

HFMA Briefing

# Segmental Reporting Survey Report

March 2011

In early 2011 FT FINANCE, the foundation trust faculty of the HFMA, conducted a survey of finance directors in relation to the application of segmental reporting in their annual accounts for 2009/10. In total more than 80 provider organisations took part.

As part of the adoption of international financial reporting standards, IFRS 8 requires segment information to be disclosed in the year end accounts on the same basis as internal reports to the chief operating decision maker. This survey was initiated by the HFMA’s Foundation Trust Technical Issues Group with a view to establishing the extent to which organisations are currently reporting by segment and intending to do so for the 2010/11 accounts.

By collecting, collating and reporting this information to the HFMA foundation trust faculty, the TIG hopes to facilitate discussions between members and their audit providers in relation to the use of segmental reporting and support further discussions within the faculty.

Not all directors answered every question and the percentages referred to are percentages of respondents answering that specific question. (Some tables may not add up to 100% due to rounding.)

## The sample

In total 85 provider organisations responded to the survey and included both aspirant and existing foundation trusts.

What type of organisation do you work in?	Response %
Acute NHS trust	13%
Mental Health NHS trust	7%
Acute FT	52%
Mental Health FT	25%
Other	3%

## Use of segmental reporting in 2009/10 and 2010/11

Almost a quarter of respondents had used segments in their year end accounts for 2009/10:

Did you report by segments in your year end accounts 2009/10?	Response %
Yes	24%
No	76%

The survey indicated that this was likely to remain consistent for 2010/11 with some 10% of organisations still undecided as to the approach they would be taking.

### Segments used

Where segmental reporting had been applied, the survey asked respondents to identify the segments used. They included clinical directorates or business units and for mental health examples included: adults, child and adolescent, learning disabilities, and interface services. It was clear from the responses that a number of those indicating yes to the reporting by segment question were in fact reporting by a single segment (25%).

Those reporting at a more granular level were using a range of segments. Reporting by: clinical directorate; by two segments, medical and surgery; and by four segments – specialist and emergency medicine, surgical and critical care, women and children, and clinical support were all given as examples by acute trusts (just under half those reporting by segment). For mental health, examples included: adults, child and adolescent, learning disabilities, and interface services.

Comments included:

***'The Trust directors considered that the Foundation Trust's activities constitute a single segment'.***

***'We did not report segments in the financial statements but included a ... on operating segments. We report monthly to the CODM a table with the direct income, direct costs and indirect costs of the three clinical boards plus corporate. The March position reported to the May Board was included in the Notes in the Accounts'.***

### Chief operating decision maker

The survey asked organisations who had been designated as the Chief Operating Decision Maker (CODM). For the majority of organisations, this is the board of directors as shown in the table below:

Who have you designated as your 'Chief Operating Decision Maker (CODM)'?	Response %
Board of directors	94%
Chief executive	4%
Other	2%

## Internal reporting

The survey went on to ask respondents whether or not they reported in year to the designated chief operating decision maker and the results were as follows:

Do you report by segment to the CODM?	Response %
Yes	49%
No	49%
No response	2%

## Audit provider

The survey asked all respondents to state who provides their external audit services and the results were as follows:

Provider of External Audit Services (all respondent trust)	Response %
Audit Commission	45%
KPMG	22%
PricewaterhouseCoopers	18%
Deloitte	11%
Grant Thornton	3%
Other	1%

However of the organisations reporting by segment in 2009/10 the split by audit provider was as follows:

Provider of External Audit Services (those trusts reporting by segments)	Response %
PricewaterhouseCoopers	50%
Audit Commission	25%
KPMG	15%
Deloitte	10%

Of the organisations already reporting by segment, half of them had PricewaterhouseCoopers as auditor with a further quarter being audited by the Audit Commission.

## **Audit challenge**

The final question of the survey asked:

**Have your auditors challenged your approach to segmental reporting either last year or for the coming year?**

Some 24% of organisations said they had been challenged by auditors over their approach to segmental reporting. Comments included:

***'We report service line information, but not full reports as segments. Our auditors have put pressure on us over the last 2 financial years to report by segments.'***

***'The trust originally proposed one segment "healthcare" consistent with other north west organisations however PWC did not agree this approach...'***

***'Recent discussions indicate there may be a challenge when integrate with Provider Arm (community services) of PCT in 2011/12.'***

***'The Trust was required to prepare a briefing paper to substantiate why we believed we only needed to report one segment. This needed to be referenced back to IFRS 8. This was then accepted by our Audit Committee.'***

***'Wanted us to report by segments in 2009/10 which we didn't. Will want us to report by segments in 2010/11.'***