



## Financial Reporting Advisory Board Paper

### Financial reporting rationalisation for Research Councils of BIS

<b>Issue:</b>	The Treasury are reviewing options for the next stage in its Simplifying and Streamlining agenda. Responding to this agenda, the Department for Business Innovation and Skills have proposed a pilot project for rationalisation of financial reporting among Research Council bodies. The first stage involves more standardised reporting across the Councils financial statements, the second stage involves considering reporting for the Councils as a Group. This paper seeks an early steer from the Board on whether they would support, in principle, a pilot project in 16-17 to report on a Group basis only.
<b>Impact on guidance:</b>	
<b>IAS/IFRS adaptation?</b>	To be determined. The pilot project may require the accounts direction to adapt the group accounting standards, depending on governance and legal changes that will also be considered. If a further adaptation is required, the issue would return to the Board before proceeding.
<b>Impact on WGA?</b>	No
<b>IPSAS compliant?</b>	Yes - provided no further adaptations of the group accounting standards.
<b>Interpretation for the public sector context?</b>	n/a
<b>Impact on budgetary regime?</b>	No
<b>Alignment with National Accounts</b>	Yes
<b>Impact on Estimates?</b>	No
<b>Recommendation:</b>	That the Board provide a steer on the pilot project, including the possibility of a further adaptation of the group accounting standards (in the Research Council accounts direction) if this was required to achieve Group only reporting for the Research Councils.

<b>Timing:</b>	The pilot on Research Council group accounting would take place in 2016-17.
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## **DETAIL**

### ***Background***

1. Central government departments are implementing the agreed recommendations of the first phase of the Simplifying and Streamlining Accounts Project into resource accounts in 2015-16. The Treasury is currently considering the options for the next phase, with a particular focus on the appropriate reporting requirements for smaller bodies that are themselves consolidated into the department group. Responding to this simplifying and streamlining agenda and as part of wider rationalisation within the BIS group, BIS have been considering opportunities to pilot a more streamlined approach to financial reporting for Research Councils. There are currently seven Research Council's (RC) that are consolidated within the BIS Departmental Group Accounts.
2. BIS has created APAC (The Accounts Preparation and Advice Centre) as a centre of excellence for financial reporting for the BIS Group. One of the primary focuses of the Centre is to drive efficiencies and standardisation in respect of the financial reporting landscape within the BIS Departmental Group. Each individual RC currently prepares their own set of accounts with different levels of complexity, different levels of materiality and different levels of disclosure. The cumulative effect of this has led to seven very different set of financial statements with varying levels of disclosure.

### **BIS' proposed approach to rationalisation**

3. BIS has proposed a two stage approach to rationalisation of financial reporting among the RCs. The first phase will be undertaken within the confines of the existing reporting requirements of the Financial Reporting Manual. The second phase involves a pilot project. This pilot may require a bespoke accounts direction in order to be undertaken. Should a bespoke direction be required, BIS and the Treasury will return to the Board to seek support for the specific adaptations required in order to undertake the pilot.
4. Stage one is to prepare, on more standardised basis, seven individual sets of financial statements for the RC's for the year ended 31 March 2016. These will be based on the relevant reporting standards. Materiality will be applied more consistently across all seven sets of financial statements, including items that are material by nature.
5. Stage two would be to prepare a single set of consolidated accounts for the Research Council group, including all seven bodies (produced by APAC). This would be done as a pilot for the year ended 31 March 2017.

### **Current reporting framework:**

6. Six of the research councils were created by the Science and Technology Act 1965 and one was created by The Higher Education Act 2004. All seven RC's produce accounts under the direction of the Secretary of State (for BIS), approved by the Treasury, as required by their respective legislation. These directions require the Councils to produce accounts in accordance with the FReM. Please see Annex D for the specific detail of each entities statutory requirement.

**Potential piloting of Group reporting**

7. BIS are currently reviewing the legal and governance barriers (including Accounting Officer structures) to producing a single set of Group accounts for all seven RCs. The pilot would only be undertaken if such barriers could be satisfactorily overcome. Notwithstanding addressing such issues, the FReM's application of the IAS group accounting standards may continue to represent a barrier to reporting as a single group.
8. BIS have engaged in early discussions with HMT and NAO over the proposals and are also continuing to consult with the RC's at the CEO / Accounting Officer level to assess their appetite for the proposals. Any final proposal would likewise be subject to the approval of the RC's Accounting Officers.
9. BIS' view is that the preparation of a single Group set of accounts for the RCs need not come at the expense of the needs of users of the accounts, provided the group reporting requirements focus on the needs of users. The intention in undertaking a pilot project for a year is to obtain feedback from the users of accounts to determine whether the new reporting basis better meets their needs, while simultaneously achieving efficiencies in the accounts preparation process.
10. Example financial statements under the status quo, stage one (greater standardisation) and stage two (Research Council Group) are held at Annex A, B and C respectively.

**Potential benefits of the proposal:**

11. Both stages of the project have two main areas of potential benefit
  - I) Benefits for users of accounts: Greater standardisation across the RCs would enable easier comparisons by users of the activities of the different Councils. It would also provide greater consistency with the departmental group accounts.
  - II) Process and efficiency benefits: Greater standardisation, and ultimately group reporting, would support simpler and more efficient data gathering and enable one submission to APAC for both BIS Departmental Accounts and the RC accounts. The rationalisation may also enable greater efficiencies in the audit process.

**Next Steps**

12. Subject to the Board's steer, BIS will focus its next steps on three important areas:

- i) Accounting Officer responsibilities

Under the current proposal each RC would continue to have an individual Accounting Officer (AO). The seven AOs would continue with their current responsibilities and delegation letters as per the 2014-15 and 2015-16 financial years. The 2016-17 pilot would mostly likely require the creation of a lead AO, who would receive assurances from the individual AOs in the group, and would sign the overall consolidated financial statements. An appropriate delegation letter would need to be put in place to cover the responsibilities, with the overall arrangements reviewed against the principles of Managing Public Money.

- ii) Governance Structure

No changes to the governance arrangements are envisaged for the 2015-16 financial year. However, with one set of consolidated financial statements for the year ended 31 March 2017 there would need to be changes to the governance structure which is currently set up to oversee seven sets of financial statements. The RC's would need to implement an appropriate governance structure for a consolidated set of financial statements. This would incorporate changes to audit committee structures and any other reporting/ governance arrangements.

iii) Legal requirements

Following a review of the statutes governing each entity, BIS consider that there is no legal restriction in this case, but are seeking further legal opinion. Please refer to Annex D for further information.

**Recommendation:**

13. That the Board provide a steer on the pilot project, including the possibility of a further adaptation of the group accounting standards (in the Research Council accounts direction) if this was required to achieve Group only reporting for the Research Councils.

**HM Treasury and BIS**

**ANNEX B****Example of potential differences/ changes of the Medical Research Councils under stage one (more standardised approach):**

The APAC prepared MRC accounts used a template that is expected to prepare the 2015-16 financial accounts. MRC were chosen as they are one of the largest Research Council's. They have a relatively full suite of disclosures from which to compare an APAC prepared set of financial statements. A materiality of 1% gross expenditure was set and applied through the financial statements. Anything below this threshold, unless of public interest, was removed from being disclosed. By providing the final 2014-15 accounts and also the APAC prepared accounts based on the same data a direct comparison can be made for the disclosures removed and the impact on the overall disclosures. The APAC prepared accounts continue to be compliant with IFRS/ FReM and IAS. The changes are detailed below:

**Removal due to application of standard materiality and the notes are deemed to be immaterial:**

- i) Removal of the disclosures for contributions from other governmental departments, other income and interest receivable notes
- ii) Removal of international subscriptions
- iii) Removal of investment note (note 19)
- iv) Removal of non-current assets held for sale note (note 20)

**Other changes:**

- i) Removal of the disclosures for grant in aid as not deemed necessary for readers of the financial statements and disclosed elsewhere in the accounts
- ii) Removal of commercial activities as not deemed necessary for readers of the financial statements
- iii) The APAC prepared accounts give more detail of admin and programme spend which the current accounts do not
- iv) Representation of other expenditure and other grants notes. In the APAC prepared financial statements there is an admin note and programme note. This is then split further showing a breakdown of programme Research Expenditure and Grants
- v) Reduced disclosure, although still fully compliant, of provisions.

**Further review necessary to realign and apply disclosure to relevant reporting standard:**

- vi) The accounting policies are currently the same in the APAC prepared financial statements as the final MRC 2014-15 accounts. However, we plan to review

these to ensure that the wording is consistent with the Departmental accounting policies

- vii) Related parties – Ongoing review necessary to determine absolute reporting requirements which could lead to a much reduced disclosure in future reporting periods

**Annex A – Please see attached - MRC financial statements (status quo)**

**Annex B – Please see attached Final - APAC MRC account (greater standardisation)**

**Annex C – Please see attached document – Final RC consolidated accounts (Research Council Group)**

**Annex D – BIS' provisional legal review of Acts relevant to the RC's**

Six RC's were set up by the Science and Technology Act 1965 (NERC, STFC, MRC, BBSRC, ESRC and EPSRC) and one RC was set up by the Higher Education Act 2004 (AHRC).

BIS consider that the preparation of the accounts by APAC for the year ended 31 March 2016 is purely a change in the administrative function of the accounts preparation e.g. one service provider, in this proposal that being APAC, doing the preparation of the accounts rather than the RC themselves preparing the accounts.

The proposal, for which we are seeking a Board steer, is for the preparation of one set of consolidated accounts for the year ended 31 March 2017. Consideration has been made of any legal impact based on the Acts and the clauses within them that define how the RC's should prepare accounts. The extracts are given below:

In summary the Higher Education Act 2004 states that the RC's should give the Secretary of State a statement of accounts each financial year. The Science and Technology Act 1965 goes slightly further in elaborating that these accounts for its activities in such form as the Secretary of State may require and each RC as soon as possible after each financial year report on the exercise and performance by the Council of its activities.

BIS' view is that whilst it does specify each RC it doesn't state that each RC has to prepare its own individual set of accounts. They a consolidated set of financial statements would not contradict the requirements to prepare accounts set out in the two Acts. The consolidated financial statements will give an overall position of each RC through the segmental reporting. In the operating segmental note each RC will report its operating results and therefore show the net operating result for each RC. Each individual RC has reviewed any new instructions from the Secretary of State and there has been nothing noted that supersedes the requirements of the relevant Act.

Extracts from Acts:

Science and Technology Act 1965

Section 2.2

(2) The provisions of Schedule 1 to this Act shall have effect with respect to the making of returns and reports by the Research Councils to the Secretary of State, with respect to the keeping and auditing of their accounts and with respect to related matters.

Section 1

## SCHEDULES

### SCHEDULE 1

#### REPORTS, ACCOUNTS ETC. OF RESEARCH COUNCILS

1. Each of the Research Councils shall furnish the Secretary of State with such returns, accounts and other information with respect to its property and activities as he may from time to time require, and shall prepare programmes and estimates of expenditure in such form and at such times as he may require.

2.—(1) Each of the Research Councils shall as soon as possible after the end of each financial year make to the Secretary of State a report on the exercise and performance by the Council of its functions during that year.

(2) The Secretary of State shall lay a copy of any report under this paragraph before each House of Parliament, together with such comments as he may think fit to make.

3.—(1) Each of the Research Councils shall keep proper accounts and other records, and shall prepare for each financial year statements of account in such form as the Secretary of State with the approval of the Treasury may direct and submit those statements of account to the Secretary of State at such time as he may direct.

(2) The Secretary of State shall, on or before the 30th November in any year, transmit to the Comptroller and Auditor General the statements of account of each Council for the financial year last ended.

(3) The Comptroller and Auditor General shall examine and certify the statements of account transmitted to him under this paragraph, and lay copies of them together with his report thereon before each House of Parliament.



**Higher Education Act 2004****Schedule 6****6 Accounts and records of Council**

- (1) The Arts and Humanities Research Council must keep proper accounts and other records.
- (2) The Council must give the Secretary of State a statement of accounts in relation to each financial year.
- (3) A statement of accounts under subsection (2) must be given –
  - (a) in the form required by the Secretary of State, and
  - (b) at the time required by the Secretary of State.
- (4) The Secretary of State must transmit each statement of accounts given under subsection (2) to the Comptroller and Auditor General on or before 30th November following the end of the financial year to which the statement relates.
- (5) The Comptroller and Auditor General must –
  - (a) examine and certify each statement of accounts transmitted under subsection (4), and
  - (b) lay before each House of Parliament –
    - (i) a copy of the accounts, and
    - (ii) a report on the accounts.
- (6) In this section “financial year” has the same meaning as in section 4.