



Annual Report and Consolidated Financial Statements for the Year Ended 31 July 2016

**The Quality Assurance Agency
for Higher Education**

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Annual report of the trustees

1 The trustees present their annual report, together with audited consolidated financial statements, for the year 1 August 2015 to 31 July 2016 for The Quality Assurance Agency for Higher Education (QAA).

2 This report and the financial statements comply with the *Charities Act 2011*, the *Companies Act 2006*, the Memorandum and Articles of Association, and *Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) (effective 1 January 2015)*. The directors of the company are also its trustees, under the terms of the *Charities Act 2011*.

Strategic report

QAA: our mission

3 QAA is the independent body entrusted with monitoring and advising on standards and quality in UK higher education. Our mission is to safeguard standards and improve the quality of UK higher education, wherever it is delivered around the world. We act in the public interest for the benefit of students and support higher education providers in providing the best possible student learning experience. We are dedicated to checking that the three million students working towards a UK qualification get the higher education experiences they are entitled to expect.

Strategy 2014-17: aims and objectives

4 Our current strategy covers the period 2014-17. The strategy has three primary aims which, together, enable us to continue to deliver and to build on our stated mission. Our annual plan and delivery programmes for this operating year have been framed around these three strategic aims:

Aim 1 Enhance the quality and secure the academic standards of UK higher education, wherever delivered, in order to maintain public confidence.

Aim 2 Provide leadership, through knowledge and resources, in assuring and enhancing the quality of higher education within the UK and internationally.

Aim 3 Extend and enhance the value and reach of QAA's services within and beyond UK higher education.

5 We measure delivery against our strategy at a number of levels, including: detailed termly monitoring of performance against our annual plans; oversight by senior internal committees and our Board; and publication of annual reports.

Significant developments during 2015-16

6 In October 2015, Mr Douglas Blackstock took up the post of Chief Executive of QAA on an interim basis, following the resignation of Mr Anthony McClaran to assume a new role in Australia. Mr Blackstock was permanently appointed to the role in November 2016

7 During this year, we have continued to deliver well against our strategic aims and delivery plan, whilst also dedicating significant resources to responding to major external policy, regulatory and political developments.

8 The Quality Assessment Review by the higher education funding bodies in England, Northern Ireland and Wales began in October 2014. Following a 'listening exercise' and a formal consultation (to which QAA made a formal submission), the review concluded in March 2016 with

the publication of a revised operating model for quality assessment. Six competitive tenders were issued for services in relation to this model, of which we were successful in securing four (and a partner in a fifth), with work commencing at the beginning of the 2016-17 academic year. These changes to the regulatory framework have resulted in a significant reduction in income for QAA from 2016-17 onwards. In June 2016, we formally began an organisational change programme to ensure that the Agency adapts to this and other changes in the higher education landscape, and is an agile, lean and responsive organisation to meet the future needs of the sector.

9 Following a higher education Green Paper consultation during winter 2015-16, in May 2016 the Department of Business, Innovation & Skills set out its policy decisions for the future of the sector in England in a White Paper. Many of the government's proposals will be taken forward in primary legislation and a new draft Higher Education & Research Bill was presented in the House of Commons on 19 May 2016. It includes the establishment of a new Office for Students and provision for a separate designated independent quality body, responsible for quality and standards. QAA is currently undertaking appropriate reforms, particularly to its governance, to ensure we are well-placed to be put forward as that body.

10 In February 2016, Universities UK (UUK) established a new working group, chaired by Sir David Bell, to examine the current higher education sector agency landscape and provide advice on how the work of the agencies can support the sector effectively into the future. QAA engaged positively with the review, making a written submission to the group in March 2016 and attending meetings with the Chair. The review is expected to conclude in autumn 2016.

11 During the year, we have also been contracted by the Higher Education Funding Council for England to develop and deliver key components of the assessment process for Year 2 of the new Teaching Excellence Framework, which has been introduced as a major element of the policy changes in England.

12 In the devolved nations, we have worked as a partner in the review of the Quality Enhancement Framework in Scotland. We have also responded during the year to the Hazelkorn and Diamond Reviews in Wales, and to the consultation by the Higher Education Funding Council for Wales on quality assessment arrangements in that country. In Northern Ireland, we continue to monitor developments following its government's 'Big Conversation' consultation on the future of higher education and its funding.

Highlights of our year

Date	Activity
August 2015	<ul style="list-style-type: none"> QAA submits its formal response to the Quality Assessment Review consultation on future arrangements in England, Northern Ireland and Wales
September	<ul style="list-style-type: none"> QAA publishes revised qualification characteristics statements for foundation, master's and doctoral degrees
October	<ul style="list-style-type: none"> Douglas Blackstock, QAA's Chief Operating Officer, takes up the post of Chief Executive for the Agency Publication of the findings of the second year of Higher Education Review (2014-15) QAA's 2015 Quality Matters student conference takes place in Birmingham

Date	Activity
November	<ul style="list-style-type: none"> • A QAA transnational education review team visits Cyprus and Greece • QAA and the UCL Institute of Education co-host the 10th European Quality Assurance Forum (EQAF) in London • QAA gives evidence to the Hazelkorn Review in Wales • Publication of the findings of annual monitoring for alternative providers (2014) and reviews for specific course designation (2013-14)
December	<ul style="list-style-type: none"> • QAA's Chief Executive gives evidence to the House of Commons Business, Innovation & Skills Select Committee inquiry into assessing quality in higher education • QAA's Board approves the commissioning of an external review of the Agency's governance
January 2016	<ul style="list-style-type: none"> • QAA submits its formal response to the Department of Business, Innovation & Skills Green Paper consultation, <i>Fulfilling our Potential: teaching excellence, social mobility and student choice</i> • Members of Parliament, Richard Graham (Gloucester) and Neil Carmichael (Stroud), visit QAA's Gloucester offices • QAA announces it will, for the first time, publish its scrutiny reports on the applications it assesses for degree awarding powers
February	<ul style="list-style-type: none"> • QAA announces the establishment of a new Sounding Board for transnational education • QAA signs a contract with the Albanian Ministry for Education & Sport for quality capacity building, with a total value of €709,100 • QAA hosts an international seminar at its Gloucester offices on the work of the Staff Development Working Group of the European Association for Quality Assurance in Higher Education (ENQA)
March	<ul style="list-style-type: none"> • QAA, the Higher Education Statistics Agency (HESA) and Jisc announce a new collaboration, known as the M5 Group • Publication of the first in QAA's new Viewpoint series of policy papers – the first paper focuses on plagiarism and essay mills • QAA makes a written submission to the Universities UK review of sector agencies • Launch of QAA's new International Quality Review • QAA participates in the 2016 UK-China Education Policy Week in Beijing
April	<ul style="list-style-type: none"> • QAA's Annual Conference takes place, hosted by the University of Birmingham • QAA hosts a workshop for the Welsh College Higher Education group • QAA's Chief Executive gives a keynote speech at the ENQA Spring Forum in Budapest

Date	Activity
May	<ul style="list-style-type: none"> • Government White Paper recognises the role of QAA in underpinning the international reputation of UK higher education • QAA is selected as the preferred bidder for four HEFCE contracts, following a competitive tender for services for the revised operating model for quality assessment • QAA's role in delivering the Teaching Excellence Framework is formally confirmed • QAA presentation on 'Cultures of Quality' at the British Council's 2016 Going Global conference in South Africa • QAA hosts the 2016 Evolving Student Engagement conference in Manchester, in collaboration with the National Union of Students and The Student Engagement Partnership
June	<ul style="list-style-type: none"> • QAA hosts two conferences in Scotland: the 13th Annual Enhancement Themes Conference in Edinburgh, and Excellence in Learning and Teaching 2016 in Glasgow • A joint workshop on degree apprenticeships takes place in London, hosted by QAA, Universities UK and the University Vocational Awards Council • QAA renews its Memoranda of Co-operation with the Tertiary Education Quality & Standards Agency of Australia and the Knowledge & Human Development Authority of the United Arab Emirates • QAA begins an organisational change programme
July	<ul style="list-style-type: none"> • M5 Group members (HESA, Jisc, QAA) sign a Memorandum of Understanding • Publication of the key findings from Higher Education Review: Alternative Providers (2013-15) • QAA signs contracts with the Higher Education Funding Council for England (HEFCE) for delivery of work for the revised model for quality assessment and the Teaching Excellence Framework

Performance and achievements

Aim 1: enhance the quality and secure the academic standards of UK higher education, wherever delivered, in order to maintain public confidence

Reviews

13 In 2015-16, we have delivered all of our scheduled reviews on time and to budget, except where higher education providers have defaulted through non-payment of fees, or inadequate submission of evidence for their reviews. All of our reviews on behalf of the four funding bodies in England, Northern Ireland, Scotland and Wales have been completed to contractual requirements.

14 The numbers of reviews undertaken during 2015-16 are shown by review method below:

Method	Higher Education Review/ Higher Education Review (Alternative Providers)	Enhancement-Led Institutional Review	Initial Review	Annual Monitoring	Total
Publicly funded providers					
England (higher education institutions)	29	-	-	-	29
England (colleges)	60	-	3	-	63
Northern Ireland	1	-	-	-	1
Scotland	-	5	-	-	5
Wales	4	-	-	1	5
Total	94	5	3	1	103
Alternative and other providers					
Educational Oversight	49	-	-	58	107
Course Designation	7	-	-	46	53
Other higher education institutions	1	-	-	-	1
Total	57	-	-	104	161
TOTAL REVIEWS	151	5	3	105	264

15 Higher Education Review follow-up activity has also been undertaken with 48 providers whose reports resulted in negative outcomes, noting that some of these resulted from reviews originally undertaken during the 2014-15 academic year. Follow-up work involves the development and agreement of a detailed action plan to address the review findings, a series of conversations and progress reports over the course of the following year, followed by a review of progress made.

16 In April, we ran a workshop for the Welsh College Higher Education group, which focused particularly on the outcomes of Higher Education Review: Wales for colleges and provided a

helpful forum for discussion. We have also provided support to the Higher Education Funding Council for Wales on changes to the Welsh quality assurance system, following the Higher Education (Wales) Act 2015.

17 In addition to the five Enhancement-Led Institutional Reviews carried out in Scotland, annual discussions were held with all 18 of the Scottish higher education institutions that we review. QAA Scotland has also worked with other sector partners to review the Scottish Quality Enhancement Framework and to revise the Enhancement-Led Institutional Review method, with a particular focus on the impact of the new Teaching Excellence Framework which is being introduced in other parts of the UK from 2016 onwards.

18 During 2015-16, we also undertook a review of transnational education (UK higher education delivered overseas) in Cyprus & Greece, the final reports on which were published in March 2016. In addition, we established a Transnational Education Sounding Board, with representatives from the UK sector, and international and professional body members.

19 To support and improve our reviews, we have delivered a number of reviewer training sessions, and briefings for students and providers during the course of the year. In June 2016, we held our Annual Reviewers' Conference at Aston University, which was attended by almost 200 QAA reviewers.

Outcomes and impact

20 As a direct result our work in this part of the sector, students and the public can have confidence in the standards and quality of UK higher education. Providers which do not achieve satisfactory outcomes, are obliged to improve their performance for the benefit of students.

21 For the higher education institutions and further education colleges which underwent Higher Education Review during the year¹, just over 80% achieved positive outcomes overall. Of these:

- 100% of higher education institutions received satisfactory judgements, of which almost quarter also received commendations
- 74% of colleges received satisfactory outcomes, with 16% receiving one or more commendations. The remaining 26% of colleges received one or more unsatisfactory judgements

22 21 providers which underwent Higher Education Review follow-up activity during the year, subsequently had their review outcomes published (in some cases, the outcomes were amended positively). In addition, four progressed to the Unsatisfactory Quality Policy process of the Higher Education Council for England (HEFCE).

23 For alternative providers²:

- Overall, 82% per cent of alternative providers received positive outcomes from Higher Education Review (Alternative Providers), of which almost 13% achieved commendations
- 18% received one or more unsatisfactory judgements, five providers had more than one unsatisfactory judgement. Only three of the providers with negative reviews have a relationship with an HEI.

¹ 2015 – 2016 academic year, based on the 94 reports published by October 2016 for Higher Education Reviews of publicly funded institutions in England, Northern Ireland and Wales

² 2015 - 2016 academic year, based on the 38 reports published by October 2016 for Higher Education Review (Alternative Providers)

- Our work with alternative providers continues to safeguard the standards and quality of UK higher education, and its world-class reputation, with failing providers either improving or withdrawing their provision

24 During the year, we have also produced a number of publications demonstrating the impact of our work, including *Good Practice in Higher Education Review: case studies*, which showcases good practice by providers which underwent Higher Education Review in 2014-15.

25 Our transnational education review in Greece & Cyprus this year has also provided the opportunity to work in partnership with ministries and agencies in both countries, strengthening relationships and mutual understanding about our respective systems. We also expect that the establishment of our new Transnational Education Sounding Board will help shape a better approach to the quality assurance of UK transnational education.

Access to HE

26 We are proud to manage the scheme for the recognition and quality assurance of Access to HE courses. The Access to HE qualification prepares adult students for entry to higher education and directly contributes to the government's agenda for social mobility, by enabling progression for people from disadvantaged backgrounds.

27 We undertook ongoing monitoring of one Access Validating Agency (AVA) during the year, after it was given a high risk judgement during 2014-15. We revisited the AVA in summer 2016, which resulted in a successful outcome. No other reviews of AVAs took place during the year.

28 During autumn 2015, we held three events across the country for higher education admissions staff to brief them on the inclusion of the Access to HE Diploma in the UCAS tariff, for the September 2017 student intake onwards. Following an enthusiastic response in previous years, we also held an Access Admissions Fair in London in October 2015, with 31 exhibitors and attended by almost 500 students.

29 We undertook a review of our Access to HE Recognition Scheme, which has resulted in new licensing criteria and a new risk-based regulatory monitoring method, which will be implemented in 2016-17. We have developed new procedures to facilitate mergers of Access Validating Agencies (AVAs) or with non-AVA awarding organisations, to ensure the interests of students are protected. There has also been continuing work on improving assessment approaches and grading consistency.

Outcomes and impact

30 Our Access to HE Key Statistics (2014-15) report this year underlined the continued positive impact of this qualification in widening participation in higher education:

- 25,480 Diploma students entered higher education in England and Wales (up 10% on the previous year), of which:
 - 88% were over 21 years old
 - 22% from low participation areas
 - 29% from ethnic minority backgrounds
 - 17% had a disability or learning difficulty

31 Our work to secure the inclusion of the Access to HE Diploma on the UCAS tariff has strengthened and positioned it within the mainstream, and provided higher education with a clear statement of where the Diploma sits in relation to other qualifications.

32 Our new monitoring method and licensing criteria, along with more robust responses to changes in the financial circumstances of AVAs, will ensure that we continue to safeguard quality

and standards in the awarding of Access to HE Diplomas, and the student academic experience.

Degree awarding powers and university title

33 At the start of this operating year, there were 13 ongoing applications under our scrutiny for degree awarding powers and/or university title. In addition to these, our Advisory Committee on Degree Awarding Powers has considered a further six new applications this year and agreed that five could proceed to detailed scrutiny. The review teams for all five of these new scrutinies include a student member, following the recent review of student engagement and wider governance.

34 Our Advisory Committee considered final reports on eight applications, following completion of our detailed scrutiny. Seven of these were put forward for recommendation to the Department of Business, Innovation & Skills, whilst one application was placed in abeyance. In addition, the Advisory Committee considered a final report from a Scottish applicant, which was put forward for recommendation to the Scottish Government.

35 We received representation from one applicant to contest the advice of the Advisory Committee. Our Board considered the representation and rejected it, upholding the Committee's advice.

36 We are committed to supporting the application process for degree awarding powers and, during the year, we have held 22 meetings with individual providers regarding their plans to apply. We also provided specialist advice to government and devolved administrations, and participated in a number of events and conferences to provide information and guidance for potential applicants. In December 2015, we published a revised handbook for applicants in England, with a further revised edition for Scotland in development.

Outcomes and impact

37 Our advisory role on new applications for university status and degree awarding powers continues to have valuable public impact; ensuring that those providers granted degree awarding powers have undergone rigorous scrutiny and can demonstrate that they can discharge their new responsibilities effectively. In addition, the publication of scrutiny reports has increased the transparency of the process.

38 We have worked with potential applicants to improve their understanding of the requirements and expectations associated with applying for degree awarding powers, through revised guidance, individual meetings and participation in events. We expect that this work should, in the future, result in improved applications which will proceed to detailed scrutiny.

Concerns and the Scottish Protocol

39 We investigate concerns about the management of academic standards and quality at higher education providers, through our Concerns Scheme. During the year, we undertook 26 initial concerns inquiries, six of which were still open at the end of the operating year. We conducted one full investigation, which found a number of failings. The report on this investigation was published on our website.

40 In Scotland, which has its own Protocol for managing potential risks to quality and academic standards, eight potential concerns were raised during 2015-16, all of which were closed at the informal enquiry stage. One preliminary analysis originating from the 2014-15 academic year was also closed during 2015-16. We have also reviewed our processes for exploring such cases and are now undertaking a consultation with the sector on draft proposals for a Scottish Concerns Scheme.

Outcomes and impact

41 In the one Concerns case which progressed to full investigation during 2015-16, the provider in question was required to submit an urgent action plan to us, setting out how it would

address the weaknesses identified. Delivery against this action plan is monitored by a QAA officer and only when satisfactory progress has been made, will the action plan be signed off. The Concerns Scheme provides an effective way to address weaknesses in the management of UK academic quality and standards. The Concerns Scheme also plays an important role in helping government bodies make decisions about student funding and Tier 4 international student recruitment.

42 In Scotland, we ensure that concerns raised under the Scottish Protocol can be addressed quickly, which adds to public confidence in the Scottish higher education sector. It also supports the regular reviews we undertake in Scotland, in remaining enhancement-focused.

Appeals and complaints

43 We have a complaints procedure for anyone wishing to complain about QAA and a separate appeals procedure for providers who want to appeal against the outcome of a QAA review.

44 In relation to complaints, work has been undertaken to encourage and support the direct resolution of potential issues by relevant QAA teams, before they are escalated to a formal complaint.

45 At the beginning of this operating year, we implemented a revised version of our appeals procedure, which has increased the robustness of how appeal submissions from providers are considered. We have also introduced a standard form for appeal submissions which has improved their quality and coherence, reducing the workload for our appeal reviewers. We have also delivered tailored appeals training during the year for reviewers, appeal panel members, independent reviewers and QAA staff. An analysis of 2015-16 appeal outcomes by review method is shown in the table below.

Method	Eligible to appeal	Appeal pending	Chose not to appeal	Appeal in progress	Appealed			Stopped (referred back to QAA team)
					Rejected by independent reviewer	Rejected by panel	Upheld	
HER*	16	0	15	1	0	0	0	0
HER+	0	0	0	0	0	0	0	0
HER Wales	2	0	2	0	0	0	0	0
HER (Alternative Providers)	12	1	6	1	3	0	0	1
Total	30	1	23	2	3	0	0	1

*Higher Education Review

Outcomes and impact

46 The selection and training of a dedicated pool of independent reviewers has resulted in a significant reduction in the number of cases referred to a full appeal hearing across the year (33% of cases referred in 2015-16, compared with 100% in 2014-15). Independent reviewers have also been given a new, discretionary power this year which allows them to refer only certain parts of an appeal submission to a full hearing, reducing and refining the scope of cases which ultimately reach the appeal panels. This dedicated pool has also reduced the potential for discrepancy between outcomes associated with the use of a wider range of reviewers for appeals.

47 The operation of an accessible appeals procedure permits providers undergoing review to make legitimate representations against review judgements, where they consider that those judgements have not been reached in accordance with published procedure. Learning from appeal outcomes contributes directly to the development of the procedure, which is reviewed regularly to ensure that it satisfies both statutory and regulatory obligations.

48 It is too early to evaluate the impact of the revised complaints procedure on the number of formal complaints received and upheld. We are confident that this development of complaint handling skills within the Agency should lead to a higher standard of customer service.

Engagement

49 We undertake a wide range of engagement work with our stakeholders, including students, employers, subscribers and the wider higher education sector.

Students

50 We work with students to involve and empower them in shaping their learning experiences. We continue to embed students into our governance arrangements, with two student members of our Board, student members of our Scotland and Wales committees, and a separate Student Advisory Board. In addition, from this year, students are members of the scrutiny teams appointed to review applicants for degree awarding powers and/or university title.

51 We have hosted a number of events this year for students and those working with them, including our Quality Matters and Evolving Student Engagement conferences, which were attended by a total of almost 160 delegates. We have also run development workshops on student engagement in Northern Ireland and the Ukraine (in partnership with British Council), and successfully delivered contracts for student engagement projects with the National Union of Students (NUS) and The Student Engagement Partnership, and the Wales Initiative for Student Engagement (Wise Wales).

52 We have undertaken briefings to support 36 Lead Student Representatives for providers undergoing QAA reviews during the year. Our Student Engagement Advisers, who are based across England and Wales, have also delivered support for 15 reviews and related quality matters.

53 In Scotland, our current Enhancement Theme of 'Student Transitions' is focused on students and we have supported student engagement through events, membership of the Enhancement Themes Student Network and Scottish Higher Education Enhancement Committee, and funding for student-led projects. We also work closely with sparqs (student partnerships in quality Scotland).

Outcomes and impact

54 Our engagement work with students continues to support their effective engagement in quality at their institutions and in their own learning experiences. Our events during the year have been well attended and very positively received, including 79% of delegates who reported that our Quality Matters event had a positive impact on their work.

55 In relation to the significant external policy developments which have taken place throughout the year, student feedback and insights have informed our responses to key sector consultations including the Quality Assessment Review and the Department for Business, Innovation & Skills Green Paper on future policy for higher education in England. We have also facilitated engagement between students and government, in the development of areas such as the Teaching Excellence Framework. We have engaged positively with students on the development of potential QAA new services and activities to meet the future needs of the sector.

56 In Scotland, there has been an increase in student-led projects within institutions on the Scottish enhancement theme. There was also significant student participation in the 13th Annual Enhancement Themes Conference in Edinburgh during summer 2016, with students leading a

number of sessions. We also hosted a successful event focused strongly on students as co-creators of the curriculum.

Employers and professional, statutory and regulatory bodies

57 We work with employers to facilitate understanding and collaboration with the higher education sectors, and to shape the graduate employability agenda. We also work with professional, statutory and regulatory bodies (PSRBs) to share information and experiences, and to streamline regulation.

58 During the year, QAA's work with employers has been focused through our partnerships with the National Centre for Universities and Business (NCUB), the Chartered Management Institute (CMI) and other organisations. In April 2016, we published *Employability Initiatives in Universities and Colleges*, the findings of research we commissioned in partnership with the Association of Graduate Recruiters, undertaken by the University of Warwick's Institute of Employment Research and IFF Research.

59 In partnership with the UK Inter-Professional Group, we continued to host a PSRB Forum which meets two to three times each year to discuss higher education developments, including sessions with government representatives. We have also undertaken a series of individual meetings with a range of PSRBs during the year, to build relationships and identify areas for potential collaboration.

Outcomes and impact

60 In light of the rapid policy developments taking place in higher education, information and intelligence from QAA has been particularly welcomed by employers and PSRBs this year. The 2015-16 meetings of the PSRB Forum had some of the highest attendance levels to date, and provided a platform for lively discussion, debate and engagement between PSRBs and government representatives on significant policy developments such as the Teaching Excellence Framework. We have also worked closely with PSRBs through the Forum to address areas of duplication in our regulatory and quality frameworks, for example in data collection.

61 Through our individual interactions with a number of PSRBs, we have provided advice and guidance in relation to their regulatory and quality approaches, and in some cases operating those approaches on their behalf.

62 There has also been interest in the findings of our jointly commissioned research, *Employability Initiatives in Universities and Colleges*, including from the Department for Business, Innovation and Skills as a potential input to inform further policy developments.

Subscribers

63 Building on work undertaken in the previous operating year, we have continued to develop and improve our engagement with, and support for, our subscribing providers. Over the course of the year, we have delivered a full programme of liaison visits, with QAA's Chief Executive, directors and other staff holding over 120 meetings with individual providers, representative bodies and mission groups. Over one third of these meetings were at the highest strategic level involving Vice-Chancellors and Principals.

64 QAA's 2016 Annual Subscribers' Conference was held at the University of Birmingham in April 2016, attended by almost 300 delegates (a 4% increase on the previous year). The theme for this year's conference was 'The Right Touch', focusing on the right shape for quality assurance, regulation and policy for the future. We were pleased to welcome a range of high profile speakers including Brandon Lee, Chief Executive of the Council for Private Education in Singapore and Smita Jamdar, Head of Education Practice at Shakespeare Martineau LLP.

65 During this year, we also began a process of review and consultation with providers to ensure that our services and subscription rates reflect their changing needs. More details about

this are provided in the section on Aim 3 of our strategy, later in this report.

Outcomes and impact

66 Our programme of subscriber liaison visits has continued to be welcomed by our subscribers, as well as providing invaluable insights into what they need from us now and in the future. The meetings have also provided key intelligence and insights, to inform our responses to the various external policy debates and consultations during the year. Key issues discussed have included: the emerging role of QAA within the new quality landscape; challenges associated with the revised model for quality assessment and the new Teaching Excellence Framework; and QAA's international work and its potential to further strengthen the world-class reputation of UK higher education.

67 With a range of keynote addresses and workshops delivered, our 2016 Annual Subscribers' Conference provided a platform for insightful contributions to the debates over current higher education policy developments in the UK and internationally, with high satisfaction rates in delegates' evaluations.

Aim 2: provide leadership, through knowledge and resources, in assuring and enhancing the quality of higher education within the UK and internationally

Information, intelligence and analysis

68 During the year, we have undertaken research and analysis to inform both our own operations, and also to provide intelligence for our partners and stakeholders. Our research, analysis and intelligence have informed our responses to key policy consultations during the year, including the Quality Assessment Review and the Department for Business, Innovation & Skills Green Paper on future policy for higher education in England. We have also supported government and the devolved administrations in the development of higher education policy in areas such as the new Teaching Excellence Framework.

69 Our insight and intelligence work has covered key topics of current sector debate, including external examining and comparability of standards, learning gain and measurement, use of student information, and approaches to quality assurance internationally. We published a range of reports on QAA review outcomes, key themes and trends in the sector during the year, as well as good practice case studies. We undertook a number of UK-wide programmes including on higher vocational qualifications, assurance of awarding bodies and international accreditation. We also created individual profiles for all providers subject to Higher Education Review in 2015-16.

70 During 2015-16, we continued our joint research project with the British Council on *Cultures of Quality: an international perspective*. QAA's Head of Research & Intelligence presented some of the latest findings of the project at the British Council's Going Global conference in South Africa, in May 2016. We also commissioned and published six small-scale primary research projects on subjects of interest and value to our stakeholders in the areas of:

- i) Experiences of entrants transitioning into higher education
- ii) Role of student satisfaction data in quality assurance and enhancement
- iii) Impact of QAA guidance documents

Outcomes and impact

71 Our research, intelligence and analysis continue to provide both practical and strategic insight for those responsible for quality and standards, regulation and policy in higher education. This work has ensured that our leadership team and Board have remained well briefed on external positions and developments, as well as providing a strong evidence base for our responses to key consultations. In addition, our data on provider eligibility has been used by the Department of

Business, Innovation & Skills as the basis for the first year of awards for the Teaching Excellence Framework.

72 Our commissioned research reports on transitions into higher education have been particularly well received externally, leading to the establishment of an informal group for those interested in this subject.

73 Our development of individual profiles of providers undergoing Higher Education Review in 2015-16 ensured that QAA review teams had the right contextual information to support effective reviews, with clear lines of enquiry.

Thought leadership and informing policy debates

74 Our parliamentary and government engagement work this year has included briefings, consultation responses, meetings, active membership of various government working groups, secondment of QAA staff to the Department of Business, Innovation & Skills, and other activities. We have continued to develop and maintain good working relationships with a range of politicians and their advisers, providing written and face-to-face briefings throughout the year on key issues. In January 2016, QAA's local MPs for Gloucester and for Stroud visited our headquarters in Gloucester for briefings and discussions with staff.

75 During autumn 2015, we submitted formal written evidence to the House of Commons Business, Innovation & Skills Select Committee for its inquiry into assessing quality in higher education. QAA's Chief Executive was subsequently called to give oral evidence to the committee in December 2015, alongside the heads of other sector agencies.

76 Senior staff at QAA have undertaken a wide range of regional, national and international speaking engagements throughout the year, ensuring QAA's voice and positions are actively relayed and understood in external debates. We also launched a new Viewpoint series of policy papers on hot topics for the sector in March 2016. We have worked in partnership with other sector organisations on a number of key issues for the sector, including an investigation into essay mills and plagiarism at the request of government, and degree apprenticeships.

77 We have issued 91 news releases during the year on the outcomes of our reviews, and a further 46 on corporate news. QAA received 913 pieces of media coverage over the year. Our online publications, *QAA News* and *Quality News* (for subscribers), continue to be well received. On social media, we reached over 11,000 followers during summer 2016 and were mentioned an average of almost 1,200 times per month during the year.

Outcomes and impact

78 Through our sustained programme of positive engagement, influence and relationship building, QAA's work and impact has been recognised in a number of significant reports and policy papers this year including the Department of Business, Innovations & Skills White Paper. Following its inquiry into assessing quality in higher education, the House of Commons Business, Innovation & Skills Select Committee's final report included positive recommendations for QAA, including that quality assurance should remain independent of government and any new regulator.

79 QAA's opinion continues to be regularly sought on issues relating to quality, standards and regulation, with strong and productive relationships with *Times Higher Education* and the policy website, Wonkhe. The significant media coverage achieved this year for our review findings and Concerns Scheme work, continue to contribute to safeguarding the reputation of UK higher education and also increasing understanding of QAA's role.

Quality Code and other reference documents

80 This year, we developed a series of case studies for providers on how the Quality Code is used in practice, set in the context of the Quality Code's indicators of sound practice and other

content. This work included a number of workshops, and engagement with members of other sector organisations such as Universities UK, Association of Colleges and the Quality Strategy Network.

81 A project on embedding the Quality Code by institutions has provided useful pointers for a more complete revision of the Code. Following the outcomes of the Quality Assessment Review in England, Northern Ireland and Wales, and the publication of the revised operating model for quality assessment, a new Standing Committee for Baseline Regulatory Requirements was proposed, of which QAA will be an active member. The baseline requirements will include specific elements of the current Quality Code.

82 During the year, we completed the third and final phase of our 2013-16 review of all subject benchmark statements (which are published under Part A of the Quality Code). In this final phase, we reviewed 18 statements, and published an additional two new statements on the subjects of creative writing and veterinary nursing. A review group was formed for each statement, with representatives from relevant subject communities, professional bodies and employers, with analysis and comments from students of that subject area. The number of statements reviewed across the entire project was 54 in total.

83 In October 2015, in response to sector demand, we also published a new qualification characteristics statement for qualifications involving more than one degree awarding body, with a further characteristics statement on degree apprenticeships in development.

Outcomes and impact

84 The creation of a practical case study resource for providers on the use of the Quality Code has been well received and is something which can be further expanded as new materials and case studies become available. Our Quality Code projects have provided valuable insights into its fitness for purpose and will inform any future work, in association with the new Standing Committee for Baseline Regulatory Requirements.

85 Our Quality Enhancement Events have been successful in facilitating and disseminating best practice, with over 80% of degree awarding bodies attending an event in the course of the year.

86 The enthusiastic and active engagement of review groups in the subject benchmark statement programme, has underlined the value placed in the statements by subject communities and there continues to be interest in developing new statements. The full impact of each statement can be evaluated once providers review their programmes in the light of the revisions. PSRBs have also reaffirmed to us the importance of the statements to their work.

Improvement and enhancement

87 We have worked this year to increase sector awareness and use of QAA's 'Build Your Own Quality Code' service and also our toolkit to support colleges in making effective use of the Quality Code. We have undertaken work to ensure these are better integrated with other Quality Code resources on our website.

88 We have also successfully delivered a range of events through our Quality Enhancement Network, which supports our subscribers in enhancing and sustaining effective management of quality and standards in higher education. Ten events were hosted at universities and colleges around England on priority topics identified by our subscribers, including: digital literacies; awards involving more than one degree awarding body; student engagement; and employability and higher apprenticeships. Sessions also involved representatives from relevant sector organisations and case studies from providers.

89 In June 2016, in response to a request from the Department for the Economy in Northern Ireland, we ran an event for providers on the implications for them of the Competition & Markets

Authority's consumer law guidance for higher education.

90 In Scotland, our series of Focus On projects have drawn on the outcomes of Enhancement-Led Institutional Reviews, to support the enhancement of policy and practice in the Scottish sector. Each year, we collaborate with the Scottish Higher Education Enhancement Committee to determine a Focus On topic which, for 2015-16, was managing collaborative activity and supporting students studying at a distance. Activities during the year have included events, online seminars and development of online resources. We also delivered a joint Quality Enhancement Network and Focus On workshop on managing collaborative activity.

91 The current enhancement theme in Scotland is Student Transitions and runs from summer 2014 -17. Work has continued this year, with events and further development of resources which are being made available via an online 'Student Transitions Map'.

Outcomes and impact

92 A particular feature of our Quality Enhancement Network events this year has been the engagement of other sector organisations with relevant expertise. This has provided significant additional value for delegates, for example the involvement of Jisc in digital literacy and the Higher Education Academy in student engagement.

93 The Focus On project approach has attracted widespread recognition and positive feedback from the Scottish sector, and will now be taken forward as part of a programme of new UK-wide activities for QAA.

94 Our work on the Student Transitions enhancement theme in Scotland is directly student-facing and closely tailored to student needs. Resources are developed specifically for students and those staff supporting students, supported by literature reviews and made available online.

Aim 3: extend and enhance the value and reach of QAA's services within and beyond higher education

Demonstrating additional value for the sector and our subscribers

95 We have engaged positively in the significant policy developments and consultations which have taken place during the year, to ensure our knowledge and expertise have made a significant contribution for the benefit of our subscribers, students and the sector.

96 In this operating year, we began the process of reforming our current subscription model to reflect the changes in the external regulatory framework and the evolution of our own organisation. This will involve a series of changes during the period 2016-2018. The transitional arrangements have been approved by our Board, and we continue to communicate and engage with our subscribers and wider stakeholders on the changes. We will introduce some transitional changes for 2016-17 (including a 10% reduction for those providers paying the highest fees), with further changes from 2017-18, on which we will consult formally with the sector.

97 During summer 2016, we also embarked upon an organisational change programme, to ensure our future sustainability in light of reductions in income as a result of the Quality Assessment Review, reduced funding from the Scottish Funding Council, lower subscriptions and a declining number of alternative providers. The programme will ensure that the Agency adapts to these and other changes in the higher education landscape, and that we are an agile, lean and responsive organisation to meet the future needs of the sector.

98 Following a competitive procurement process for services for the revised quality assessment model, we successfully secured four tenders (and a partner for a fifth). We also contracted with the Higher Education Funding Council for England to develop and deliver key

components of the assessment process for Year 2 of the Teaching Excellence Framework (TEF). This followed our continuing engagement with the government's development of the TEF, including secondment of our staff to the government's TEF delivery team, and membership of government steering and working groups.

Outcomes and impact

99 Our successful tenders for quality assessment ensure that QAA remains a key agency in the new model, and provides continuity for the sector by building on our twenty years of work as the UK's independent quality body.

100 Our continuing engagement with the development and delivery of the TEF has enabled us to ensure the framework is responsive to the needs of our subscribers, whilst still delivering the government's policy priorities.

Higher and degree apprenticeships

101 We have responded actively to the emerging policy priority of higher level skills development, in particular the government's desire to expand higher and degree apprenticeships. This has included: securing a secondment to QAA from the UK Commission for Employment & Skills (UKCES); the development of a qualification characteristics statements for degree apprenticeships; and working in partnership with other regulators, providers, employers and sector organisations including Universities UK and the University Vocational Awards Council. We have also continued our role in relation to higher apprenticeships in Northern Ireland and Scotland.

Outcomes and impact

102 Our work in this developing area will help ensure degree apprentices provide students with an appropriately high quality experience which is different from, but on par with, that of their counterparts in 'traditional' higher education.

International

103 This year, we have provided briefings for our overseas partners, governments and other higher education stakeholders in key host countries for UK higher education. We have also worked with the UK Higher Education International Unit to meet with and brief delegations from a number of strategic countries for our sector including Turkey, China, Thailand and the Pacific Alliance countries.

104 To extend international knowledge and information about the UK higher education system, we have delivered keynote addresses and workshops at over 30 events this year. We have also provided expertise on a number of international committees, engaged in international policy debates, and provided articles and blogs including for HEGlobal, the European Association for Quality Assurance in Higher Education and the *Journal of the European Higher Education Area*. During summer 2016, we published a policy paper setting out our views on the importance of the continued role of the UK in the European Higher Education Area, following the outcome of the UK's referendum on membership of the European Union.

105 We have played key roles in a number of international collaborative projects and events including:

- The European Commission-funded international project, Quality Assurance of Cross Border Higher Education (QACHE)
- The European SHARE programme (EU Support to Higher Education in the ASEAN Region)
- The 2016 UK-China Education Policy Week in Beijing, which brought together education sector leaders from both countries to discuss priority issues and challenges, and to explore partnership opportunities in a range of areas

- Hosting the 10th Annual Conference of the European Quality Assurance Forum at the UCL Institute of Education in London, November 2015
- Advising the Chinese Ministry of Education and the China Education Association for International Exchange on the approval of applications for new UK transnational arrangements in China

Outcomes and impact

106 Our work supports the globalisation, world-class reputation and influence of the UK higher education sector. It increases understanding of, and trust in, our quality assurance of UK provision. This is particularly critical as the sector undergoes significant changes. The importance of our work on projects such as QACHE, alongside the expertise we continue to gain and share through our international activities, is evidenced by in the number of invitations we continue to receive to speak at and participate in international conferences, projects and groups. These engagements provide the platforms for our promotion of UK higher education and increasing international understanding of our new quality and regulatory arrangements.

107 The 2016 UK-China Education Policy Week, in which we participated, concluded with the publication of the Beijing Statement of Principles, which will strengthen co-operation in the delivery and assurance of TNE programmes between both countries. Our work with the Chinese Ministry for Education and China Education Association for International Exchange has also facilitated new UK transnational education provision in China.

108 Our work is also recognised at governmental level, and is being called upon further inform discussions about the UK's continued role in the Bologna Process and the European Higher Education Area, which will be of increased importance following the outcomes of the UK's referendum vote to leave the European Union.

109 With 16 formal partnerships with international organisations, we are now moving to agreements which focus on more tangible projects, with specific deliverables which will increase the benefits of our work to the UK sector. As part of this, during the year we renewed our agreements with the Tertiary Education Quality & Standards Agency of Australia and the Knowledge & Human Development Authority of the United Arab Emirates. We also signed a Memorandum of Affiliation with the International Quality Group of the Council for Higher Education Accreditation in the United States, to encourage use of the Group's international quality principles.

110 Our role in hosting the largest ever European Quality Assurance Forum annual conference — attended by over 550 delegates — has made a significant contribution to maintaining the international profile of UK higher education and its quality framework.

Other areas of development

International consultancy and training

111 In February 2016, QAA signed a contract for quality capacity building with the Albanian government with a total value of €709,100, to be delivered in four phases. Phases one and two have been completed to schedule in this operating year. Work is also underway on a contract with the University Grants Council in Hong Kong with a total value of £140,592, which is due for completion in the next operating year. We have also delivered international projects in countries including Ukraine, Macao, Kuwait and Morocco. The British Council has been a key partner in facilitating our work internationally.

112 In March 2016, we launched our new International Quality Review method, for international institutions wishing to undergo a review by QAA against the international standards set out in the *Standards and Guidelines for Quality Assurance in the European Higher Education Area* (ESG). The first review will take place during winter 2016-17.

113 Launched in 2013-14, our week-long International Quality Assurance Programmes have

continued to attract colleagues from around the world to London, to undertake continuing professional development. In autumn 2015, the fifth programme was held, attended by 22 delegates from twelve countries. Discussions are currently underway regarding offering the programme regionally overseas.

Outcomes and impact

114 Our work in Albania – secured with the support of the UK’s Ambassador to Albania and the British Council – is of significant national economic and educational importance for that country, and has attracted much domestic attention. Our work with the University Grants Council in Hong Kong has also been well received. It is expected that these and other international projects should lead to further opportunities for QAA to deliver on our strategic objective to achieve greater financial sustainability to underpin our continued independence.

115 Our International Quality Assurance Programme provides an excellent platform for international knowledge exchange and relationship building, increasing QAA’s reputation and visibility through the delegates who attend from around the world.

M5 Group

116 In March 2016, the Higher Education Statistics Agency (HESA), Jisc and QAA announced a new collaborative partnership, known as the M5 Group. The three organisations are now exploring increased collaboration and cost sharing, focusing on delivering services in a more efficient manner, whilst maintaining service levels and providing greater value for our respective members, customers, funders and stakeholders. The M5 Group collaboration has also complemented our ongoing business improvement programme.

Outcomes and impact

117 The M5 Group project is already delivering value and benefits to QAA, and continues to make good progress, exploring areas including improved services for subscribers, utilising common systems and sharing office space. It has also enabled us to move forward more quickly with the implementation of our customer relationship management system. The three organisations have signed a Memorandum of Understanding to take us forward into the next phase of work, with further benefits expected to be realised at different stages over the next two years, including potential efficiency savings of between £0.5 – 1million across our organisations.

Financial review

118 The financial statements have been prepared in accordance with the requirements of the Charities SORP. Following the publication of our 2014-17 strategy with its three strategic aims (which are reported on above), resources expended on charitable activities are shown split between these aims. The **total resources expended** note (note 8, page 48) splits these categories down further and includes an allocation of support costs across the aims.

Implementation of FRS102

119 The implementation of FRS102 has resulted in changes to accounting policies which are detailed in Note 2. This in turn has led to the restatement of the comparatives used for the year ended 31 July 2015 SOFA and balance sheet. A reconciliation of the opening balances at 1 August 2014, the SOFA for the year ended 31 July 2015 and balance sheet at 31 July 2015 is provided at note 26.

Results

120 QAA's 2015-16 activities were funded primarily through contracts with the higher education funding bodies, subscriptions from higher education providers, and charges for oversight and review of alternative providers of higher education. Additional income was generated through other review activity, degree awarding powers applications, contributions from AVAs, conferences and investment income.

121 QAA's net expenditure for the year ended 31 July 2016, before recognising investment gains, was £331,768 (2015: net expenditure of £153,757; net income of £463,243 before restatement). After recognising net gains on investments of £26,602 (2015: £227,656), the net movement in funds for the year was a decrease of £305,166 (2015: increase of £73,899; increase of £690,899 before restatement) which has reduced reserves. The accumulated funds at 31 July 2016 are £4,640,069 (2015: £4,945,235; £6,534,235 before restatement).

122 QAA's wholly owned trading subsidiary, QAA Enterprises Limited, has made a contribution of £15,531 to the group surplus. QAA continues to develop new activities and, when appropriate, these are channelled through the subsidiary.

Income

123 Total income as shown in the Statement of Financial Activities (SOFA) increased by £608,259 (4.1%) to £15,460,230 between 2014-15 and 2015-16.

124 Income from charitable activities shows a net increase of £577,893 (3.9%) due to increases in:

- **contracts with higher education funding bodies** (£164,700; 2.4%, due primarily to an increase in the number of reviews undertaken within the review cycle)
- **alternative providers of higher education** (£289,921; 14.9%, due primarily to an increase in the number of reviews undertaken within the review cycle)
- **other contracts and related income** (£167,936; 18.6%, due to increased degree awarding powers and conference activity)

The increases are offset by a decrease in:

- **subscriptions** (£44,664; 0.9%, due to changes in rates for alternative providers which was partially offset by an increase in FEC subscribers and students)

125 Income from investments has increased by £17,652 (14.2%) to £142,096.

- the investment income is interest from cash deposits, together with dividends and interest from fixed asset investments. Investment returns are discussed in the Treasury Management section below.

126 Income from other trading activities of £17,590 relates to the trading subsidiary. There is also income from other sources of £13,604.

Expenditure

127 Total expenditure as shown in the SOFA, increased by £786,270 (5.2%) to £15,791,998 between 2014-15 and 2015-16 after restating 2014-15 for the introduction of FRS102.

128 Expenditure on charitable activities increased by £786,320 (5.2%) to £15,765,712, due to restructuring charges of £903,228 which are offset by a decrease in pension provision movements of £952,000. Before accounting for restructuring costs and pension provision liability movements, charitable expenditure on the three strategic aims showed an increase of £835,092 (5.8%) to £15,197,484 as follows:

- **Aim 1** an increase of £790,974 (8.1%) due primarily to increased review activity.
- **Aim 2** a decrease of £167,003 (4.9%) partly due to a smaller enhancement themes conference in 2015-16 and one-off relocation costs incurred in 2014-15, which affected all three strategic aims.
- **Aim 3** an increase of £211,121 (17.3%) as a result of hosting the EQAF conference.

A breakdown of charitable expenditure between the strategic aims is shown in notes 7 and 8 on pages 47 and 48.

129 An analysis of charitable expenditure between direct costs and support costs is provided in the **total charitable expenditure** note (note 8, page 48).

Balance sheet

130 QAA's group balance sheet remains strong with total funds of £4,640,069 (2015: £4,945,235 as restated). The restatement of the balance sheet at 31 July 2015 for FRS102 resulted in a reduction of reserves of £1,589,000.

131 The net book value of tangible fixed assets held by the group and charity shows a decrease to £1,646,423, with depreciation exceeding the £256,343 spent on additions (see note 13 on page 51).

132 The net book value of fixed asset investments has reduced by £1,283,110 to £2,738,395. Investments were sold to ensure QAA had sufficient liquid funds to cover restructuring costs. This has contributed to the temporary increase of £1,779,107 in the cash at bank and in hand.

133 Group and company debtors and creditors have remained at similar levels.

134 Following the implementation of FRS102, the charity is now carrying provisions for future pension contribution liabilities and staff holiday pay. In addition, at 31 July 2016, there is also a provision of £803,783 for restructuring costs.

Reserves policy

135 QAA's Reserves policy establishes a target range of free reserves, taking into account: the financial impact of risk; the volatility of current and future income streams; the action required in the event of income reduction; and the impact of future commitments. The resultant target range of free reserves is currently set at £1.57-£2.78 million. The level of free reserves at 31 July 2016 is £1.40 million, which falls outside this range. A budget has been set for 2016-17 which will bring reserves back to the lower end of the desired range.

136 QAA holds reserves for three main reasons:

- to secure its long-term position
- to deliver the medium-term objectives in the QAA strategy, by ensuring that reserve levels provide a cushion against medium-term business risks and take full account of the costs of medium-term objectives
- to ensure that it can carry out the programme of work detailed in the next year's annual plan, for example through meeting approved shortfalls in short term activities which are not fully funded

137 A designated Innovation and Development (I&D) Fund is set aside 'for innovation in products and services for the long term benefit of UK higher education'. It is anticipated that this fund will be called upon over a number of years to invest in the development of these new products and services. A proportion of income generated through business development will be used to replenish the fund while this remains appropriate. The opening balance on the fund was £773,394. During the year £60,681 was used to cover expenditure, leaving a balance of £712,713. There was no transfer into the fund as this balance is considered adequate to fund future expenditure at this stage. This will be kept under review.

138 Designated funds have also been set up to cover the cost of reinstatement of QAA's offices at the end of their leases and to cover some depreciation charges. The depreciation fund was transferred back to the general fund as it is no longer required due to changes in funding and contracts. A designated fund of £667,000 for restructuring has been created to cover the remaining restructuring costs crystallising in 2016-17. Details of designated funds can be found in the funds analysis in note 23 to the financial statements.

139 The policy allows the directors to meet their obligations under the Companies Acts and to comply with Charity Commission guidance.

140 At 31 July 2016, QAA's free reserves as defined by the Charities SORP were £1,398,933 (2015: £1,979,585 as restated).

Treasury management

141 The main principles underpinning QAA's treasury management policy are to ensure that:

- QAA has adequate cash and working capital to enable it, at all times, to have sufficient funds available to achieve its business objectives
- QAA investments are secure – this is achieved by ensuring that its authorised investments reflect a risk-averse and prudent attitude towards the organisations with which funds may be deposited, and limits its investment activities to those approved
- QAA achieves the maximum return on its investments, taking into account the other key principles
- QAA minimises the risk of fraud or error in its treasury management activities – this is achieved by designing suitable systems, procedures and contingency management arrangements in order to minimise the risk of fraud or error

142 During 2015-16, the revised investment approach agreed by the trustees continued to be followed, with available funds being notionally split into three tranches and managed as follows:

- **short term working capital** – held by QAA's bankers, HSBC Bank plc, and managed internally
- **medium term cash funds** – invested with HSBC Bank plc, Barclays Bank plc and Lloyds Bank plc and managed internally in accordance with our cash flow plan to meet short term working capital requirements
- **longer term reserves** – over £2.3 million has been placed with Rathbones Investment Management Limited (Rathbones) for discretionary investment in listed shares and gilts

143 During the year, Rathbones returned £1.41 million to QAA for the funding of restructuring costs.

144 Investment income in the year is attributable to interest receivable of £19,511 from short term working capital balances and medium term cash funds, together with interest and dividends of £122,585 received from fixed asset investments.

145 The market value of the investments is £2.74 million (2015: £4.02 million). The net unrealised gain in the market value of funds held at 31 July 2016 was £382,457 (2015: £365,229). The overall increase in fund value is in line with the investment fund manager's target of CPI plus 4%. The surplus of interest and dividend receipts after paying management charges, together with net gains or losses realised, continues to be re-invested.

146 This approach is being closely monitored and managed, with formal advice from our investment advisers, to ensure that the principles of the treasury management policy are being met. Given the unchanged base rate and current market conditions, QAA considers the returns on its cash and investments to be acceptable.

Looking forward: 2016-17 and beyond

147 2017 will mark the twentieth anniversary of QAA's incorporation and will be a significant milestone in the development of the Agency.

148 We will deliver the final year of our current strategy during 2016-17, against our three strategic aims. Our strategic priorities for the 2016-17 operating year include:

Aim 1 Quality assurance and enhancement
<ul style="list-style-type: none"> • To successfully deliver our contracts for the revised operating model for quality assessment in England and Northern Ireland • To develop a distinctive service for the revised operating model in Wales, once finalised • To design the next iteration of the enhancement-led approach in Scotland • To deliver effective external assurance programmes for the Department of Education and the Home Office • To work with HEFCE, the Department of Education and other sector partners to deliver and further develop the Teaching Excellence Framework • To continue to engage students, employers, PSRBS and other stakeholders with our work under the revised operating model • To implement the new Access to HE Recognition Scheme and review method
Aim 2 Knowledge resources
<ul style="list-style-type: none"> • To deliver insightful sector analysis to support quality enhancement • To continue to engage actively with the progress of the Higher Education & Research Bill 2016-17 in England • To continue to engage with the outcomes for providers of elections and policy developments in the devolved administrations • To participate in the new Standing Committee for Baseline Regulatory Requirements • To deliver Scotland's international Enhancement Themes conference • To continue to deliver effective support to providers through our Quality Enhancement Network
Aim 3 Services
<ul style="list-style-type: none"> • To develop, consult on and launch our new strategy • To implement a revised model of governance, reflecting the broad range of sector interests • To further develop, consult on and launch a revised subscription model • To develop, launch and deliver differentiated, value-adding services for our subscribers and others in the wider sector • To extend international cooperation to support UK higher education exports • To support the sector in the assurance of higher level vocational awards • To deliver benefits from our participation in the M5 Group

149 As we enter the final year of our current strategy, our Board has now begun the process of defining the Agency's strategic ambitions for the future. Our short to mid-term ambitions are likely to include securing designated status as the independent quality body for England as set out in the

draft Higher Education & Research Bill currently going through parliamentary scrutiny, whilst maintaining a coherent UK-wide framework for academic standards and quality. Key to this will be completion of our current governance review and effective implementation of the resulting changes. Our other high priorities are expected to include: successful delivery of our four contracts for the revised quality assessment model (three contracts cover England and Northern Ireland with an option for Wales to participate, one contract covers the whole of the UK); delivering key components of the Teaching Excellence Framework assessment process; securing a central role in the new quality assurance arrangements for Wales; and finalising our role in the revised Quality Enhancement Framework in Scotland.

150 Other key areas of work will include: a review of the UK Quality Code; a formal consultation on our future subscriptions and services; preparations for our next review in 2018 by the European Association for Quality Assurance in Higher Education (ENQA); and submission of a 'major change' report to the European Quality Assurance Register (EQAR) following the outcomes of the Quality Assessment Review (this report is a condition of our listing on the register).

151 Following significant organisational change during summer and autumn 2016, our Board and senior leadership team will be focused on embedding those changes, to ensure the Agency is ready to meet the needs of the sector in the future.

Reference and administrative details

152 Reference and administrative details, including details of the charity's advisors, can be found on page 64.

Directors' report

Structure, governance and management

Governing documents

153 Over the past year, the Agency has undertaken a review of its governance structures and supporting processes in order to ensure the efficiency, effectiveness and sustainability of its decision making. This included an external review of the Agency's governance in relation to its company membership and board composition. Against the background of changes in higher education policy in England and with the publication of the Higher Education and Research Bill which set out criteria for the designation of an independent quality body, the Agency will be discussing potential reform to the governance structure with Company Members that will be required to secure its short term ambition of achieving designated status.

154 QAA is a private company limited by guarantee, and a registered charity in England, Wales and Scotland. The company's members are, as at 31 July 2016:

- GuildHE Limited
- Universities Scotland
- Universities UK
- Universities Wales

155 In the event of winding up, the liability of the members is limited to an amount not exceeding £1 per member.

156 We were established under a Memorandum of Association and are governed under our Articles of Association, which set out the Agency's constitution and objects. The Articles are published on our website.

157 Our objects are:

- The promotion and maintenance of quality and standards in higher education in the UK and elsewhere
- The enhancement of teaching and learning, and the identification and promotion of innovation and good practice in teaching and learning
- The provision of information, and the publication of reports on quality and standards in higher education in the UK and elsewhere
- The provision of advice to governments, as requested, on Access course recognition and in relation to all or any of the above objects

Recruitment and appointment to the Board

158 Our directors of the Agency are also our trustees, for the purposes of charity law. Under our Articles of Association, they are known as the Board. Under the requirements of the Articles, 17 trustees are appointed to the Board as follows:

Serving a three year term, then eligible for a second three year term:

- Four members appointed jointly by the four funding bodies for UK higher education (Department for the Economy in Northern Ireland, Higher Education Funding Council for England, Higher Education Funding Council for Wales, Scottish Funding Council)
- Four members appointed jointly by the UK higher education representative bodies (GuildHE, Universities Scotland, Universities UK and Universities Wales)
- One member nominated by the UK Council of Colleges and appointed by the Board
- Six independent members appointed by the Board

Serving a one year term, then eligible for a second one year term:

- One independent member appointed by the Board who, at the time of appointment, is a registered undergraduate or postgraduate student, an elected student officer of a student union, or an elected student officer of a student representative body
- One member nominated by the National Union of Students and appointed by the Board

159 All of our Board members are non-executive directors. They give their time to us voluntarily and they do not receive any benefits from the charity. Expenses claimed by our Board members during the 2015-16 financial year are covered in note 10 of our financial statements.

160 Our Board membership represents the diversity of the UK's higher education, including students, with a rich mix of skills and experience. Our six independent Board members have, in line with the requirements of our Articles, experience in industrial, commercial or financial matters, or professional practice. We advertise publicly to recruit our independent members, following an assessment of the skills we need on our Board. Our Nomination & Remuneration Committee advises the Board to ensure our selection and recruitment process is transparent and fair.

Board member induction

161 Newly appointed Board members are provided with the following documents, and sign a declaration to confirm that they have reviewed and understood them:

- Charity Commission publications: *The Essential Trustee* and *The Hallmarks of an Effective Charity*
- Office of the Scottish Charity Regulator publication: *Guidance and Good Practice for Charity Trustees*
- QAA publication: *Code of Best Practice for Members of the QAA Board*

162 Our *Code of Best Practice for Members of the QAA Board* covers: Board members' duties and responsibilities; ethical conduct guidance; other internal policies and external regulations; guidance on statutory duties and responsibilities, and good governance. We make our *Code of Best Practice* available to our Board members on our online Board and committee portal, and we also publish it on our website.

163 We ensure that all of our new Board members have an individual induction programme of meetings with the Chair and senior executive staff. This introduces them to the Agency, our governance, operations and strategic plans. Our Company Secretary and Clerk to the Board are available to support Board members in discharging their statutory duties, providing advice and guidance as required.

164 During this operating year, we have reviewed and refreshed our induction programme as part of a wider review of our governance. This will ensure that we continue to prepare and support our trustees effectively for their roles in the future.

QAA Board of Directors

165 From 1 August 2015, the following served as Directors and Trustees on the QAA Board:

Independent members	
Mr Christopher Banks CBE (Chair)	Independent Chair Former Deputy Pro-Chancellor, University of Birmingham (appointed November 2014)
Ms Jane Hern	Former Registrar (Chief Executive), Royal College of Veterinary Surgeons (appointed December 2010)
Ms Janet Hull OBE	Director of Marketing and Reputation Management, Institute of Practitioners in Advertising (appointed November 2011)
Mr Chris Jelley	Chair, Open College of the Arts (appointed December 2010)
Mr Jon Prichard	Chief Executive Officer, Engineering Council (appointed January 2012)
Ms Sue Reece	Executive Director and Chief Executive, International Education Operations (appointed December 2015)
Mr John Tredwell	Former Principal, Worcester Sixth Form College (appointed December 2009; retired November 2015)
Independent student member	
Mr Alexander Pool	Postgraduate student, University of Bath (appointed March 2014; retired March 2016)
Mr Robert Cashman	Elected student officer, University of Cambridge (appointed June 2016)
Appointed jointly by GuildHE Limited, Universities Scotland, Universities UK and Universities Wales	
Professor Joy Carter	Vice-Chancellor, University of Winchester (appointed April 2013)
Professor Antony Chapman	President and Vice-Chancellor, Cardiff Metropolitan University (appointed August 2011; retired August 2016)
Professor Nick Foskett	Vice-Chancellor, Keele University (appointed July 2011; retired August 2015)
Professor Maria Hinfelaar	Vice-Chancellor, Glyndŵr University (appointed September 2016)
Professor Craig Mahoney	Vice-Chancellor, University of the West of Scotland (appointed May 2016)
Professor Andrew Wathey CBE	Vice-Chancellor, Northumbria University (appointed September 2015)
Professor Petra Wend	Principal and Vice-Chancellor, Queen Margaret University (appointed May 2010; retired May 2016)

Appointed jointly by the Department for the Economy (Northern Ireland), Higher Education Funding Council for England, Higher Education Funding Council for Wales and the Scottish Funding Council	
Professor John Grattan	Pro Vice-Chancellor, Aberystwyth University (appointed June 2013)
Professor Denise McAlister	Pro Vice-Chancellor, University of Ulster (appointed October 2014)
Professor Tim McIntyre-Bhatty	Deputy Vice-Chancellor, Bournemouth University (appointed September 2012)
Professor Philip Winn	Research Professor of Neuroscience, Strathclyde Institute of Pharmacy & Biomedical Sciences (appointed October 2013)
Nominated by the UK Council of Colleges	
Mr Gary Warke	Chief Executive, Hull College Group (appointed December 2012)
Nominated by the National Union of Students	
Ms Sorana Vieru	Vice President (Higher Education), NUS (appointed October 2015)

Organisational structure

166 During 2015-16, there were five operating groups within QAA's structure, in addition to the Chief Executive's Office. The groups and senior executive staff are shown below.

Chief Executive's Office	Mr Douglas Blackstock Chief Executive (from October 2015)	Day-to-day leadership of QAA and its programmes of work, including setting and delivering against corporate objectives, in line with the Agency's strategy; governance function.
Public Engagement Group	Mr Richard Jarman Director (until April 2016)	Communications; publications; public, student and employer engagement; events management.
Quality Assurance Group	Mr Will Naylor Director	All QAA review activity in England, Wales and Northern Ireland; reviews for educational oversight and specific course designation; reviews of transnational education; degree awarding powers and university title; Concerns Scheme.
Quality Development Group	Mr Ian Kimber Director	Research and intelligence; standards, quality and enhancement; international; business development.
QAA Scotland	Ms Rowena Pelik Director	All aspects of QAA's work in Scotland and some international work.
Resources Group	Mrs Liz Rosser Director (from October 2015)	Central services and organisational infrastructure, including: finance and planning; human resources and organisational development; premises; office services; information management and systems.

167 In October 2015, Mr Douglas Blackstock took up the post of Chief Executive of QAA, following the resignation of Mr Anthony McClaran to assume a new role in Australia. Mr Blackstock was appointed permanently to the role in November 2016. Previously Mr Blackstock was QAA's Chief Operating Officer and Director of Resources Group. Mrs Liz Rosser, Head of Finance and Planning, assumed the role of interim Director of Resources Group in October 2015. Mrs Rosser was appointed permanently to the role in December 2016.

168 In December 2015, the Board appointed Mrs Lavinia Blackett, Head of Governance, as Company Secretary after Mr Blackstock resigned from that position.

169 The Board extends its thanks to Mr Richard Jarman for his commitment and service to the Agency as Director of Public Engagement until April 2016.

170 In June 2016, we formally began an organisational change programme to ensure that the Agency adapts to changes in the higher education landscape, and is an agile, lean and responsive organisation to meet the future needs of the sector. As a result of this, a new organisational and group structure was introduced on 1 September 2016.

Equality statement

171 We are strongly committed to the principles of equality and see this as part of our wider commitment to quality. We demonstrate this through our internal policies and working practices. We also embed it in our work as a quality assurance agency, as equality is an integral part of our approach to quality assurance and enhancement. Equality is a key element of our view of a high quality educational experience and the expectations students can rightly have of the providers of UK higher education.

Decision-making

172 Our Board's principal responsibilities include:

- Approving the mission and strategic vision of QAA, strategic plans, annual plans and budgets, and key performance indicators
- Ensuring the establishment and monitoring of systems of control and accountability
- Ensuring processes are in place to monitor and evaluate our performance and effectiveness against our plans and approving key performance indicators
- Appointing the Chief Executive and puts in place suitable arrangements for monitoring their performance
- Acting as the principal financial and business authority of the Agency
- Ensuring that we keep proper books of accounts
- Approving our annual report and financial statements
- Overall responsibility for our assets, property and estate

173 The Board has delegated responsibility for the day-to-day management of the charity to our Chief Executive. In discharging these responsibilities, our Chief Executive is advised and supported by the directors of the groups as listed above, and by our Head of Finance and Planning.

174 There are eight committees of our Board, which have largely advisory functions:

- Governance matters:
 - Audit Committee
 - Nomination and Remuneration Committee
 - Finance and Strategy Committee
- QAA business in Scotland:
 - QAA Scotland Committee
- QAA business in Wales:

- QAA Wales Committee
- Applications for the granting of degree awarding powers and university title:
 - Advisory Committee on Degree Awarding Powers
- Management of the QAA Recognition Scheme for Access to HE:
 - Access Recognition and Licensing Committee
- Student engagement and student issues:
 - Student Advisory Board

175 This committee structure, and the role and remit of individual committees, are being considered as part of our current governance review.

Pay and remuneration

176 Our Nomination and Remuneration Committee advises the Board on the performance of the Chief Executive and Executive team, and appropriate remuneration and severance payments in view of comparator benchmarks. In setting the pay of the Chief Executive and Executive team, the Committee takes into account the skills and experience required for each of the roles, and the remuneration in sectors from which suitable candidates for such posts would be found. Remuneration for different jobs is validated objectively, using market comparators. This includes looking at salary survey data for comparable roles from a number of sectors, including charities, higher education and organisations within the local area. Salary increases for all staff are awarded subject to performance review.

Relationships with related parties

177 To deliver our objects, we work with higher education providers, their representative bodies, mission and other sector interest groups. We also have Memoranda of Understanding with 16 international quality assurance agencies and bodies. We are members of the European Association for Quality Assurance in Higher Education (ENQA), the International Network for Quality Assurance Agencies in Higher Education (INQAAHE) and an observer of the Asia-Pacific Quality Network (APQN).

178 QAA's subsidiary, QAA Enterprises Limited, a private company limited by shares, is governed by its own Articles of Association which set out its constitution. The objects of QAA Enterprise Limited are:

- To provide a range of services, including consultancy, training, research, sponsorship, review and accreditation, for the sole purpose of generating income to support the objects of QAA
- To promote and maintain the quality and standards of higher education in the UK and overseas
- All matters that the company deems ancillary, necessary or related to those objects

Delivering public benefit

179 In QAA's work, our trustees have regard to the Charity Commission's guidance on public benefit, a summary of which is issued to our Board members when they are appointed.

180 As the UK's independent quality body since 1997, we provide expert quality assurance that underpins and safeguards the UK's world-class and internationally respected higher education sector. This delivers benefit to:

- The public
- Prospective and current students
- Higher education providers and their staff

- Governments and devolved administrations
- Higher education funding bodies
- Representative and mission groups
- Professional, statutory and regulatory bodies
- Employers
- Other sector agencies and bodies

181 Through our work, these and other groups can have confidence in the quality and standards of UK higher education and its qualifications.

182 We deliver public benefit in numerous ways, including through: our stewardship and maintenance of the Quality Code on behalf of the sector; assuring how higher education providers develop, maintain and manage academic standards, and the quality of the student experience they provide; commissioned work; managing enquiries from the public; conducting investigations into concerns raised about the management of academic standards and quality; providing advice to government on applications for degree awarding powers; and publishing reports on our work, research and system-wide trends.

183 The Quality Code sets out the expectations that all UK higher education providers are required to meet. It applies to all providers of UK higher education in all four nations and UK higher education delivered overseas. It protects the interests of all UK higher education students, regardless of where they are studying, or whether they are full-time, part-time, undergraduate or postgraduate students. The Quality Code supports providers in meeting their responsibilities, and gives the public a set of reference points for understanding academic standards and quality.

184 We publish a wide range of information, guidance and research for both the general public and specialist audiences. These publications also inform external debates on key issues and support students to take informed choices about where they want to study. All of our publications are available on our website, some in print and some in Welsh (in line with our Welsh Language Scheme). We work to ensure that our publications are in a form and language that meet the needs of a wide range of audiences.

185 For major review methods in England, Northern Ireland, Scotland and Wales, our reports are structured to provide summary information in non-technical, accessible language suitable for a general readership, as well as providing the full details of the reviewers' commentary, findings and recommendations, which are most useful to the provider concerned. No member or section of the public is excluded from QAA's information, whether by geography or availability of resources.

186 Our work is financed by: UK higher education public funding bodies (through contracts); higher education providers (through subscriptions); fees for review from alternative higher education providers; and training and quality assurance services in the UK and internationally. Any private benefits — for example, staff development benefits from taking part in a QAA review — are incidental.

Principal risks and uncertainties

187 QAA's approach to risk management is set out in our risk management policy, which is reviewed and updated on an annual basis. Our risk management operates at two levels: strategic and operational.

188 Our Executive team (the Chief Executive and directors) are responsible for the Agency's strategic risk register, which sets out our strategic and organisation-wide risks, and the current and planned controls through which they are managed. The strategic risk register is reviewed by our Audit Committee at each of its meetings (normally three times a year), and a paper on risk management (including the strategic risk register) is sent to every Board meeting.

189 An operational risk register is also maintained by our internal Planning and Operational Performance Committee which meets each term and whose members are senior managers from across the Agency. Our operational risks are mapped against our 2014-17 strategy and our annual delivery plans.

190 In December 2015, our risk management processes were reviewed by internal auditors and a report provided to Audit Committee on the effectiveness of our mitigating controls in managing strategic risk. The auditors concluded: ‘Taking account of the issues identified, the Board can take substantial assurance that the controls upon which the organisation relies to manage the identified risk are suitably designed, consistently applied and operating effectively.’

191 The principal risks and uncertainties for the Agency during 2015-16 are set out below, along with our actions to mitigate and manage them.

Risk area	Management and controls
Uncertainties and changes to the UK higher education quality assurance, regulatory and policy landscape, which could adversely affect QAA’s future role	<ul style="list-style-type: none"> ● Sustained senior level engagement with UK governments, sector bodies, subscribers and other stakeholders ● Active participation in consultations, parliamentary inquiries, government working groups and public debates ● Dedicated internal resources to respond (including public affairs, tenders/bids, governance review, finance, legal) ● Organisational change programme
Potential changes to income levels	<ul style="list-style-type: none"> ● Detailed financial modelling and planning ● Organisational change programme ● Dedicated business development resource and activities ● Development and testing of new services for the sector ● International development and activities

192 The Board is satisfied that risks and uncertainties are being appropriately managed.

Responsibilities of the trustees and directors

193 The trustees (who are also directors of The Quality Assurance Agency for Higher Education for the purposes of company law) are responsible for preparing the Trustees' Annual Report, including the Strategic Report and Directors' Report, and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards).

194 Company law requires the trustees to prepare financial statements for each financial year. Under company law, the trustees must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the charitable company and the group, and of the incoming resources and application of resources, including the income and expenditure, of the charitable group for that period. In preparing these financial statements, the trustees are required to:

- select suitable accounting policies and then apply them consistently
- observe the methods and principles in the Charities SORP
- make judgments and estimates that are reasonable and prudent
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the charitable company will continue in business

195 The trustees are responsible for keeping adequate accounting records that are sufficient to show and explain the charitable company's transactions, disclose with reasonable accuracy at any time the financial position of the charitable company, and enable them to ensure that the financial statements comply with the Companies Act 2006, the Charities and Trustee Investment (Scotland) Act 2005, the Charities Accounts (Scotland) Regulations 2006 (as amended) and the provisions of the charity's constitution. They are also responsible for safeguarding the assets of the charity and the group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Information to auditor

196 In the case of each of the persons who are directors of the company at the date when this report was approved:

- in so far as each of the directors of the company at the date of approval of this report is aware, there is no relevant audit information (information needed by the company's auditor in connection with preparing the audit report) of which the company's auditor is unaware
- each director has taken all of the steps that he/she should have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information

Auditor

197 A resolution to reappoint Crowe Clark Whitehill LLP as auditor to the company will be proposed at the Annual General Meeting.

198 The Strategic Report, Directors' Report and financial statements were approved by the Board on 14 December 2016 and were signed on its behalf by:

Christopher Banks CBE, Chair

Independent Auditor's report to the members of The Quality Assurance Agency for Higher Education

We have audited the financial statements of The Quality Assurance Agency for Higher Education for the year ended 31 July 2016, which comprise the Group Statement of Financial Activities, the Group and Company Balance Sheets, the Group Cash Flow Statement and the related notes numbered 1 to 28.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the charitable company's members, as a body, in accordance with Chapter 3 of Part 16 of the *Companies Act 2006* and to the charitable company's trustees, as a body, in accordance with section 44(1c) of the *Charities and Trustee Investment (Scotland) Act 2005*. Our audit work has been undertaken so that we might state to the charitable company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the charitable company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of trustees and auditor

As explained more fully in the Statement of Trustees' Responsibilities, the trustees (who are also the directors of the charitable company for the purposes of company law) are responsible for the preparation of the financial statements, and for being satisfied that they give a true and fair view.

We have been appointed as auditor under section 44(1c) of the *Charities and Trustee Investment (Scotland) Act 2005* and under the *Companies Act 2006* and report in accordance with regulations made under those Acts.

Our responsibility is to audit and express an opinion on the financial statements, in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements, sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the charitable company's circumstances, and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the trustees; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Trustees' Annual Report, and any other surround information to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

Opinion on the financial statements

In our opinion, the financial statements:

- give a true and fair view of the state of the group's and the charitable company's affairs as at 31 July 2016 and of the group's incoming resources and application of resources, including its income and expenditure, for the year then ended
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice
- have been prepared in accordance with the requirements of the *Companies Act 2006*, the *Charities and Trustee Investment (Scotland) Act 2005*, and Regulations 6 and 8 of the *Charities Accounts (Scotland) Regulations 2006 (as amended)*
- funds from the Higher Education Funding Council for England and from other funding bodies, with which the charity has contracted during the year ended 31 July 2016, have been applied in accordance with the terms of their respective contracts

Opinion on the other matter prescribed by the Companies Act 2006

In our opinion, the information given in the Trustees' Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the *Companies Act 2006* or the *Charities Accounts (Scotland) Regulations 2006 (as amended)* requires us to report to you if, in our opinion:

- the parent charitable company has not kept adequate accounting records, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent charitable company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of trustees' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Guy Biggin
Senior Statutory Auditor

For and on behalf of

Crowe Clark Whitehill LLP
Statutory Auditor

Carrick House
Lypiatt Road
Cheltenham
Gloucestershire
GL50 2QJ

Date: 20 December 2016

Consolidated statement of financial activities (including consolidated income and expenditure account) for the year ended 31 July 2016

	Notes	2016 £ Unrestricted funds	2015 £ Unrestricted funds
Income from:			
Charitable activities	6	15,286,940	14,709,047
Other trading activities	4	17,590	-
Investments	5	142,096	124,444
Other		13,604	18,480
Total income		15,460,230	14,851,971
Expenditure on:			
Fundraising trading costs		859	(1,998)
Investment management costs		25,427	28,334
Raising funds		26,286	26,336
Charitable activities	7, 8	15,765,712	14,979,392
Total expenditure		15,791,998	15,005,728
Net gains on investments	15	26,602	227,656
Net (expenditure)/income and net movement in funds for the year	9	(305,166)	73,899
Reconciliation of funds			
Total funds brought forward		4,945,235	4,871,336
Total funds carried forward	23	4,640,069	4,945,235

The statement of financial activities includes all gains and losses recognised in the year. All income and expenditure derive from continuing activities.

The notes on pages 41 to 63 form part of these financial statements.

Balance sheet as at 31 July 2016

(Company number: 03344784)

	Notes	Group		Charity	
		2016 £	2015 £	2016 £	2015 £
Fixed assets:					
Tangible assets	13	1,646,423	1,977,256	1,646,423	1,977,256
Investments	15	2,738,395	4,021,505	2,738,396	4,021,506
Total fixed assets		4,384,818	5,998,761	4,384,819	5,998,762
Current assets:					
Debtors	16	781,721	723,568	803,473	744,120
Cash at bank and in hand		3,817,449	2,038,342	3,779,777	2,017,541
Total current assets		4,599,170	2,761,910	4,583,250	2,761,661
Liabilities:					
Creditors - amounts falling due within one year	17	(2,266,136)	(2,226,436)	(2,264,536)	(2,224,976)
Net current assets		2,333,034	535,474	2,318,714	536,685
Total assets less current liabilities		6,717,852	6,534,235	6,703,533	6,535,447
Provision for liabilities	21	(1,043,783)	(220,000)	(1,043,783)	(220,000)
Pension provision liability	22	(1,034,000)	(1,369,000)	(1,034,000)	(1,369,000)
Total net assets		4,640,069	4,945,235	4,625,750	4,946,447
The funds of the group and charity:					
Designated funds	23	1,594,713	1,228,394	1,594,713	1,228,394
General funds	23	3,045,356	3,716,841	3,031,037	3,718,053
Total funds as at 31 July 2016		4,640,069	4,945,235	4,625,750	4,946,447

The notes on pages 41 to 63 form part of these financial statements.

The financial statements were approved and authorised by the Board on 14 December 2016 and were signed on its behalf by:

Christopher Banks CBE, Chair

Statement of cash flows for the year ended 31 July 2016

	Notes	Group		Charity	
		2016 £	2015 £	2016 £	2015 £
Cash flows from operating activities:					
Net cash provided by operating activities	27	581,604	956,721	564,733	956,923
Cash flows from investing activities:					
Investment income		142,096	124,444	142,096	124,444
Proceeds from sale of investments		1,763,367	1,071,511	1,763,367	1,071,511
Purchase of investments		(471,793)	(1,220,351)	(471,793)	(1,220,351)
Purchase of tangible fixed assets		(256,343)	(732,251)	(256,343)	(732,251)
Proceeds from sale of tangible fixed assets		2,038	2,168	2,038	2,168
Net cash provided by/(used in) investing activities		1,179,365	(754,479)	1,179,365	(754,479)
Change in cash and cash equivalents in the year					
Cash and cash equivalents at the beginning of the year		2,081,603	1,879,361	2,060,802	1,858,358
Cash and cash equivalents at the end of the year	28	3,842,572	2,081,603	3,804,900	2,060,802

The notes on pages 41 to 63 form part of these financial statements.

Notes to the financial statements for the year ended 31 July 2016

1 Legal status

The Quality Assurance Agency for Higher Education (QAA) is a charitable company limited by guarantee. QAA is registered with the Charity Commission England and Wales (registered no: 1062746) and the Scottish Charity Regulator (registered no: SC037786). The charity was incorporated as a company limited by guarantee with Companies House England and Wales (registered no: 03344784). Its registered and principal office is Southgate House, Southgate Street, Gloucester, GL1 1UB.

2 Accounting policies

The principal accounting policies, judgements and key sources of estimation uncertainty adopted in the preparation of the financial statements are as follows:

a Basis of preparation

The financial statements have been prepared in accordance with Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) (effective 1 January 2015) - (Charities SORP (FRS 102)), the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) and the Companies Act 2006.

The group transitioned to FRS 102 and the Charities SORP FRS 102 as at 1 August 2014. In preparing the accounts, the trustees have considered whether in applying the accounting policies required by FRS 102 and the Charities SORP FRS 102 the restatement of comparative items was required. An explanation and reconciliation of how the transition has affected the previously reported financial position and financial performance is given in note 26.

The financial statements have been prepared under the historical cost convention. QAA meets the definition of a public benefit entity under FRS 102. Assets and liabilities are initially recognised at historical cost or transaction value unless otherwise stated in the relevant accounting policy note.

b Preparation of the accounts on a going concern basis

The charity has undertaken a restructuring program as noted in the Annual Report which has resulted in net expenditure and a significant decrease in funds for the year as reported in the Statement of Financial Activity. The trustees are of the view that this action will reduce future costs, enabling the charity to operate with its future reduced income, and on this basis the charity is a going concern.

c Group financial statements

The financial statements consolidate the results of the charity and its wholly owned subsidiary on a line-by-line basis. The financial statements are prepared in sterling which is the functional currency of the group. A separate Statement of Financial Activities (SOFA), and income and expenditure account, for the charity itself are not presented because the charity has taken advantage of the exemptions afforded by section 408 of the *Companies Act 2006*. As required by the *Charities Accounts (Scotland) Regulations 2006 (as amended)*, a cash flow statement for the charity is included. See note 3 for a summary of the financial performance of the charity.

2 Accounting policies (continued)

d Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. Judgements and key sources of estimation uncertainty which have had the most significant effect on amounts recognised in the financial statements are included with the relevant accounting policy below.

e Fund accounting

Unrestricted funds are incoming resources received or generated for expenditure on the general objectives of QAA. Designated funds are unrestricted funds of the charity, which have been set aside by the trustees to fund particular future activities of the charity.

f Income

QAA's activities are funded primarily through contracts with the higher education funding bodies and UK Governments, and through subscriptions from HEIs: it does not raise income through fundraising. All income has been accounted for when the charity has entitlement to the funds, any performance issues attached to the item(s) of income have been met, it is probable that the income will be received and the amount can be measured reliably.

g Expenditure and the basis of allocation of costs

All expenditure has been accounted for on an accruals basis and has been recorded as attributable to one of two categories, 'raising funds' (the cost of managing the charity's investments and the costs of fundraising trading incurred by the subsidiary company) and 'charitable activities' as shown in the SOFA. The charitable activities are further divided into the three strategic aims of the charity. Within charitable activities, the expenditure is classified as 'direct costs' or 'support costs' as shown in the 'total charitable expenditure' note.

Staff numbers and costs were allocated either:

- directly to one or more of the three charitable activities as 'direct costs', or
- directly to governance as 'support costs', or
- apportioned to the three charitable activities and governance as 'support costs' using the staff numbers already attributed to those activities.

Non-pay costs were allocated either:

- directly to one or more of the three charitable activities as 'direct costs', or
- directly to governance as 'direct costs' or 'support costs', or
- apportioned to the three charitable activities and governance as 'support costs' using the staff numbers already attributed to those activities.

Governance costs include the costs of meeting constitutional and statutory requirements such as audit, trustees meetings and expenses, and legal fees. The staff and office costs associated with such costs are included in support costs. Governance costs are then apportioned to one of the three charitable activities.

h Operating leases

Rentals applicable to operating leases are charged to the SOFA over the period in which the cost is incurred on a straight line basis over the term of the lease.

2 Accounting policies (continued)

i Restructuring and redundancy costs

Restructuring costs are recognised when the Charity has a legal obligation at the reporting date to carry out the restructuring. It is the Trustees policy to minimise the impact of organisational change. Redundancy payments only occur when absolutely necessary and are accounted for on an accruals basis when the commitment to terminate a post on the grounds of redundancy has been made.

j Tangible fixed assets and depreciation

Depreciation is provided on tangible fixed assets at rates calculated to write off the cost of each asset in equal instalments over its expected useful life.

The depreciation rates are as follows:

Computer equipment	three years
Specialised computer software	five years
Office furniture and equipment	five years
Leasehold improvements	over the outstanding period of the lease

The cost of standard computer software is written off to the SOFA as it is incurred. Software that has been designed specifically for QAA or purchased as part of a larger capital project has been capitalised and written off over a five-year period. Assets costing less than £2,000 are not capitalised unless they form part of a larger capital project.

Software is included within tangible fixed assets as the net book value of software is not considered to be material.

Judgements and estimation uncertainty

The annual depreciation charge for the tangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See Note 13 for the carrying amount of the tangible assets.

k Investments

Listed investments are shown at market value at the year end and any movements are recorded as unrealised gains or losses in the consolidated statement of financial activities. Surpluses or deficits on investments sold during the year are calculated by comparing net proceeds with market value at the start of the year and are recorded as realised gains or losses in the consolidated statement of financial activities. Unlisted investments are included at cost.

l Debtors

Trade debtors, other debtors and accrued income are recognised at the settlement amount due after any trade discount. Prepayments are valued at the amount prepaid net of any trade discounts due.

m Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions.

n Foreign currencies

Transactions in foreign currencies are initially recorded in the entity's functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the statement of financial activity.

2 Accounting policies (continued)

o Creditors and provisions

Creditors and provisions are recognised when the charity has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be estimated reliably.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation.

QAA provides paid holiday arrangements for its employees and recognises the expense in the period in which the benefit is accrued. A provision is made for the cost of holiday accrued but not taken.

p Basic financial provisions

QAA has financial assets and financial liabilities of a kind that qualify as basic financial instruments. Basic financial instruments are initially recognised at transaction value and subsequently measured at their settlement value. (see note 19).

q Pensions

Defined benefit schemes

QAA participates in the Universities Superannuation Scheme (USS) and Superannuation Arrangements for the University of London (SAUL). Throughout the current and preceding periods, both schemes were defined benefit only pension schemes and were contracted out of the State Second Pension (S2P) until 31 March 2016. The assets of the scheme are held in a separate trustee-administered fund. Because of the mutual nature of the scheme, the scheme's assets are not hypothecated to individual institutions and a scheme-wide contribution rate is set. QAA is therefore exposed to actuarial risks associated with other institutions' employees and is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by Section 28 of FRS 102 "Employee benefits", accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the SOFA represents the contributions payable to the scheme in respect of the accounting period. Since QAA has entered into agreements (the Recovery Plans that determine how each employer within each scheme will fund the respective overall deficit of each scheme), QAA recognises a liability for the contributions payable that arise from the agreement to the extent that they relate to the deficit and the resulting expense in the SOFA.

Critical accounting judgements

FRS 102 makes the distinction between a Group Plan and a multi-employer scheme. A Group Plan consists of a collection of entities under common control typically with a sponsoring employer. A multi-employer scheme is a scheme for entities not under common control and represents (typically) an industry-wide scheme such as those provided by USS and SAUL. The accounting for a multi-employer scheme where the employer has entered into an agreement with the scheme that determines how the employer will fund a deficit results in the recognition of a liability for the contributions payable that arise from the agreement (to the extent that they relate to the deficit) and the resulting expense is recognised in profit or loss. The directors are satisfied that the schemes provided by USS and SAUL meet the definition of a multi-employer scheme and has therefore recognised the discounted fair value of the contractual contributions under the funding plans in existence at the balance sheet date.

Key source of estimation uncertainty

In calculating the net present value of the future contribution liability to fund the recovery plan, the directors have made estimates for future staff changes, salary changes and discount rates.

2 Accounting policies (continued)

q Pensions (continued)

Defined contribution scheme

QAA also participates in a defined contribution pension scheme and the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

3 Financial performance of the charity

The consolidated statement of financial activities includes the results of the charity's wholly owned subsidiary QAA Enterprises Limited (see note 4 below).

The summary financial performance of the charity alone is:

	2016 £	2015 £
Income	15,443,840	14,852,571
Expenditure on:		
Raising funds	(25,427)	(28,334)
Charitable activities	(15,765,712)	(14,979,392)
Net expenditure before investment gains/(losses)	(347,299)	(155,155)
Net gains on investments	26,602	227,656
Net movement in funds for the year	(320,697)	72,501
Total funds brought forward	4,946,447	4,873,946
Total funds carried forward	4,625,750	4,946,447

4 Income from other trading activities

The summary financial position of QAA's wholly owned trading subsidiary QAA Enterprises Limited is:

	2016	2015
	£	£
Turnover	17,590	-
Cost of sales and administrative costs	(2,059)	1,398
Net profit for the year	15,531	1,398
The assets and liabilities of the subsidiary were:		
Current assets	37,672	20,801
Current liabilities	(23,352)	(22,012)
Total net assets/(liabilities)	14,320	(1,211)

5 Income from investments

The group's investment income for the year is analysed by source below:

	2016	2015
	£	£
Dividend and interest income from quoted investments	122,585	105,722
Interest from cash held in interest bearing bank accounts	19,511	18,722
Total investment income for the year	142,096	124,444

6 Income from charitable activities

	Note	2016	2015
		£	£
Subscriptions		4,957,076	5,001,740
Contracts with higher education funding bodies		7,023,338	6,858,638
Alternative providers of higher education		2,237,480	1,947,559
Other contracts and related income		1,069,046	901,110
Total income from charitable activities		15,286,940	14,709,047
Analysis by source:			
UK Governments		124,026	154,166
UK higher education funding councils		6,797,873	6,773,420
UK higher education institutions		4,652,576	4,797,970
UK further education institutions		553,500	525,145
UK alternative providers of higher education		2,562,335	1,885,985
Other		870,459	555,799
		15,560,769	14,692,485
Release income deferred in prior years	17	1,038,387	1,014,949
Defer income received in current year	17	(1,312,216)	(998,387)
Total income from charitable activities		15,286,940	14,709,047

7 Expenditure on charitable activities

	Note	2016	2015
		£	£
Enhance the quality and secure the standards of UK higher education		10,544,879	9,753,905
Provide leadership in assuring and enhancing the quality of higher education		3,222,485	3,389,488
Extend and enhance the value and reach of QAA's services		1,430,120	1,218,999
Total expenditure on charitable activities before restructuring cost and pension provision		15,197,484	14,362,392
Restructuring costs		903,228	-
Pension provision – deficit contributions	22	(384,000)	592,000
Pension provision – unwinding of discount	22	49,000	25,000
Total expenditure on charitable activities		15,765,712	14,979,392

8 Analysis of expenditure on charitable activities

	Charitable activities				Total expenditure on charitable activities	
	Enhance the quality and secure the standards of UK HE	Provide leadership in assuring and enhancing the quality of HE	Extend and enhance the value and reach of QAA's services	Governance	2016	2015
	£	£	£	£	£	£
Direct costs						
Staffing costs	4,060,981	1,400,726	679,331	-	6,141,038	5,423,866
Other review costs	2,922,437	224,898	-	-	3,147,335	2,937,424
Other direct costs	283,970	225,626	117,099	-	626,695	558,543
Total direct costs	7,267,388	1,851,250	796,430	-	9,915,068	8,919,833
Support costs						
Staffing costs	1,520,589	604,013	196,220	181,602	2,502,424	2,456,849
Other staff costs	129,350	46,151	17,261	3,934	196,696	348,486
Premises	452,926	207,510	55,634	12,677	728,747	789,846
Office costs	62,615	26,167	7,947	1,812	98,541	122,803
Information systems	256,041	88,130	33,457	7,624	385,252	312,060
Professional fees	75,001	48,753	43,148	941	167,843	196,506
Other support costs	172,543	136,321	198,709	1,518	509,091	431,087
Depreciation	387,283	136,339	51,759	11,794	587,175	699,617
Governance **	-	-	-	106,647	106,647	85,305
Total support costs	3,056,348	1,293,384	604,135	328,549	5,282,416	5,442,559
Reallocate governance	221,143	77,851	29,555	(328,549)	-	-
Total support costs by aim	3,277,491	1,371,235	633,690	-	5,282,416	5,442,559
Expenditure on charitable activities before restructuring and pension provision	10,544,879	3,222,485	1,430,120	-	15,197,484	14,362,392
Restructure - Staffing costs	557,601	250,707	63,753	-	872,061	-
Restructure - Other costs	19,928	8,960	2,279	-	31,167	-
Pension provision - net deficit contributions	(253,316)	(90,976)	(39,708)	-	(384,000)	592,000
Pension provision - unwinding of discount	32,324	11,609	5,067	-	49,000	25,000
Total charitable expenditure	10,901,416	3,402,785	1,461,511	-	15,765,712	14,979,392

** includes the cost of Board meetings and audit fees

9 Net expenditure for the financial year

	2016	2015
	£	£
Net expenditure is stated after charging/(crediting):		
External auditors: audit services	16,800	16,800
Internal auditors: audit services	18,060	18,060
Professional indemnity insurance	27,900	27,200
Tangible fixed assets		
Depreciation	587,176	699,618
Surplus on disposal	(2,038)	(2,168)
Operating leases		
Land and buildings	299,000	303,800
Other	43,100	40,600
Foreign exchange gains	(21,935)	-
Staff pension contributions	<u>1,000,381</u>	<u>856,308</u>

10 Analysis of staff costs

	2016	2015
	£	£
Total staff costs were:		
Salaries	6,927,425	6,218,198
Employers' National Insurance contributions	641,464	529,308
Pension contributions payable (note 24)	1,000,381	856,308
	<u>8,569,270</u>	<u>7,603,814</u>
Staff seconded to QAA	-	39,984
Employment agency staff	74,192	192,586
	<u>8,643,462</u>	<u>7,836,384</u>
Total staff costs before restructuring and pension provision liability adjustments	8,643,462	7,836,384
Restructuring costs	872,061	44,331
	<u>9,515,523</u>	<u>7,880,715</u>
Total staff costs after restructuring	9,515,523	7,880,715
Deficit contributions payable in the year	(78,000)	(96,000)
(Decrease)/increase in expected future deficit contributions	(306,000)	688,000
	<u>9,131,523</u>	<u>8,472,715</u>
Total staff costs charged to the SOFA	9,131,523	8,472,715

10 Analysis of staff costs (continued)

	2016	2015
	Number	Number
The average number of employees, calculated on a full-time equivalent basis was as follows:		
Enhance the quality and secure the standards of UK higher education	117	111
Provide leadership in assuring and enhancing the quality of higher education	41	40
Extend and enhance the value and reach of QAA's services	16	14
Total average number of employees on a full-time equivalent basis	174	165
Total average number of employees on a headcount basis	200	182

The number of employees whose emoluments as defined for taxation purposes amounted to over £60,000 were:

	2016	2015
	Number	Number
£170,000 - £179,999	-	1
£140,000 - £149,999	1	-
£100,000 - £109,999	1	1
£80,000 - £89,999	2	2
£70,000 - £79,999	1	1
£60,000 - £69,999	9	5

All employees earning more than £60,000 participated in the Universities Superannuation Scheme (see note 24). The aggregate amount paid to the scheme for these employees was:

	2016	2015
	£	£
Employer contributions	174,246	132,914

11 Remuneration of directors and key management personnel

The key management personnel of the charity comprise the trustees and senior executive staff (see paragraph 166 of the Directors' Report above).

There were no emoluments paid to the trustees during the year. Thirteen trustees were reimbursed expenses to the value of £8,533 during the year (2015: 11 directors, £7,460). The expenses paid related solely to travel and incidentals.

The total employee benefits (including employer pension contributions) received by the senior executive staff of the charity and the group was £699,413 (2015: £713,423)

During the year, QAA purchased Directors and Officers Liability Insurance (which included Trustee Indemnity Insurance).

12 Taxation

Under part II of CTA 2010 the charity is not subject to taxation on its charitable activities. The profits of the non-charitable subsidiary will normally be gift-aided to the parent charity. Therefore the group generally suffers no Corporation Tax on its trading activities.

13 Tangible fixed assets

Group and charity

	Leasehold improvements	Computer equipment	Furniture and other equipment	Total
	£	£	£	£
Cost				
At 1 August 2015	1,228,925	3,588,201	487,681	5,304,807
Additions	51,285	146,192	58,866	256,343
Disposals	-	(74,309)	-	(74,309)
At 31 July 2016	1,280,210	3,660,084	546,547	5,486,841
Depreciation				
At 1 August 2015	239,599	2,855,280	232,672	3,327,551
Charge for the year	128,954	372,310	85,912	587,176
Eliminated on disposals	-	(74,309)	-	(74,309)
At 31 July 2016	368,553	3,153,281	318,584	3,840,418
Net book value at 31 July 2016	911,657	506,803	227,963	1,646,423
Net book value at 31 July 2015	989,326	732,921	255,009	1,977,256

The directors consider that the market value of fixed assets does not differ significantly from their book value.

14 Analysis of capital commitments

	Group and charity	
	2016	2015
	£	£
Contracted for but not provided	7,000	101,000
Authorised but not yet contracted for	-	205,000
	7,000	306,000

15 Fixed asset investments

	Quoted investments	Unquoted investments	Total
	£	£	£
Held by the group			
At 1 August 2015	4,021,505	-	4,021,505
Additions at cost	471,793	-	471,793
Disposals at opening market value or cost if bought in year	(1,895,843)	-	(1,895,843)
Net decrease in cash held and settlements outstanding	(18,138)	-	(18,138)
Net gains on revaluation to year end market value	159,078	-	159,078
At 31 July 2016	2,738,395	-	2,738,395
Held by the charity			
At 1 August 2015	4,021,505	1	4,021,506
Additions at cost	471,793	-	471,793
Disposals at opening market value or cost if bought in year	(1,895,843)	-	(1,895,843)
Net decrease in cash held and settlements outstanding	(18,138)	-	(18,138)
Net gains on revaluation to year end market value	159,078	-	159,078
At 31 July 2016	2,738,395	1	2,738,396

Quoted investments are revalued and stated at market value as at 31 July 2016.

Unquoted investments are stated at cost. QAA holds one ordinary £1 share (100%) in QAA Enterprises Limited, a wholly owned trading subsidiary company registered in England and Wales no. 07588108.

15 Fixed asset investments (continued)

Quoted investments are included at market value and held as follows:

	Group and charity At 31 July 2016		Group and charity At 31 July 2015	
	Cost	Market Value	Cost	Market Value
	£	£	£	£
Listed on a recognised stock exchange				
- in the UK	723,126	834,536	977,991	1,090,801
- outside the UK	1,607,689	1,878,736	2,635,024	2,887,443
Cash and settlements pending held as part of the investment portfolio	25,123	25,123	43,261	43,261
	<u>2,355,938</u>	<u>2,738,395</u>	<u>3,656,276</u>	<u>4,021,505</u>
Holdings representing more than 5% of the investment portfolio by carrying value:				
DB X-Trackers (FTSE All-Share)		602,828		1,029,476
Mayfair Capital Investment Management (Property Income Trust For Charity)		<u>211,627</u>		<u>206,832</u>

16 Debtors

	Group		Charity	
	2016	2015	2016	2015
	£	£	£	£
Trade debtors	412,186	247,637	412,186	247,637
Sundry debtors	7,710	21,814	7,710	21,814
Prepayments	266,844	411,662	266,844	411,662
Accrued income	94,981	42,455	94,981	42,455
Subsidiary undertaking	-	-	21,752	20,552
	<u>781,721</u>	<u>723,568</u>	<u>803,473</u>	<u>744,120</u>

Trade debtors are stated after provision for doubtful debts of £22,322 (2015: £3,210)

17 Creditors: amounts falling due within one year

	Group		Charity	
	2016	2015	2016	2015
	£	£	£	£
Trade creditors	134,678	262,411	134,678	262,411
Taxation and social security	226,344	214,975	226,344	214,975
Pension contributions	131,114	115,846	131,114	115,846
Other creditors	269	13,783	269	13,783
Accruals	357,470	476,989	355,870	475,529
Deferred income	1,416,261	1,142,432	1,416,261	1,142,432
	2,266,136	2,226,436	2,264,536	2,224,976

The movement in deferred income was as follows:

At start of year	1,142,432	1,158,994	1,142,432	1,158,994
Release income deferred in prior years	(1,038,387)	(1,014,949)	(1,038,387)	(1,014,949)
Defer income received in current year	1,312,216	998,387	1,312,216	998,387
At end of year	1,416,261	1,142,432	1,416,261	1,142,432

Deferred income relates to contractual commitments which will not be delivered until next year. It is therefore not appropriate to recognise the income at this stage.

18 Operating lease arrangements

Total future minimum lease payments under non-cancellable operating leases were as follows:

	Group and charity	
	2016	2015
	£	£
Land and buildings		
Within one year	293,700	299,000
Between two and five years	333,300	627,000
Other		
Within one year	40,300	43,100
Between two and five years	600	3,100
	667,900	972,200

19 Financial instruments

	Group		Charity	
	2016	2015	2016	2015
	£	£	£	£
Financial assets measured at amortised cost	514,877	311,906	536,629	332,458
Financial liabilities measured at amortised cost	(623,531)	(869,029)	(621,931)	(867,569)

Financial assets measured at amortised cost comprise trade and other debtors, accrued income and amounts owed from subsidiary undertakings.

Financial liabilities measured at amortised cost comprise trade and other creditors, pension contributions due and accruals.

20 Related party transactions

Due to the nature of QAA's operations and the composition of the QAA Board of Directors transactions take place with organisations in which a member of the Board may have an interest. All transactions involving organisations in which a member of the Board may have an interest are conducted at arm's length and in accordance with QAA's financial regulations and normal procurement procedures. No transactions were identified that should be disclosed under *Financial Reporting Standard 8: Related Party Disclosures*.

Mr Alexander Pool, who served on the Board from March 2014 to March 2016, participated in one review at a subscriber institution during the year ended 31 July 2016 for which he was paid £2,690. Participation in this review was approved by the Board and was independent of his duties as a trustee and director. There was no balance outstanding at the year end.

The balance due to the charity from the wholly owned subsidiary undertaking QAA Enterprises Limited is £21,752 (2015: £20,552) as shown in the debtors note above. The only transaction with the subsidiary was a management charge of £1,200 (2015: £600).

QAA is a member of Scottish Credit and Qualifications Framework Partnership, a company limited by guarantee and registered in Scotland number SC311573.

21 Provision for liabilities

Provisions have been made for the following:

Holiday pay

FRS 102 requires short term employee benefits to be charged to the profit and loss account as the employee service is received. This has resulted in the charity recognising a liability for holiday pay on transition to FRS 102. A reconciliation of the transition to FRS102 is included at note 26.

Restructure

The provision for the restructure recognises an estimate of the costs that will be incurred as a result of the business restructure which commenced in June 2016 and was effective from 1 September 2016. The provision is for redundancy and other related costs which will be incurred in the year ended 31 July 2017.

21 Provision for liabilities (continued)

The movement in the provisions during the year is:

	Group and Charity		Total
	Holiday pay	Restructure	
	£	£	£
At 1 August 2015	220,000	-	220,000
Provided during the year	20,000	803,783	823,783
At 31 July 2016	240,000	803,783	1,043,783

22 Pension liability provision

The total pension cost charged to the SOFA is:

	2016	2015
	£	£
Employer contributions payable in the year (note 10)	1,000,381	856,308
Deficit contributions payable in the year (included in employer contributions above)	(78,000)	(96,000)
Change in expected future deficit contributions	(306,000)	688,000
Total pension cost charged to the SOFA	616,381	1,448,308

The movement in the provision since 1 August 2014 is:

	Group and charity	
	2016	2015
	£	£
At 1 August (as restated)	1,369,000	752,000
Charged to SOFA – deficit contributions payable in the year	(78,000)	(96,000)
(Credited)/charged to the SOFA – change in expected future deficit contributions	(306,000)	688,000
Unwinding of discount	49,000	25,000
At the year end	1,034,000	1,369,000

23 Analysis of charitable funds

Analysis of movements in unrestricted funds

	Funds at 1 August 2015 £	Incoming resources £	Resources expended £	Transfers £	Gains and losses £	Funds at 31 July 2016 £
Designated funds:						
Innovation and Development	773,394	-	(60,681)	-	-	712,713
Reinstatement of premises	215,000	-	-	-	-	215,000
Depreciation of leasehold improvements	240,000	-	(30,000)	(210,000)	-	-
Restructuring	-	-	-	667,000	-	667,000
Total designated funds	1,228,394	-	(90,681)	457,000	-	1,594,713
General fund	3,716,841	15,460,230	(15,701,317)	(457,000)	26,602	3,045,356
Total unrestricted funds	4,945,235	15,460,230	(15,791,998)	-	26,602	4,640,069

The purpose of the designated fund for *Innovation and Development (I&D)* is 'for innovation in products and services for the long term benefit of UK higher education.' A proportion of income generated through business development is used to replenish the fund while this remains appropriate. The trustees consider that the fund is sufficient for future needs and no transfer has been made this year.

The purpose of the designated fund for *Reinstatement of premises* is to fund the cost of returning our Gloucester and Glasgow premises to their original condition at the end of their respective lease terms. The Gloucester office lease ends on 30 June 2023 and the Glasgow office lease ends on 1 March 2025.

The purpose of the designated fund for *Depreciation of leasehold improvements* was to fund the depreciation on leasehold improvements in our Gloucester offices. Due to changes in funding and contracts, the trustees consider that the fund is no longer required.

The purpose of the designated fund for *Restructuring* is to fund the remainder of costs to be incurred in completing the business restructure in 2016-17.

23 Analysis of charitable funds (continued)**Analysis of group net assets between funds**

	General Fund	Designated Funds	Total
	£	£	£
Tangible fixed assets	1,646,423	-	1,646,423
Fixed asset investments	2,523,395	215,000	2,738,395
Cash at bank and in hand	2,437,736	1,379,713	3,817,449
Other net current liabilities	(1,484,415)	-	(1,484,415)
Provisions	(2,077,783)	-	(2,077,783)
Total net assets	3,045,356	1,594,713	4,640,069

24 Pensions (defined benefit schemes)

QAA participates in two defined benefit pension schemes. The employer pension contributions payable were as follows:

	Group and charity	
	2016	2015
	£	£
Universities Superannuation Scheme (USS)	743,935	619,515
Superannuation Arrangements for the University of London (SAUL)	256,446	236,793
	<u>1,000,381</u>	<u>856,308</u>
Employer contributions outstanding at the balance sheet date (included above)	<u>89,529</u>	<u>77,617</u>

In addition to the Final Salary section within USS for current members, employees joining the Scheme after 30 September 2011 will join the Career Revalued Benefits section (subject to some transitional rules). From 1 April 2016 all USS members were moved to the Retirement Income Builder section.

Similarly, employees joining SAUL after 30 June 2012 will join the Career Average Revalued Earnings (CARE) section of that scheme (subject to some transitional rules). On 1 April 2016 all Final Salary members were moved to the CARE section.

24 Pensions (defined benefit schemes) (continued)

The contribution rates as a percentage of pensionable salary are as follows:

		Employer	Employee
Up to 31 March 2016			
USS	Final Salary Section	16.00%	7.50%
USS	Career Revalued Benefits Section	16.00%	6.50%
SAUL	Final Salary Section	13.00%	6.00%
SAUL	Career Average Revalued Earnings Section	13.00%	6.00%
From 1 April 2016			
USS	Retirement Income Builder Section	18.00%	8.00%
SAUL	Career Average Revalued Earnings Section	16.00%	6.00%

a Universities Superannuation Scheme

The latest available full actuarial valuation of the scheme was at 31 March 2014 (“the valuation date”), which was carried out using the projected unit method.

Since the institution cannot identify its share of scheme assets and liabilities, the following disclosures reflect those relevant for the scheme as a whole.

The 2014 valuation was the third valuation for USS under the scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions. At the valuation date, the value of the assets of the scheme was £41.6 billion and the value of the scheme’s technical provisions was £46.9 billion indicating a shortfall of £5.3 billion. The assets therefore were sufficient to cover 89% of the benefits which had accrued to members after allowing for expected future increases in earnings.

Defined benefit liability numbers for the scheme have been produced using the following assumptions:

		2016	2015
Discount rate		3.6%	3.3%
Pensionable salary growth	First year	n/a	3.5%
	Subsequent years		4.0%
Price inflation (CPI)		2.2%	2.2%

24 Pensions (defined benefit schemes) (continued)**a Universities Superannuation Scheme (continued)**

The main demographic assumption used relates to the mortality assumptions. Mortality in retirement is assumed to be in line with the Continuous Mortality Investigation's (CMI) S1NA tables as follows:

Male members' mortality:	98% of S1NA ["light"] YoB tables – No age rating
Female members' mortality:	99% of S1NA ["light"] YoB tables – rated down 1 year

Use of these mortality tables reasonably reflects the actual USS experience. To allow for further improvements in mortality rates the CMI 2014 projections with a 1.5% pa long term rate were also adopted.

The current life expectancies on retirement at age 65 are:

	2016	2015
Males currently aged 65	24.3	24.2
Females currently aged 65	26.5	26.3
Males currently aged 45	26.4	26.2
Females currently aged 45	28.8	28.6

The financial position of the scheme is:

	2016	2015
Scheme assets	£49.8bn	£49.1bn
Total scheme liabilities	£58.3bn	£60.2bn
FRS 102 total scheme deficit	£8.5bn	£11.1bn
FRS 102 total funding level	85%	82%

b Superannuation Arrangements for the University of London

QAA participates in SAUL which is a centralised defined benefit scheme within the United Kingdom and is contracted-out of the S2P up to 31 March 2016.

SAUL is an independently-managed pension scheme for the non-academic staff of over 50 colleges and institutions with links to higher education.

Pension benefits accrued within SAUL currently build up on either a Final Salary basis or a Career Average Revalued Earnings (CARE) basis. Following a consultation with Members, the SAUL Final Salary Section will close from 31 March 2016 and all Members will build up benefits on a CARE basis from 1 April 2016.

QAA is not expected to be liable to SAUL for any other current participating employer's obligations under the Rules of SAUL, but in the event of an insolvency event of any participating employer within SAUL, an amount of any pension shortfall (which cannot otherwise be recovered) in respect of that employer, may be spread across the remaining participating employers and reflected in the next actuarial valuation.

24 Pensions (defined benefit schemes) (continued)**b Superannuation arrangements for the University of London (continued)*****Funding policy***

SAUL's statutory funding objective is to have sufficient and appropriate assets to meet the costs incurred by the Trustee in paying SAUL's benefits as they fall due (the "Technical Provisions"). The Trustee adopts assumptions which, taken as a whole, are intended to be sufficiently prudent for pensions and benefits already in payment to continue to be paid and for the commitments which arise from Members' accrued pension rights to be met.

The Technical Provisions assumptions include appropriate margins to allow for the possibility of events turning out worse than expected. However, the funding method and assumptions do not completely remove the risk that the Technical Provisions could be insufficient to provide benefits in the future.

A formal actuarial valuation of SAUL is carried out every three years by a professionally qualified and independent actuary. The last actuarial valuation was carried out with an effective date of 31 March 2014. Informal reviews of SAUL's position, reflecting changes in market conditions, cash flow information and new accrual of benefits, are carried out between formal valuations.

The funding principles were agreed in November 2015 and are due to be reviewed at SAUL's next formal valuation in 2017.

The Trustee and Employers have agreed that the Technical Provisions deficit at the 31 March 2014 valuation will be addressed by employer contributions of 3% of Salaries between 1 April 2016 and 31 March 2018 (inclusive). The overall level of the Employers' contributions increased from 13% of Salaries to 16% of Salaries with effect from 1 April 2016.

25 Pensions (defined contribution scheme)

QAA participates in one defined contribution pension scheme. The assets of the scheme are held separately from those of the charity in an independently administered fund. The pension cost charge represents contributions payable by the charity to the fund and were as follows:

	Group and charity	
	2016	2015
	£	£
The People's Pension	<u>7,792</u>	<u>5,783</u>
Employer contributions outstanding at the balance sheet date	<u>477</u>	<u>697</u>

26 Transition to FRS 102

This is the first year that the charity has presented its results under FRS 102 and the Charities SORP 2015. The last financial statements under UK GAAP were for the year ended 31 July 2015. The date of transition to FRS 102 and the Charities SORP 2015 was 1 August 2014. A number of accounting policies have changed resulting in adjustments to the financial performance and balances for the year ended 31 July 2015. The nature of the adjustments is described below, together with reconciliations to the restated 2015 comparatives.

Recognition of pension liability

Under previous UK GAAP, both defined benefit pension schemes were accounted for as defined contribution scheme and no deficit liability was recognised. Under FRS 102, both schemes are still accounted for as defined contribution schemes but with the recognition of the liability of future deficit contributions required by each scheme's recovery plan. On transition to FRS 102 at 1 August 2014, net assets have been restated to include a pension provision liability. Expenditure in the SOFA for the year ended 31 July 2015 has been adjusted to reflect movements in the future deficit liability contributions during the year.

Recognition of accrued holiday pay for employees

As a result of the requirement in FRS 102 to make a provision for holiday pay that was earned but not taken before the year end, a provision for the holiday pay liability was set up at 1 August 2014 and the net assets have been restated.

Reconciliation of group net assets on transition

	At 1 August 2014 as reported	Pension adjustment	Holiday pay adjustment	At 1 August 2014 as restated
	£	£	£	£
Total assets less current liabilities	5,843,336	-	-	5,843,336
Provision for liabilities	-	-	(220,000)	(220,000)
Pension liability provision	-	(752,000)	-	(752,000)
Net assets and reserves	5,843,336	(752,000)	(220,000)	4,871,336

Reconciliation of group net assets for the year ended 31 July 2015

	At 31 July 2015 as reported	Pension adjustment	Holiday pay adjustment	At 31 July 2015 as restated
	£	£	£	£
Total assets less current liabilities	6,534,235	-	-	6,534,235
Provisions	-	-	(220,000)	(220,000)
Pension liability provision	-	(1,369,000)	-	(1,369,000)
Net assets and reserves	6,534,235	(1,369,000)	(220,000)	4,945,235

26 Transition to FRS 102 (continued)**Reconciliation of the consolidated SOFA for the year ended 31 July 2015**

	At 31 July 2015 as reported	Pension adjustment	Holiday pay adjustment	At 31 July 2015 as restated
	£	£	£	£
Income	14,851,971	-	-	14,851,971
Expenditure	(14,388,728)	(617,000)	-	(15,005,728)
	463,243	(617,000)	-	(153,757)
Gains and losses	227,656	-	-	227,656
Net movement in funds	690,899	(617,000)	-	73,899

27 Reconciliation of net income/(expenditure) to net cash flow from operating activities

	Group		Charity	
	2016	2015	2016	2015
	£	£	£	£
Net income/(expenditure) for the year	(305,166)	73,899	(320,697)	72,501
Adjustments for:				
Depreciation charge	587,176	699,618	587,176	699,618
Gains on investments	(26,602)	(227,656)	(26,602)	(227,656)
Investment income	(142,096)	(124,444)	(142,096)	(124,444)
Surplus on the sale of tangible fixed assets	(2,038)	(2,168)	(2,038)	(2,168)
Increase in debtors	(58,153)	(101,974)	(59,353)	(102,574)
Increase in creditors	39,700	22,446	39,560	24,646
Increase in provisions	488,783	617,000	488,783	617,000
Net cash provided by operating activities	581,604	956,721	564,733	956,923

28 Analysis of cash and cash equivalents

	Group		Charity	
	2016	2015	2016	2015
	£	£	£	£
Cash at bank and in hand - liquid assets	3,817,449	2,038,342	3,779,777	2,017,541
Cash at bank - fixed asset investments	25,123	43,261	25,123	43,261
Cash at bank and in hand at the end of the year	3,842,572	2,081,603	3,804,900	2,060,802

Reference and administrative details

Registered name	The Quality Assurance Agency for Higher Education
Other names used by the company	QAA, QAA Scotland
Company registration number	03344784 (England and Wales)
Charity registration numbers	1062746 (England and Wales) SC037786 (Scotland)
Registered and principal office	Southgate House, Southgate Street, Gloucester GL1 1UB
Operational addresses	Southgate House, Southgate Street, Gloucester GL1 1UB 18 Bothwell Street, Glasgow, Glasgow City, G2 6NL Brettenham House, 5 Lancaster Place, London, WC2E 7EN Cambrian Buildings, Mount Stuart Square, Cardiff Bay CF10 5FL
Company Secretary	Miss Lavinia Blackett
Senior management (with delegated authority)	Mr Douglas Blackstock (Chief Executive from Oct 2015) Mr Anthony McClaran (Chief Executive to Oct 2015)
Bankers	HSBC Bank plc The Cross, Gloucester GL1 2AP
Investment managers	Rathbones Investment Management Limited 1 Curzon Street, London W1J 5FB Barclays Private Bank (Barclays Bank PLC) 40-42 Queen Square, Bristol BS1 4QP
Investment adviser	Crowe Clark Whitehill Financial Planning Limited Carrick House, Lypiatt Road, Cheltenham, Gloucestershire GL50 2QJ
Solicitors	Shakespeare Martineau No 1 Colmore Square, Birmingham B4 6AA
Independent auditor	Crowe Clark Whitehill LLP Carrick House, Lypiatt Road, Cheltenham, Gloucestershire GL50 2QJ

Glossary

APQN	Asia-Pacific Quality Network
BIS	Department for Business, Innovation and Skills
DAP	Degree awarding powers
DEL	Department for Employment and Learning in Northern Ireland
ELIR	Enhancement-led Institutional Review
ENQA	European Association for Quality Assurance in Higher Education
FEC	Further education college
FRS 102	The Financial Reporting Standard applicable in the UK and Republic of Ireland
HEA	The Higher Education Academy
HEFCE	Higher Education Funding Council for England
HEFCW	Higher Education Funding Council for Wales
HEI	Higher education institution
HER	Higher Education Review
I&D	Innovation and Development
INQAAHE	International Network for Quality Assurance Agencies in Higher Education
PSRB	Professional, statutory and regulatory body
QAA	The Quality Assurance Agency for Higher Education
QAR	Quality Assessment Review
S2P	State Second Pension
SAB	Student Advisory Board
SAUL	Superannuation Arrangements for the University of London
SCQF	Scottish Credit and Qualifications Framework
SFC	Scottish Funding Council
Charities SORP	Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) (effective 1 January 2015)
SOFA	Statement of financial activity
TEF	Teaching Excellence Framework
USS	Universities Superannuation Scheme
UUK	Universities UK
UW	Universities Wales

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