



CA
PAKISTAN

Topic wise Selected Opinions

IAS 34 - Interim Financial Reporting

1. Consolidation of Interim Financial Statements

Enquiry:

I request the kind advice/opinion of the Technical Committee on “whether the interim financial statements require consolidated statements”. I hereby give briefly some facts/extracts that may be helpful for the Technical Committee in forming the opinion.

Section 237(1) of the Companies Ordinance, 1984 states:

There shall be **attached** to the financial statements of a holding company having a subsidiary or subsidiaries, **at the end of the financial year** at which the holding company’s financial statement are made out, consolidated financial statements of the group presented as those of a single enterprise and such consolidated financial statements shall comply with the disclosure requirement of the Fourth Schedule and International Accounting Standards notified under sub-section (3) of section 234.

Section 245(1)(a) of the Companies Ordinance, 1984 states:

Every listed company shall within one month of the close of the first, second and third quarter of its year of account, prepare and transmit to the members and the stock exchange in which the shares of the company are listed a profit and loss account for, and balance sheet as at the end of, that quarter whether audited or otherwise;

Section 234(3) of the Companies Ordinance, 1984 states:

Subject to the provisions of this Ordinance –

- (i) Such International Accounting Standards and other Standards shall be followed in regard to the accounts and preparation of the balance sheet and profit and loss account as are notified for the purpose in the official Gazette by the Commission.

Paragraph 14 of the International Accounting Standard – 34 (Interim Financial Reporting) states:

An interim financial report is prepared on a consolidated basis **if the enterprise’s most recent financial annual financial statements were consolidated statements**. The parent’s separate financial statements are not consistent or comparable with the consolidated statements in the most recent annual financial report. **If an enterprise’s annual financial report included the parent’s separate financial statements in addition to consolidated financial statements**, this Standard neither requires nor prohibits the inclusion of the parent’s separate statements in the enterprise’s interim financial report.

Limited Scope Review of Consolidated Financial Statements by the Statutory Auditors

Clause (xxi) of the Code of Corporate Governance requires that all listed companies shall ensure that half-yearly financial statements are subjected to a limited scope review by the statutory auditors.

Discussion:

- As per the Companies Ordinance, 1984 consolidated financial statements are required to be prepared and attached to the entity’s separate financial statements on yearly basis.
- As per the Companies Ordinance, 1984 the quarterly financial statements do not require attachment of consolidated financial statements.

- As per IAS-34, interim financial statements are required to be consolidated if the recent financial statements are consolidated.
- Recent financial statements of all the listed companies are consolidated and attached to the individual / separate financial statements of those companies only to comply with the requirement of Section 237 of the Companies Ordinance, 1984.
- IAS-34 refers to the countries in which only consolidated financial statements are prepared and separate financial statements may not be required to be attached separately. However, in Pakistan separate financial statements are prepared and consolidated financial statements are attached which is a statutory requirement.
- Statutory auditors are not required to review the yearly accounts

In the light of above discussion, it is very clear that the consolidated accounts are required under IAS-34 only and especially for those entities whose recent financial statements are consolidated and separate financial statements are attached. However, in Pakistan the separate financial statements are a requirement along with the Consolidated Statements on yearly basis to be attached. Therefore, the quarterly consolidated accounts should not be mandatory.

Further, I would also like to draw your kind attention to the fact that the opinion states “the consolidated interim financial report is required to be issued to comply with the Companies Ordinance, 1984 (Ordinance)” which is not the case as the Ordinance requires consolidated financial statements to be attached with annual financial statements and regarding the quarterly report the Ordinance is silent.

Therefore, I once again request the Technical Committee to review and form an opinion on the basis of national regulatory requirements and reporting environment.

To take this opportunity, I would also like to mention, which is in your knowledge as well, that all reporting to the Securities and Exchange Commission of Pakistan, Central Board of Review, credit rating agency, banks and financial institutions is made on the separate account basis and not the consolidated basis. Therefore, publishing of consolidated account only for the sake of compliance to the IAS-34 does not serve any purpose as well as it results in cost to the stakeholders and consume effective time of the senior management.

Opinion:

The Committee appreciates your concern and would like to inform you that once an accounting standard is notified by SECP, its compliance is as mandatory as any of the provisions of Companies Ordinance and therefore there is no way out to do away with the requirements of IAS 34.

The Committee would also like to draw your attention to its following opinion given at No.2.3 of Selected Opinions Volume VIII: -

The appropriate Committee of the Institute has examined your above points raised in connection with the preparation, review and circulation of half-yearly financial statements and would like to point out that the whole spectrum of corporate laws governing the functioning of corporate sector comprises of the Companies Ordinance, 1984, Rules framed there-under, circulars and notifications issued by the SECP from time to time and the Listing Regulations of the three Stock Exchanges. All these laws and regulations supplement each other and cannot be taken in isolation.

In the light of the above the Committee is of the view that its opinion (Selected Opinion No. 1.14 of Volume V) is appropriate and does not need any amendment.

(January 3, 2004)