

**Biotechnology and Biological Sciences Research Council 2009-10  
Accounts - C&AG Report on Accounts**

## Report of the Comptroller and Auditor General to the Houses of Parliament

### Introduction

1. The Biotechnology and Biological Sciences Research Council (BBSRC) is an Executive non-departmental government body established by Royal Charter in 1993, sponsored by the Department for Business, Innovation and Skills.
2. The Council is the UK's principal funder of basic and strategic biological research. To deliver its mission, BBSRC supports research and postgraduate training in higher education institutions and research centres throughout the UK, including BBSRC-sponsored Institutes, and promotes knowledge transfer from research to applications in business, industry and policy, and public engagement in the biosciences.
3. In 2009-10, of the Council's £402.8 million of expenditure for research and capital grants, total grants of £141.2 million were made to these Institutes, to fund research, capital developments and training in support of the Council's key objectives. The Institutes deliver innovative, world class bioscience research and training, leading to wealth and job creation, generating high returns for the UK economy. They have strong links with business, industry and the wider community, and support policy development. The governance arrangements for the Institutes have been subject to review in recent years, with the intention of increasing their independence from BBSRC.
4. The Council has prepared its 2009-10 financial statements applying International Financial Reporting Standards (IFRS) for the first time, with a transition date of 1 April 2008. This means that there are changes in requirements from the previous accounting framework. In my view, under the terms of the newly applied standard, *IAS 27 Consolidated and Separate Financial Statements*, two of the Institutes (the Institute of Food Research and the Brabraham Institute) should be viewed as subsidiaries of the BBSRC and be consolidated into the 2009-10 financial statements. This is because the existing governance arrangements for these two bodies mean that the BBSRC had the right to exercise control over the financial and operating policies of those bodies at 31 March 2010 (paragraph 10).

### Purpose of Report

5. The financial statements on the following pages represent the results of the BBSRC for the period from 1 April 2009 to 31 March 2010. The financial statements do not include the consolidated results of the two sponsored Institutes that I believe should be treated as subsidiaries of the BBSRC under the newly implemented IFRS. The purpose of this Report is to explain the background to the qualification of my audit

opinion.

### **My obligations as auditor**

6. Under the Science and Technology Act 1965, I am required to examine, certify and report on the financial statements that I receive. I am required, under International Standards on Auditing (UK and Ireland), to obtain evidence to give reasonable assurance that the BBSRC financial statements are free from material misstatement. In forming my opinion I examine, on a test basis, evidence supporting the disclosures in the financial statements and assess the significant estimates and judgements made in preparing them. I also consider whether the accounting policies are appropriate, consistently applied and adequately disclosed. I am required to satisfy myself that, in all material respects, the expenditure and income of the Council have been applied to the purposes intended by Parliament and conform to the authorities that govern them.

### **Audit opinion**

7. I have qualified my audit opinion on the 2009-10 financial statements, owing to disagreement over the accounting policy for, and accounting treatment of, two of the Council's sponsored Institutes which should, in my view, be treated as subsidiaries, but which, in accordance with the previous accounting policy applied to all BBSRC sponsored institutes, have not been consolidated into the Council's financial statements. This reflects a change arising from the first time implementation of IFRS.

### **Explanation of qualified audit opinion**

8. The governance arrangements for the Institutes have been subject to review in recent years (the Follett Review)<sup>1</sup>, and actions have been taken with a view to increasing the independence of these bodies from BBSRC. In 2008-09 the Institute of Grassland and Environmental Research and Roslin Institute became fully independent of BBSRC as they were transferred to the Universities of Aberystwyth and Edinburgh respectively. The most recent addition to the Institute portfolio, the Genome Analysis Centre, was created in July 2009, with a governance structure designed to be fully independent of BBSRC.
9. From 1 April 2011, the governance of the five remaining Institutes is also planned to move to a more Independent model, as proposed by the Follett review. The Institutes are constituted as charitable companies, limited by guarantee. Each Institute was incorporated on a different date, and each has a slightly different governance structure, with

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<sup>1</sup> *Independent Review of Governance of BBSRC-sponsored Institutes for the Biotechnology and Biological Sciences Research Council*, undertaken by Sir Brian Follett, September 2006

differing numbers of Trustees on the Boards and different mechanisms for the appointment and the removal of those Trustees.

10. I have considered the governance arrangements for these Institutes in the context of the requirements of IFRS, and specifically of IAS 27. This standard states that the circumstances where control exists include when there is power to appoint or remove the majority of the members of the board of directors or equivalent governing body. The new framework creates different considerations from the accounting framework applied previously.
11. Under the existing governance arrangements, the Council has control over the appointment and/or removal of the Board of Trustees for the Institute of Food Research and the Brabraham Institute. In practice BBSRC does not seek to influence the operations of its Institutes; however, clauses in the Articles of Association have not yet been amended by BBSRC to reflect actual practice. The Council's intentions are not relevant to the control considerations under the newly applied standard, IAS 27, and therefore these two Institutions are deemed to be subsidiaries. Both bodies prepare accounts in accordance with the reporting requirements for Charities which does not require them to apply IFRS. The Council accepts in principle that these bodies should be consolidated under the new accounting requirements, but has not considered it cost-effective to make the necessary accounting adjustments to consolidate the bodies into its 2009-10 financial statements, given the changes it expects to make to the governance arrangements in the near future.
12. The total net results for the year for the Babraham Institute in its 2009-10 audited accounts are £2.4 million, and net assets are £61.2 million. Figures for the Institute of Food Research are £1.3m and £5.9 million respectively. If the two Institutes were to be accounted for as subsidiaries, the Council would need to prepare Group accounts which presented the accounts of the Group as those of a single entity.
13. The above figures are an indicative estimate of the overall impact on the Council's accounts. In practice, the Council would need to adjust the transactions for any changes to make the accounting policies consistent across the Group; eliminate the inter-entity balances, and adjust for transactions in the accounts that were common between the bodies. This would include fixed assets owned by BBSRC with related valuations in the Institute accounts. As none of the necessary adjustments have been considered by BBSRC, it is not possible for me to estimate the precise impact on the Council's accounts of consolidating the bodies.

## Action being taken by the Biotechnology and Biological Sciences Research Council

14. The Council intends to move all Institutes to a governance structure that is independent of BBSRC from April 2011, and would therefore expect to remove the accounting requirement to consolidate the Institute of Food Research and the Babraham Institute Institutes under IFRS from 2011-12. The Council will also review whether it is possible in the meantime to amend the Memorandum and Articles of Association for both bodies in relation to those clauses that give it the ability to control the appointment and removal of trustees.