

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

## **Introduction**

1. The Science and Technology Facilities Council (STFC), a non-departmental public body of the Department for Business, Innovation and Skills, supports research, innovation and skills for the UK by supporting a broad portfolio of research and providing large scale scientific facilities. As part of its remit, the Council provides funding (referred to as subscriptions) for a number of international scientific collaborations. One of these is the Institut Laue-Langevin (ILL), which is a research centre located in France, that makes use of subatomic particles to study the structure and behaviour of all kinds of materials in microscopic detail. Funding from the Council to the ILL in 2010-11 amounted to £13.66 million.

2. The arrangements for the governance of the ILL are set out in a 1974 Concordat between the three Associate members, namely UK, France and Germany. The Concordat notes that the Associates have full power to take decisions in accordance with the objects of the Association. The UK's interest is overseen by the STFC.

3. The Council has prepared its 2010-11 financial statements applying International Financial Reporting Standards (IFRS). The governance arrangements for ILL meet the definition of a joint venture under IAS 31 (a *contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control*). The STFC has a 33 per cent interest in the ILL. The Council has elected the equity method of accounting to consolidate its share of the ILL; that is, to record the investment as a share of the net assets of the ILL, and to reflect a share of ILL's profit or loss in the Council's own Statement of Comprehensive Net Expenditure.

## **Purpose of the Report**

4. The financial statements on the following pages represent the results of the Science and Technology Facilities Council for the period from 1 April 2010 to 31 March 2011. I have limited the scope of my opinion on the financial statements as I was unable to obtain sufficient audit assurance to support the balances relating to the consolidation of the ILL as an investment of £26.87 million in the Council's Statement of Financial Position for 2010-11, and previous periods. The situation remains the same as in my Opinion and Report on the 2009-10 financial statements although improvements in the underlying fixed asset records have occurred (paragraph 9 and 10).

## **My obligations as Auditor**

5. Under the Science and Technology Facilities 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 Science and Technology Facilities Council 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 Science and Technology Facilities Council have been applied to the purposes intended by Parliament and conform to the authorities that govern them.

## **Limitation on scope relating to the consolidation of the Institut Laue-Langevin as an investment in the Science and Technology Facilities Council financial statements**

6. As in the previous year, I have qualified my audit opinion on the Science and Technology Facilities Council 2010-11 accounts owing to the limitation on scope in relation to the investment balance recorded in the 2010-11 Statement of Financial position. In 2010-11 this was £26.87 million. The limitation extends to the prior year figures included for the ILL investment for 2009-10 (£26.74 million). The Council has not been able to provide sufficient evidence on the appropriateness of the balance for the reason explained below. The Council is not able to

estimate the extent of adjustments that might be necessary from the issues identified.

7. The Council has derived the balance of £26.87 million from the net asset value of the ILL's balance sheet, within the audited accounts for the ILL for 2010, as no better information is reasonably available to them. However, as explained below, these accounts do not provide a robust and reliable basis to support the amount recorded in the Council's accounts.

8. The ILL's accounts are prepared in accordance with French accounting principles which provide a different accounting framework from IFRS. Neither the ILL or the STFC currently have adequate information to assess the significance of the differences, or to re-state, if necessary, the relevant figures underpinning the investment in the STFC's accounts on an IFRS basis. Given the uncertainties, there is a risk that the value of the investment in the ILL is incorrectly stated in the Council's accounts, and that it is not stated at a comparable value to the other investments held by the Council.

### **Improvement in underlying fixed asset records**

9. In addition, the ILL 2009 accounts received a qualified opinion from its auditor because the fixed asset value included was not supported by a robust inventory. The Fixed Asset Register contained a significant number of fixed assets whose physical existence at the ILL was no longer certain. As a consequence the gross value and depreciation of the fixed assets included in the ILL accounts at 31 December 2009 are significantly overvalued. The ILL auditor also concluded that the guidance used by the ILL for accounting for fixed assets was not fully applied or appropriate. Consequently, there was a risk of error concerning the valuation of fixed assets and the classification of expenditure as an operating expense or as an asset.

10. In 2010 the ILL undertook a complete review of its fixed assets to determine which assets the body no longer held or which were no longer in use. As a result some 84 million euros have been removed from the fixed asset valuation for the year ended 31 December 2010. In addition ILL undertook a review of its fixed asset guidance. As a result, the ILL financial statements received an unqualified opinion for 2010 from its auditor. Therefore weaknesses in fixed assets recording now only affect the prior year figures incorporated into the 2009-10 STFC financial statements.

### **Actions being taken by the Institut Laue-Langevin and the Science and Technology Facilities Council**

11. In my Report on the 2009-10 STFC financial statements, I noted that the STFC had requested ILL to undertake a formal review of the adjustments that would be necessary to provide IFRS based figures for the STFC's investment in future years. In the event, ILL were not able to complete this exercise, but work has begun to support an IFRS compliant position for the year ended 31 December 2011, including the restatement of the prior year figures. My staff will consider the outcome of this exercise as part of their 2011-12 audit of the STFC financial statements.

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