22\textsuperscript{nd} March 2011

Andrew Miller MP, Chair
Science and Technology Committee
House of Commons
LONDON SW1P 3JA

Dear Andrew,

Many thanks for your letter dated March 9\textsuperscript{th} and for the opportunity to explain to your Committee the issues surrounding the regrettable delays in publishing the 2009/10 BBSRC accounts.

As you will be aware, the Research Councils have been in the progress of migrating to their newly created Shared Service Centre, which has been a major undertaking. However you will understand that such an undertaking is not without risk, and April 2010 coincided with high migrational activity (including BBSRC) which in turn affected SSC preparedness for the year end and, in particularly, their external audit. I am pleased to report, however, that these issues have been resolved and that the SSC is now stabilising effectively; nevertheless it did impact on our ability to submit our accounts before the summer recess that had been our previous practice.

Due to this initial delay BBSRC Accounts became exposed to further very significant delays, due to the late introduction by the NAO in October 2010 of a new concern on the non-consolidation of the accounts of the BBSRC Institutes into BBSRCs own accounts.

BBSRC has not in the past consolidated, and this approach has consistently been supported by the NAO. However the NAO technical Team has recently given consideration to new clarification (SIC12) to International Accounting Standard (IAS) 39 "The Substance of Control". The clarification examines particular Special Purpose Entities and whether control is exercised by other entities. SIC 12 is complex and PWC are on record as stating

"Special Purpose Entities (SPEs) are one of the most problematic and judgemental areas in accounting today. This publication addresses broad issues - real-life examples are never as straightforward."

Although the BBSRC funded Institutes operate as companies limited by guarantee and charities in their own right, with their own Trustee Boards, the NAO clarification now considers two of the six to be "Special Purpose Entities". With the exception of one of the MRC Institutes, all other Research Council Institutes are legally departments within the Councils. We understand the MRC Institute in question to be small, with consolidation not presenting a major complication; therefore the MRC have consolidated. However in the case of BBSRC the matter is highly complex and would entail very significant activity which would not only take some months to complete, but would also be difficult to resource within existing constraints.

BBSRC has given this matter extremely careful thought, including advice from our Audit Board and has had a number of helpful discussions with the NAO Audit Team. In particular BBSRC has considered:
1. That consolidation has not been undertaken in the past
2. That BBSRC has been working with its Institutes on changes that will see them constituted as private sector bodies in the coming financial year
3. That Institutes prepare accounts under charities accounting rules (SORP), unlike BBSRC who prepare under IFRS
4. That Institute accounts are in the public domain, such that any matters of public interest can be fully scrutinised and thereby satisfied
5. That due to unavoidable vacancies, whilst within a period of recruitment freeze, the work would be extremely difficult to resource
6. That, even if resources were available, the value for money of undertaking the work is highly questionable (given points 1 – 4 above).

As Accounting Officer I have received considerable advice and given this matter very careful consideration. My conclusion not to consolidate is supported by the BBSRC Audit Board and Council. BBSRC has therefore agreed with the NAO that it completes and lodges unconsolidated accounts, and accepts that the accounts will be qualified on the basis of disagreement on this technical matter alone. It is important for me to state that the NAO have been very clear that in all other matters the BBSRC accounts are robust and present a reliable and accurate position of the organisation’s financial affairs. It is also worth noting that this is first time that BBSRC accounts have been qualified.

The formal qualification notice has now been accepted by BBSRC and I am pleased to report that the BBSRC accounts are now progressing through the Department for Business Innovation and Skills. The Department has been kept fully informed on progress, and therefore it is hoped that the accounts will be laid formally before Parliament before the Easter Recess.

I do hope that this helps to provide an adequate understanding of the particular set of circumstances that have both delayed and qualified our accounts in this way. We shall of course be happy to assist with any further questions on this that you might have.

Yours sincerely,

Douglas B Kell
Chief Executive
BBSRC