AUSTRALASIAN COUNCIL OF AUDITORS-GENERAL

PO Box 275, Civic Square, ACT 2608 Australia
Phone & fax 1800 644102
Overseas: Phone & fax +61 2 9262 5876
E-mail: frank.mcguiness@nt.gov.au
ABN 13 922 704 402

The Chairman
Australian Accounting Standards Board
PO Box 204
Collins St West
Victoria 8007
E-mail: standard@aasb.com.au

Dear Sir

Exposure Draft ED 145 Operating Segments

Members of the Australasian Council of Auditors-General (ACAG) have been canvassed and submit the attached comments in response to the Exposure Draft referred to above.

This represents the views of the Australian members of ACAG with the exception of the Auditor-General for South Australia who reserves his right to respond separately to auditing and accounting Exposure Drafts where he deems it appropriate, rather than as a member of ACAG.

Overall, ACAG supports the management approach as outlined in the proposed ED 145 for for-profit entities. We believe, however, that most not-for profit entities in the public sector should not at this time be subject to a management approach to segment reporting as that might cut across existing detailed budget reporting frameworks, or be a source of confusion if required in addition to existing frameworks.

The opportunity to raise comment is appreciated and I trust you will find the attached comments useful.

Yours sincerely

Frank McGuiness
Chair
ACAG Financial Reporting and Auditing Committee
27 April 2006

ATTACHMENT

Response by the Australasian Council of Auditors-General (ACAG) to the Australian Accounting Standards Board (AASB) Draft 145 (ED 145) *Operating Segments*

Question 1 – Adoption of the management approach in SFAS 131.

The draft IFRS adopts the management approach to segment reporting set out in SFAS 131 *Disclosures about Segments of an Enterprise and Related Information* issued by the US Financial Accounting Standards Board.

- **Is this approach to segment reporting appropriate?**
- **If not, why not?**
- **What, if any, alternative approach would you propose?**

ACAG supports the adoption of the management approach for for-profit entities within the scope of the ED on the basis of the increased usefulness of this approach identified by academic research in the US as cited in the Basis for Conclusions paragraph BC 6[1].

ACAG believes that concerns that the management approach may involve disclosure of segment amounts measured in accordance with accounting policies different from those used in the entity's financial statements are mitigated by the reconciliation and disclosure requirements within the proposed ED.

In addition, the preparation of segment information should be less costly and more efficient.

Question 2 – Divergence from SFAS 131.

- **The wording of the draft IFRS is the same as that of SFAS 131 except for changes necessary to make the terminology consistent with that in other IFRSs. Do you think that the draft IFRS should depart from the management approach in SFAS 131 by setting requirements for**
  (a) the measurement of specified items or
  (b) the disclosure of specified amounts that might otherwise not be given?

[1] "BC6 Most of the academic research findings on segment reporting indicated that application of SFAS 131 resulted in more useful information than its predecessor, SFAS 14.
According to the research, the management approach of SFAS 131:
(a) increased the number of reported segments and provided a greater quantity of information;
(b) enabled users to see an entity through the eyes of management;
(c) enabled an entity to provide timely segment information for external reporting with relatively low incremental cost;
(d) enhanced consistency with the management discussion and analysis or other annual report disclosures; and
(e) provided various measures of segment performance".

- **If so, identify the requirements you would add and indicate what you see as the relative costs and benefits of any such requirements.**

ACAG supports the Board's approach to converge the proposed ED 145 with SFAS 131 *Disclosure about Segments of an Enterprise and Related Information,* except for the changes necessary to make the terminology consistent with other AEIFRS.

ACAG recognises potential scope differences between ED 145 and SFAS 131 due to the terminology change of "long-lived assets" to "non-current assets," however, support the Board's position that non-current assets should include intangible assets.

Question 3 – Scope of the standard.

The existing standard IAS 14 requires entities whose equity or debt securities are publicly traded and entities that are in the process of issuing equity or debt securities in public securities markets to disclose segment information. The draft IFRS extends the scope to include also entities that hold assets in a fiduciary capacity for a broad group of outsiders.

- **Do you agree with the scope of the draft IFRS? If not, why not?**

ACAG believes that all for-profit public sector entities should be captured by the proposed standard (as they are by AASB 114), even if the criterion of "assets held in a fiduciary capacity for a broad group of outsiders", which needs to be defined, were not to capture them. For-profit public sector entities tend not be subject to the same requirements for disaggregated information that affect budget-funded public sector entities. Otherwise, ACAG supports the scope proposed.

Question 4 – Level of reconciliations.

The draft IFRS requires an entity to provide, for specified items, reconciliations of total reportable segment amounts to amounts recognised by the entity in accordance with IFRSs. It does not require such reconciliations for individual reportable segments.

- **Do you agree with the level of reconciliations required in the draft IFRS? If not, indicate what you see as the relative costs and benefits of any other level of reconciliation.**

ACAG is satisfied with the requirements in the proposed ED 145 that an entity provide, for specified items, reconciliations of total reportable amounts, such as reportable segment revenues, profit and loss, assets and other material amounts disclosed for reportable segments, to corresponding amounts recognised by the entity in accordance with Australian accounting standards.

Question 5 – Geographical information about assets.

The draft IFRS requires an entity to disclose geographical information about non-current assets excluding specified items. It does not require disclosure of geographical information about total assets.

- **Do you agree with the requirement to disclose geographical information about non-current assets excluding specified items?**
- **If not, for which assets would you require geographical information to be given?**

ACAG concurs with the proposed requirements.

Question 6 – Consequential amendments to IAS 34 *Interim Financial Reporting*.

The draft IFRS requires an entity to disclose more segment information in interim financial reports than is currently required, including a reconciliation of the total of the reportable segments' measures of profit or loss to the entity's profit or loss.

- **Do you agree with the consequential amendments made to IAS 34? If not, why not?**

ACAG support the proposal. More useful information would appear to result for relatively little cost.

Specific Matters for Comment by the AASB

(a) whether the proposed scope is appropriate, whether the existing scope of AASB 114 should be retained or whether an alternative scope is more appropriate.

ACAG believes that the scope should broadly exclude, at this time, not-for-profit entities, as foreshadowed by the Board in its Preface to the ED (see our answer to question b), and should include all for-profit public sector entities (as per the comment we made in answer to question 3).

We say 'broadly exclude not-for-profit entities' because we note that mutual funds are within the scope of the IAS standard where some might argue that, because such funds do not pay a return to investors, they are not-for-profit.

We believe that the phrase "holding assets in a fiduciary capacity for a broad group of outsiders" should be clarified in terms of whether it encompasses all public sector entities.

(b) whether segment reporting requirements based on the proposals would be appropriate to apply to not-for-profit entities in the:

(i) public sector;

(ii) private sector.

The AASB is particularly interested in learning of practical impediments to adopting a similar approach in respect of not-for-profit entities;

In the public sector, Budget-funded not-for-profit entities are usually required to prepare publicly available budget information at a level of disaggregation that reflects the Budget funding framework. For example, in the federal sphere, agencies and authorities prepare budget documents on an outcomes and outputs basis. To some extent, that reporting structure is mandated for note disclosure in the financial statements. This provides a basis for some comparisons between actual and budget numbers at a level of disaggregation which is common across all agencies and authorities.

Further, some organisational structures have been set up along outcome or program lines.

While ACAG would be interested in any further exploration that the Board might undertake of benefits that might come from adopting the management approach for not-for-profit entities, it should not at this time be at the expense of existing detailed government frameworks, or be a source of confusion if required in addition to existing frameworks.

(c) any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals; and

ACAG members do not foresee any regulatory issues or other issues arising in the Australian environment that may effect the implementation of the proposals within ED 145, other than as described in 6(b).

(d) whether the proposals are in the best interests of the Australian economy.

Yes.