

# Exploring the Intersection of Auditing and Interim Financial Reporting for Governmental and Not-for-Profit Entities in USA: Potentials for Internal Auditors

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## Abstract

The Governmental Accounting Standards Board's Codification Section 2900-Interim Financial Reporting provides guidance for interim financial information for governmental entities. With a growing need for transparency and real-time financial insights, the role of internal auditors in reviewing and enhancing the reliability of interim reports becomes increasingly significant. This article explores the intersection of auditing and interim financial reports. It highlights existing guidance, emerging opportunities, and challenges for internal auditors and proposes a framework for integrating internal audit functions into the interim reporting process to enhance governance, risk management, and compliance.

## Keywords

Internal Auditing, Interim Financial Reporting, Reporting Standards, Governmental Entities, Not for Profit Entities

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## 1. Introduction

In recent times, the financial environment is generally fast-paced, stakeholders demand timely and accurate financial information to make informed decisions. Interim financial reports (IFRs), typically issued quarterly or semi-annually, serve this need by providing a snapshot of a company's financial health between annual reporting periods. This is the same scenario faced by many governmental and not-for-profit entities. However, the condensed nature and limited scope of these reports can raise concerns about their reliability. IFRs are typically unaudited finan-

cial statements principally for internal use, covering a period less than the entity's fiscal year. Unlike annual reports, IFRs provide an almost real-time update on entity performance. In practice, interim financial reports include statements that show the entity's current financial position and compare the data with budgeted estimates. Interim financial reporting serves as a critical tool for stakeholders seeking up-to-date financial information.

Traditionally, external auditors have focused on year-end audits, while internal auditors have concentrated on operational and compliance audits. However, the evolving regulatory landscape and stakeholder expectations are pushing internal auditors to engage more actively in the interim reporting process. This is because the sharp rise in public company auditor oversight may disproportionately benefit annual reports given the fiscal year-centric nature of audits (Boyle, Lewis-Western, & Seidel, 2021). In fact, from the perspective of the Security and Exchange Commission (SEC), there is a strong argument that the SEC's 2000 timely review requirements improve quarterly financial reporting (Dee, Lulseged, & Zhang, 2021).

On the governmental and not for profit perspective, due to its associated time constraints, IFRs often use estimates and conditional data, which can increase the risk of errors, misstatements, even unrealistic assumptions. Thus, making the role of auditors even more crucial in ensuring that the while the statements are interim, they capture the financial realities on ground as much as feasible. To this end, one can argue that the current practice, the underlying assumptions, and operational definition that interim financial reports are unaudited may not be sustainable in the long term.

Although the purpose is to offer some direction on the preparation and presentation of interim financial reports by state and local governments, it only applies to those governmental entities that either choose or are required by regulation to issue IFRs. Since interim reports are designed for internal use, one can argue for an increased internal auditing role as entities compile IFRs. This will align directly with the GASB Codification Section 2900 position that internal interim reports are evaluated by their "relevance and usefulness for purposes of management control, which include planning future operations as well as evaluating current financial status and results to date" (section 104).

## **2. Governmental Accounting Standards Board (GASB) Codification Section 2900: Antecedents and Current Improvements.**

Within the purview of governmental accounting, the Governmental Accounting Standards Board (GASB) Codification Section 2900 state that:

Appropriate interim financial statements and reports on financial position, operating results, and other pertinent information should be prepared to facilitate management control of financial operations, legislative oversight, and, where necessary or desired, for external reporting purposes. (Interim Financial Reporting)

GASB Codification Section 2900 describes principles and requirements for IFRs

in governmental entities. Although the section itself has not undergone major specific modifications recently, it is closely tied to broader improvements in the financial reporting model approved by GASB in April 2024. For example, GASB Statement Number 103-Financial Reporting Model (GASB, 2024) provides some amendments to include:

- Enhanced clarity and consistency in interim and annual financial statements.
- Refinements to Management’s Discussion and Analysis (MD&A) to better align with interim disclosures.
- Stronger emphasis on timeliness and transparency, which directly supports the goals of interim reporting.

While specific financial collapses of governmental entities due to interim reporting failures are often underreported, GASB’s reforms reflect a recognition that interim misstatements can cascade into broader financial failures—especially in entities with complex funding streams or limited oversight.

Interestingly, Levy (2019) suggests that there is nothing in GASB that would preclude a government entity from following FASB’s guidance for interim reporting. He argues that:

Unfortunately, however, there is no discussion specifically about interim financial information in authoritative government accounting or auditing literature (i.e., the GASBC or the “Yellow Book,” respectively), except for the guidance contained in GASBC section 2900.104. This guidance is totally nonprescriptive and discretionary regarding report content and deals primarily with internal-use presentations that “properly serve management control needs,” such as for performance evaluation and future planning purposes. (Government Entities)

### 3. Primary Reporting Standards GASB Versus FASB

Reporting standards for governmental entities and not-for-profit entities arise from the fact that they are governed by different standard-setting bodies and have distinct missions, stakeholders, and accountability requirements. In practice, the GASB provides guidance for governmental entities with an underlying focus on accountability to the public and resource providers. Consequently, financial reports reveal compliance with budgets and legal constraints. The Financial Accounting Standards Board (FASB) provide guidance for not-for-profit entities with an underlying focus on stewardship, donor accountability, and mission effectiveness.

### 4. An Overview of Interim Financial Reports (IFR)

IFRs are typically issued quarterly or semi-annually to provide a snapshot of an organization’s financial health. They are essential for enhancing the accountability function of governmental entities, regulatory compliance, strategic planning, and investor decision-making. However, due to their condensed nature and time constraints, interim reports are more susceptible to errors, omissions, and manipulation. While some writers-from a private sector perspective-have

questioned the usefulness of interim financial reports because firms experience a decline in investment following an increase in reporting frequency (Kraft, Vashishtha, & Venkatachalam, 2018), while some suggest eliminating them outright (Eaddy, 2019), others have highlighted the importance of use and accuracy of interim financial reports (Nienhaus, Schott, & van Gemmern, 2025; Arif & De George, 2020).

## 5. Expanding Internal Auditor Roles in IFR

It is practical for internal auditors to play a crucial role in examining interim financial statements, but their involvement depends on the organization's policies, regulatory requirements, and the nature of the internal audit function. In practice, auditors would conduct reviews of interim financial statements. The process involves limited procedures such as analytical reviews, inquiries of management, and evaluation of consistency with prior periods. One major caveat is that the examination of interim financial reports does not delve deep into the statements and as such, does not provide the same level of assurance as a full audit. Internal auditors uniquely position themselves to add value to IFR through:

- **Real-time assurance:** Providing ongoing assessments of financial processes and evaluation of internal controls.
- **Risk identification:** Highlighting emerging risks that may affect interim results. Internal auditors can identify and report on financial risks or anomalies that appear in interim reports, helping management take corrective action before year-end.
- **Compliance Checks-**Internal auditors may verify that interim financial statements
- **Process improvement:** Recommending enhancements to financial reporting systems.
- **Coordination with External Auditors:** In some cases, internal auditors coordinate with external auditors by sharing findings or performing preliminary work that external auditors can rely on during their review of interim or annual financials. In fact, enhanced internal review of IFRs can create efficiencies such as reduced fees (cost) of annual external audits due to an improved, formally managed interaction between internal and external auditors.

Internal auditors' involvement can bridge the gap between operational realities and financial disclosures. Through this process, the internal auditor can provide early detection of key risk areas in the interim financial reports such as:

- **Revenue Recognition:** Revenues recognized in accordance with applicable accounting standards. Check for signs of revenue manipulation to meet quarterly targets. Check for cut-off procedures properly applied at period-end.
- **Expense Recognition:** Expenses matched the correct period. Check for questionable deferral of expenses to inflate account balances. Check for consistency and reasonableness of accruals and provisions.
- **Inventory Valuation:** Inventory properly counted and valued.

- **Estimates and Judgments:** Estimates reasonable and documented.
- **Cash and Bank Balances:** Bank reconciliations up to date and reviewed.
- **Financial Reporting and Disclosures:** Interim reports prepared in line with applicable standards.
- **Consistence with Prior Periods:** Accounting policies consistently applied.
- **Internal Controls:** Key controls over financial reporting operating effectively.
- **Fraud Risk:** Red flags or anomalies in financial data identified.

## 6. Advantages in Integrating Internal Audit with IFR

At the enterprise level, which comprises the whole entity, internal auditors can enhance the reliability of interim reports through audit reviews. These enhancements include:

- **Early Detection of Errors or Fraud:** By reviewing interim data, auditors can identify red flags or inconsistencies that may indicate deeper issues, allowing for corrective action before year-end.
- **Improved Internal Controls:** The presence of auditors encourages companies to maintain robust internal control throughout the year, not just during the annual audit.
- **Professional Skepticism:** Auditors apply a critical eye to management's estimates and assumptions, reducing the risk of bias or manipulation.

## 7. Challenges in Integrating Internal Audit with IFR

Despite the potential benefits described above, several potential challenges exist within the intersection of interim financial reporting and internal auditing operations, these include:

- **Resource constraints:** Internal audit teams may lack the capacity for frequent reviews. In a resource-constrained environment, auditors can still leverage a variety of cost-effective or free data analytics tools to enhance audit quality, efficiency, and insight. Here are some practical tools and their implications for audit work. Examples include Microsoft Excel with Power Query, these are often readily available in organizations and uses include data cleaning, pivot tables, trend analysis, sampling, and basic visualizations. However, there is a caveat that they can be limited in handling very large datasets or advanced analytics. To this end, Power BI appears to be more versatile, readily available with a free desk top version, crucial for visualizing audit findings and communicating with stakeholders, and integrates well with Excel.
- **Scope ambiguity:** Defining the extent of internal audit involvement in IFR can be complex. One way to address the scope constraint is that the scope, nature, and timing of IFR reviews can be formally defined and documented in the entity's internal audit charter.
- **Independence concerns:** Maintaining objectivity while supporting management in reporting. One way to address independence concern is to establish clear internal auditor reporting lines to an audit committee.

## 8. Integrating Internal Audit with IFR: Potential Framework

To effectively contribute to IFR, internal auditors can adopt a structured approach:

**Planning:** Align audit plans with interim reporting cycles.

**Risk-based focus:** Prioritize high-risk areas such as revenue recognition and expense accruals.

**Collaboration:** Work closely with finance and compliance teams.

**Technology use:** Leverage data analytics for continuous monitoring.

Since both GASB and FASB present strong focus on accountability to stakeholders of governmental and not for profit entities, this framework is arguably adaptable under both reporting standards.

## 9. Conclusion

While the GASB Codification Section 2900, including its associated broader amendments, provides operational guidance on IFRs, the fast pace of the financial environment indicates that internal auditors need to evolve with times and play an indispensable role in enhancing the reliability of interim financial reports. IFRs typically use estimates and conditional data, potentially increasing the risk of errors and misstatements. Through specific procedures like risk identification, compliance checks, and real time assurances, an enhanced internal auditor role can help detect potential issues early, support strong internal controls, and bolster stakeholder confidence. As financial reporting continues to evolve in response to technological and regulatory changes, the internal auditor's role in interim reporting will remain a cornerstone of financial transparency and accountability. As financial reporting becomes more dynamic, internal auditors must evolve to meet new demands. By actively participating in interim financial reporting, they can enhance the credibility of financial information and support the evidence of accountability in governmental and not-for-profit entities. This intersection presents a valuable opportunity for internal auditors to reinforce their role as key governance partners.

## Conflicts of Interest

The author declares no conflicts of interest regarding the publication of this paper.

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