatory.

FRS 3 NEW PRIMARY STATEMENTS

The ICAEW consultative paper recommends the inclusion of a Statement of Total Recognised Gains and Losses (STRGL) but no mention is made of either the Reconciliation of Movements in Shareholders Funds or the Note of Historical Cost Profits and Losses. FRS 3, however, requires disclosure of only the STRGL in the annual report as a primary statement.

Two of the interim reports in the survey issued late in 1993 have incorporated the STRGL: Allied Irish Banks Plc and Woodchester Investments Plc. Both companies, together with the Grafton Group Plc, have presented, in addition, a Movement in Shareholders' Funds Statement.

No mention has been made at all of the Note of Historical Cost Profits and Losses Statement.

NOTES TO THE INTERIM REPORT

Support for detailed note disclosure is not mentioned in the consultative paper but there is a need to find out what would be regarded as sufficient information for a user to properly interpret the interim financial statements. Only 31 companies (69%) provided any form of note disclosure in the survey and of those the average number of notes provided was only 3.4 per company (**Table 4**).

The main note provided was an explanation of how the earnings per share figure was derived (20 companies - 65%) with two companies, Lamont Holdings Plc and Ardagh Plc providing two versions, one before and the other after exceptional items in line with the ICAEW recommendations. In addition, the Irish Continental Group Plc prepared

Table 4: Notes to the Interim Financial Statements

	Number	%
Companies providing notes	31	69
Companies not providing notes	14	31
		100
Average number of notes per company	3.4	
Calculation of earnings/loss per share	20	65
Statement that the accounts are unaudited	12	39
Statement that the previous years figures are extracts from the audited accounts	12	39
Details of posting to shareholders, report availability at the company registrar's office etc	11	35
Details of exceptional/extraordinary items	3	10
Segment reporting information	7	23
Details of turnover	2	6
Details of interim dividend	7	23
Note on implementation of new policies/standards	6	20
Other miscellaneous notes	27	87

one version under the new FRS 3 rules and an alternative under the old SSAP 6 rules.

Twelve companies note that the accounts were unaudited and the same number that their comparative figures for last year were an abridged version of full sets of audited accounts.

Of the remaining notes, 11 provided details of where to obtain copies of the interim report, details of its announced release date and when it was posted to shareholders.

One of the surprising results of the survey was that only seven companies mentioned interim dividends and six specific accounting policies. Changes in accounting policies were reasonably well covered by companies in the survey, for example:

- Powerscreen International Plc noted a change in accounting policy on research and development during the year
- Dwyer Plc had a note to the effect that FRS 3 would be implemented in the full year's accounts
- Jefferson Smurfit Plc stated that they had applied US Financial

Accounting Standard No. 106

- Silvermines Group Plc had applied Urgent Issues Task Force Abstract No. 3
- Lamont Holdings Plc and AIB had adopted Financial Reporting Standard No. 3.

In general, however, there was a scarcity of information on the underlying principles of preparation of the reports and on disclosing the major accounting policies that would normally be revealed in the annual report.

CHAIRMAN'S STATEMENT:

The Stock Exchange's requirements in the Yellow Book are fairly general in terms of the contents of an explanatory statement. Their needs broadly cover the following:

- A narrative discussion about the group's activities and profit or loss for the period
- Any special factors that might influence the period in question.
- Future prospects
- A comparison with the corresponding period in the previous year.

The survey (**Table 5**) indicates that in terms of the review of operations, 42 companies (93%) provided narrative comments on the performance for the year. Comparatives were also provided by all but nine of the same companies for the corresponding period in the previous year. Some 36 companies also provided a full year's information for the previous year to help the user assess the year's performance to date. Only three

Table 5 Chairman's Statement

	Number	%
Narrative review of the operations for the period	42	93
Discussion about comparative results	36	80
Details of interim dividend payments	32	71
Discussion about future prospects	37	82
Statement that the accounts are not audited (in profit and loss or chairman's report)	42	93
Details of changes in the board of directors	6	13
Corporate governance	2	4
Environmental information	2	4
Other	1	2

companies did not provide any form of review for the period.

Special factors are harder to analyse due to their unique nature but most of the companies in the survey were prepared to describe unusual features such as: 'the store has undergone major renovations which will be completed by October', and 'with the extraordinary high interest rates which prevailed in Ireland for most of the six months, borrowers delayed investment projects.'

A large majority of companies in the survey (81%) were prepared to discuss future prospects in the statement. However, those companies who did disclose this information usually did so by providing fairly bland information under such headings as 'outlook', 'the future', 'prospects'. Hussey and Woolfe (1994) noted similar results in their survey and the fact that 70% had either provided no information at all or information which was fairly ambiguous. In this survey, one of the best and most detailed was that provided by the Jones Group Plc:

Jones Group Plc

CHAIRMAN'S STATEMENT (EXTRACTS)

Interim Report for the half year ended 30 June 1992

Outlook
A substantial element of the Group's income is in dollars and sterling. Recent fluctuations in those currencies against the Irish Pound will not affect the results for the year because both have been sold forward since earlier in the year.

Manufacturing
No improvement in the UK market is expected in the second half of the year and the Irish market will continue at its present level. Despite this, the Division's performance for the second six months should show a marginal improvement over the results for the first half of the year.

Shipping
The third quarter has maintained the improvement shown in the first half but the world shipping market has become increasingly depressed. Three of the Division's six vessels will be operating on a spot market which continues to decline and the division may not achieve much above a break-even result for the last quarter.

Distribution
A tight control over costs and rigid monitoring of debts will enable earnings for the full year to be sustained at the level achieved in the first half of the year.

Engineering
The Engineering Division traditionally achieves higher earnings in the second half of the year and this should be the case in the current year. The Division is engaged on a number of major industrial projects which will continue into next year.

The Group's response to current economic conditions will be to continue to minimise costs and to reorganise its activities with a view to focusing on those areas where earnings are sustainable and which offer expansion opportunities in the medium term. Its overriding objective is the reestablishment of earnings per share growth. The performance of the remaining Divisions in the Group in the current climate, and the strength of its Balance Sheet, in which gearing should not exceed 10% at year end, should provide a sound base from which to do this.

Although not required by the Stock Exchange the Chairman's Statement was also the focal point at which the company announced its interim dividend. Other voluntary information disclosed in this section of the report included reference to the recent debate on corporate governance (two companies) and details of changes in directors during the course of the period (six companies). Only two companies, Boxmore International Plc and Jefferson Smurfit Plc made any reference to environmental issues.

CONCLUSION AND RECOMMENDATIONS

The development of the interim report has largely been ignored over the last fifteen years. This has largely been caused by the ASB and its precedessor the ASC being under considerable pressure to concentrate their efforts on improving financial reporting at the annual report stage. With the advent of a new standard setting regime in 1990 and the publicity given to interim reports since the publication of the Cadbury Report (1992) it would seem to be the opportune time to further develop the topic, particularly as both academic and professional research has outlined its major importance to users for decision making purposes.

From the survey work carried out in Ireland and largely confirmed by the findings of Hussey and Woolfe (1994) in the United kingdom there are a number of proposals and recommendations that should be carefully considered by a future standards setting body such as the ASB when designing an accounting standard on this topic:

(1) Method of Preparation
The ASB should carefully formulate the objectives of the report. Are the reports to be perceived as reporting on a specific six month accounting period or as part of an overall annual result? Once this question has been resolved then the decision as to the discrete versus integral approaches will have largely been clarified.

From the earlier discussion, the author believes that preference should be given to the discrete method and that this policy choice should be disclosed in the notes to the accounts.

However, it should be noted that, in international reporting, there is no consensus at this point in time as to the correct approach. As previously mentioned, the USA, for example, has adopted the integral method (although for practical purposes it permits a combination) whereas Canada and Australia have opted for the discrete method of reporting.

(2) Filing and Period of Reporting
There are no standard guidelines as to what should constitute an interim reporting period but what has evolved in practice is a six monthly report. It is recommended that, unless there are good reasons to the contrary, companies should all produce a standard six monthly interim report.

It is unlikely that companies are yet in the position of producing quarterly reports in the United Kingdom and Ireland and there are also considerable doubts as to whether the additional costs of publication are in fact outweighed by additional benefits to the user. Further research would need to be carried out before an extension would be recommended.

The reports, however, should be filed at Companies Office as it would give non-shareholders the opportunity of more fully investigating those companies.

(3) The Auditing of Interim Reports
There is a need to produce guidelines for a limited audit review of what is extremely sensitive information and the auditor should, as a minimum, be prepared to give an opinion as to whether or not the preparation of the statements have been carried out in a reasonable and consistent manner

and whether appropriate accounting policies have been followed.

A decision also must be made as to the exact form this review would take but it would seem reasonable to expect at least a negative assurance that in the auditors' opinion they are not aware of anything untoward in the preparation of those statements and that they have been prepared after adopting the same accounting policies as used in the annual report.

A full audit would be unlikely to be envisaged as its cost would be prohibitive and it is doubtful whether or not the benefits would be sufficient to warrant the additional expenditure in providing the information. This process has already commenced with the Auditing Practices Board's bulletin *Review of Interim Financial Information* (1993).

(4) Disclosure

The ASB in consultation with the Stock Exchange should produce an accounting standard which would enlarge the information currently required by the Yellow Book. Reporting would be improved by the introduction of the following:

(i) Balance sheet information – either a full format balance sheet or a selection of key extracts

(ii) Cash flow statements – either a full FRS 1 document or key headings from the statement

(iii) Notes to the accounts – there is a need to disclose the key principles and accounting policies adopted in preparing the statements

(iv) As part of **(iii)**, some information should be provided on segment performance

(v) Disclosure of the full previous year's figures for comparison purposes

(vi) Some form of standardised Chairman's Statement or Review of Performance should be devised. This could be achieved by introducing standard headings. Already work on this area has been carried out by the ASB for annual reporting purposes in the Best Practice Statement on the *Operating and Financial Review* and this could possibly be tied in with the interim reporting project.

The accounting profession has expended enormous resources over the last twenty years in trying to solve the problems inherent in annual reporting. Once the major issues have been resolved it should be a priority of the ASB to improve the interim document.

In the fast moving world of the 1990s, shareholders and other users of accounts need information quickly and the interim report is one means of obtaining that information. As Cadbury (1992) states:

> The lifeblood of markets is information and barriers to the flow of relevant information represent imperfections in the market. The need to sift and correct the information put out by companies adds cost and uncertainty to the market's pricing function. The more the activities of companies are transparent, the more accurately will their securities be valued.

REFERENCES

Accounting Standards Board (1991). Exposure Draft (SP), Chapter III, *The Elements of Financial Statements*, ASB.

American Institute of Certified Public Accountants (1973). *Interim Financial Reporting*, APB Opinion No. 28, AICPA.

Arnold, J. and Moizer, P. (1984). 'A Survey of The Methods Used By Investment Analysts To Appraise Investments In Ordinary Shares', *Accounting and Business Research*, Summer, pp.195-207.

Auditing Practices Board, (1993). *Review of Interim Financial Information*, CCAB Ltd.

Cadbury Report (1992). *Report of the Committee on the Financial Aspects of Corporate Governance*, Gee and Co Ltd.

Canadian Institute of Chartered Accountants, (1991). *Interim Financial Reporting: A Continuous Process.*

Courtis, J.K. (1987). 'Interim Reporting Issues and Uncertainty Reduction', *British Accounting Review,* April, pp.3-16.

Fried, D. and Livnat, J (1981). 'Interim Statements: An Analytical Examination Of Alternative Accounting Techniques', *The Accounting Review,* pp.493-509.

Hussey, R. and Woolfe, S. (1994). *Interim Statements and Preliminary Profit Announcements*, The Research Board, ICAEW.

ICAEW Financial Reporting Committee, (1993). *Interim Financial Reports – a consultative paper*, ICAEW.

Lee, T.A. and Tweedie, D., (1981). *The Institutional Investor and Financial Information*, ICAEW.

Lunt, H., (1979). 'Interim Reports – the poor relation?' *Accountancy*, pp.95-99.

Newall, G.E., (1969). 'Is Quarterly Financial Data Adequate For Investment Decision Making?' *Financial Analysts Journal*, November/December.

Schiff, M. (1978). *Accounting Reporting Problems – Interim Financial Statements,* Financial Executives Research Foundation.

Shaw J.C. (1981). 'Interim Financial Statements', in Lee T.A. (Ed)

Developments in Financial Reporting, Philip Allan.
Shrives, P., (1989). 'Interim Reports: a review', *Management Accounting*, pp. 43-49.
Watts, R.L. and Zimmerman, J.L., (1986). *Positive Accounting Theory,* Prentice Hall International.