# Quality Assurance Agency for Higher Education

One hundred and first meeting of the Board of Directors

14 December 2016, QAA head office, Southgate House, Southgate Street, Gloucester GL1 1UB, 11:00 – 16:00

## Agenda

### Open session (Board members, company member representative, officers, observers)

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<th>No.</th>
<th>Item</th>
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<tr>
<td>1</td>
<td>Welcome and apologies</td>
<td>Note</td>
<td>Oral item</td>
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<td>2</td>
<td>Quorum and interests</td>
<td>Note</td>
<td>Oral item</td>
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<td>3</td>
<td>Minutes of the Board meeting (open business) held on 12 October 2016</td>
<td>Approve BD-2016-59</td>
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<td>4</td>
<td>Matters arising from the minutes (not otherwise on the agenda)</td>
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### Discussion items

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<td>5</td>
<td>Chief Executive’s report</td>
<td>Note</td>
<td>BD-2016-60</td>
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<td>6</td>
<td>QAA Strategy 2017-2020</td>
<td>Approve BD-2016-61</td>
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<td>7</td>
<td>Implications of the new operating environment for QAA</td>
<td>Discuss</td>
<td>oral, presentation</td>
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<td>8</td>
<td>Audit Committee’s annual report to the Board, including approval of</td>
<td>Note</td>
<td>BD-2016-62</td>
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<td></td>
<td>the Annual report and consolidated financial statements for the year</td>
<td>Approve BD-2016-62a</td>
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<td>ended 31 July 2016:</td>
<td>Approve BD-2016-62b</td>
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<td></td>
<td>a. Audit Committee’s annual report to the Board</td>
<td>Approve BD-2016-62c</td>
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<td>b. Annual report and consolidated financial statements</td>
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<td>c. Letter of representation</td>
<td>Note</td>
<td>BD-2016-62e</td>
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<td></td>
<td>d. QAAE financial statements</td>
<td>Note</td>
<td>BD-2016-62f</td>
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<td>e. External audit findings report</td>
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<td>f. Annual internal audit report</td>
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<td>9</td>
<td>Appointments to the Board and Board committees</td>
<td>Approve BD-2016-63</td>
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<td>10</td>
<td>Reformed QAA Board committee structure</td>
<td>Approve BD-2016-64</td>
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### Reporting items

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<tr>
<td>11</td>
<td>a. Summary report from Board committee meetings</td>
<td>Note</td>
<td>BD-2016-65a</td>
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<td>b. Report from the Wales Committee</td>
<td>Note</td>
<td>BD-2016-65b</td>
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### QAA Annual General Meeting

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<td>12</td>
<td>Report to the Company Members from the Chair</td>
<td>Note</td>
<td>verbal</td>
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Lunch will be served 12:45 – 13:15, observers and company member representatives are invited to join
Quality Assurance Agency for Higher Education

Minutes of the Board open business meeting on 12 October 2016, British Academy, 10-11 Carlton House Terrace, London, SW1Y 5AH, 16:00-16:30

Present

Members:  Mr Chris Banks (Chair)  Professor Denise McAlister
Mr Robert Cashman  Professor Tim McIntyre-Bhatty
Professor Joy Carter  Mr Jon Prichard
Ms Sue Reece  Ms Jane Hern
Professor Maria Hinfelaar  Professor Andrew Wathey
Ms Janet Hull  Professor Phil Winn
Mr Chris Jelley  Professor Craig Mahoney

Officers:  Mr Douglas Blackstock (CEO)  Mr Will Naylor
Miss Lavinia Blackett  Ms Rowena
Mr Ian Kimber  Mrs Liz Rosser
Dr Anett Loescher (Clerk)

Company members' representatives:  Mr Will Hammonds (UUK)

Observers:  Mr Scott Court (HEFCE)
Ms Bethan Dudas (NUS)
Mr Ben Elger (QAA)
Dr Cliona O’Neil (HEFCW)
Mr Alex Proudfoot (IHE)
Ms Arti Saraswat (AoC)

Apologies

Members:  Professor John Grattan
Miss Sorana Vieru
Mr Gary Warke

Welcome and apologies

1. The Chair welcomed members, officers and company members' representatives to the meeting, extending a particular welcome to Professor Maria Hinfelaar who had been appointed by the representative bodies jointly to succeed Professor Antony Chapman who retired at the end of August. Apologies were noted from Professor John Grattan, Mr Gary Warke and Miss Sorana Vieru.
2. The Chair invited all Board members present to celebrate the occasion of the 100th meeting of the QAA Board, and thanked Board members for their continued significant contributions to the Agency and its success. The Chair thanked observers and company members for their attendance at what would be a brief formal meeting of the Board, following on from the away-day.

Quorum and interests (item 2)

3. The meeting was quorate. No interests were declared.

Minutes from the meeting held on 15 June 2016 (item 3, BD-2016-45)

4. The minutes of the open meeting held on 15 June 2016 were approved as a true and accurate record of the meeting. There were no matters arising, nor did any Board member raise any further business for inclusion on the meeting agenda.

Discussion items

Update on away-day discussions

5. Following a sustained period of uncertainty for the Agency, the Higher Education and Research Bill (HERB), accompanying technical documents as well as the interim results communicated from the Bell review of sector agencies now provided more clarity on key features of the anticipated future operating environment for higher education sector agencies, including QAA. Against this background, the Board held its away-day under the heading Towards a new strategy 2017-2020.

6. For the benefit of the observers, the Chair summarised key discussions and decisions from the away-day as follows:

   • The Board had received a presentation from Polly Payne, Director for Higher Education Reform at the Department for Education (DfE), about the government’s intentions for the Higher Education and Research Bill (HERB), the timeline for the Bill’s passage, and implementation of key components of the envisaged reformed regulatory framework.

   • The Board had considered detailed propositions for the reform of the Agency’s governance, and implications of potential designation as the independent quality body for the Agency’s operations in future.

   • To commence the strategic planning process for 2017/2020, the Board had reconsidered the Agency’s mission, vision and values as well as the key strategic risks facing the Agency over the next three years.

Chief Executive’s report (item 5, BD-2016-46)

7. The Board noted the Chief Executive’s report on recent policy developments. The Chief Executive took the opportunity to congratulate Professor Andrew Wathey on his appointment as Chair of the UK-wide Standing Committee on Standards, and to highlight the forthcoming 7th ENQA General Assembly which would be hosted by QAA in its Gloucester head office, and to which registration from delegates from 43 countries had been received.
8. In line with the Agency’s Articles of Association, QAA’s AGM would have to take place by March 2017 at the latest. Accordingly, the Chair invited the Board to call the AGM for 14 December 2016, to coincide with the Board’s formal meeting. The Board approved the motion. The Company Secretary would in due course give notice of the AGM to all entitled to receive such notice.

Appointments to the Board and Board Committees (item 7, BD-2016-47)

9. The Board approved the following Board and Board Committee appointments:

to the Board:
- re-appointment of Sorana Vieru for a second one-year term on QAA’s Board to 2 October 2017, following the NUS’ re-nomination

to the Scotland Committee:
- Professor Phil Winn as Chair, for a second three-year term to 9 October 2019, when his second term as a member of the Board ends
- Liam Fuller, representing the student body, for a second one-year term to 15 October 2017

to the Audit Committee:
- Professor Joy Carter for a second three-year term to 22 June 2019, when her second term as a member of the Board ends

to the Nomination and Remuneration Committee:
- Professor Phil Winn, for a second three-year term to 9 October 2019, when his second term as a member of the Board ends

to the Student Advisory Board
- for a first one-year term to 15 October 2017, and following the requisite recruitment and selection process:

<table>
<thead>
<tr>
<th>Student Members</th>
<th>Provider type + country</th>
<th>Student type</th>
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<tbody>
<tr>
<td>Shumela Ahmed</td>
<td>University – Scotland</td>
<td>UG mature/Access to HE</td>
</tr>
<tr>
<td>Rojan Kumar</td>
<td>University – Scotland</td>
<td>Sabbatical officer/International</td>
</tr>
<tr>
<td>Becky Lees</td>
<td>University – England</td>
<td>P.T Masters</td>
</tr>
<tr>
<td>Stuart Cannell</td>
<td>University – England /NI undergrad</td>
<td>Graduate</td>
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<tr>
<td>Matthew Kearns</td>
<td>University – England</td>
<td>PG</td>
</tr>
<tr>
<td>Vivienne Newton</td>
<td>University – England</td>
<td>PG/ Sabbatical officer</td>
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<tr>
<td>Joshua Brumpton</td>
<td>Open University</td>
<td>P.T/Distance</td>
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<th>SU staff members</th>
<th>Provider type + country</th>
<th>Student type</th>
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<tbody>
<tr>
<td>Hannah Reilly</td>
<td>University – Wales</td>
<td>N/A</td>
</tr>
<tr>
<td>Tania Struetzel</td>
<td>University – England</td>
<td>N/A</td>
</tr>
<tr>
<td>Olivia Sharp</td>
<td>University – England</td>
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<tr>
<th>NUS Nominee</th>
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<th>Student type</th>
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<tbody>
<tr>
<td>Lucy Woodcock</td>
<td>University – England</td>
<td>Sabbatical officer</td>
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• for a second one-year term to 15 October 2017:

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<tr>
<th>Student Members</th>
<th>Provider type + country</th>
<th>Student type</th>
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<tbody>
<tr>
<td>John Simpson</td>
<td>FE College – England</td>
<td>Sabbatical officer</td>
</tr>
<tr>
<td>Alykhan Kassam</td>
<td>University – England</td>
<td>UG</td>
</tr>
<tr>
<td>Sophie Timbers</td>
<td>University – Wales</td>
<td>Sabbatical officer</td>
</tr>
<tr>
<td>Tatjana Lipai</td>
<td>FE College - England</td>
<td>International</td>
</tr>
<tr>
<td>Amira Svensk</td>
<td>Alternative Provider</td>
<td>International</td>
</tr>
<tr>
<td>Ellen-Rose Jones</td>
<td>University – Wales</td>
<td>Sabbatical officer</td>
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10. The Chair further informed the Board that recruitment to the two forthcoming independent director vacancies was underway, with recommendations for appointment expected to be brought to the Board’s December 2016 meeting.

Finance report year ended 31 July 2016 (item 8, BD-2016-48)

11. The Board received a summary report about QAA’s financial performance for the 12 months to 31 July 2016. The Finance and Strategy Committee (FSC) had previously considered the detailed report at its meeting on 28 September 2016. It was noted that the Agency had achieved a surplus of £221k for the year before exceptional costs, which although falling somewhat short of the target of £250k as set by the FSC in May 2016, was seen as a good result in light of the external pressures that the Agency had been experiencing throughout the year.

12. The Board noted that a review of the reserves policy had been undertaken, resulting in the FSC approving a revised target range for free reserves of £1.57m-£2.78m. To ensure reserves were at an appropriate level, the Board approved the FSC’s recommendation that £342k be transferred from the Innovation & Development (I&D) fund to the general fund.

2015/2016 Delivery plan – Term 3 monitoring and performance report (item 9, BD-2016-49)

13. The Board received, for information, the report on QAA’s performance against the 2015-16 Delivery Plan. A summarised monitoring report had previously been presented to the FSC on 28 September 2016. The FSC was satisfied with the overall strategic position of the Agency, and that appropriate action had been identified to address the exceptions.

14. It was noted that all objectives were on track except Aim 3: objectives A (establish QAA as the leading agency in international quality assurance and enhancement) and B (proactively develop and deliver services to meet a broad range of needs, in accordance with our expertise) which were assessed as amber (off track). In view of recent developments and the reformed regulatory framework for higher education, the Board approved the FSC’s recommendation to rephrase Aim 3 Objective A as Re-establish QAA as a key agency in international quality assurance and enhancement.

2016/2017 Annual plan and budget update (item 10, BD-2016-50)

15. The Board received an update on the steps being taken to finalise and embed the draft annual plan and budget for 2016-17 which had been presented to the Board at its meeting in June 2016.
16. Since the Board’s last meeting, and the implementation of the organisational change programme the Executive and senior management team of the Agency had developed an approach to set and embed the annual plan across the organisation. The Board approved the approach chosen to operationalise the annual plan which would be communicated to all staff and fully embedded within individual performance objectives as part of the annual performance review process. Monthly exception reporting would take place at Executive meetings and termly reporting made to the FSC and the Board.

17. The Board received the revised budget for 2016-17. This had been revisited following discussion at the June 2016 Board to accurately reflect the financial implications of the funding negotiations, the organisational change programme and the 2015-16 year. The changes had resulted in an increased surplus of £332k from the previous estimate of £1k. The Board approved the revised budget for 2016-17.

**Governance review (item 11, BD-2016-51)**

18. The Board received a summary report from the Governance Review Working Group and noted the progress made in developing a revised governance proposition which had been considered in detail by the Board at its away-day. Key proposals included:

- the extension of current company membership
- the creation of an honorary treasurer post
- a revised Board structure that:
  - was representative of UK higher education, the student interest and the public interest
  - was populated with skills and expertise necessary to discharge its role
  - was reflective the UK wide remit of the Agency’s work
  - was in its reformed size and composition aligned with good governance principles
- a reconsideration of the number of funding council appointments to the board given the changing nature of the relationship.

19. Any changes to the QAA company membership and board composition would require approval by company members. Informal discussions with company members and key stakeholders were ongoing in order to ensure their support for the envisaged reforms. It was anticipated that the reformed governance structure would be in place by the time the Office for Students was operational in shadow form (May 2017).

**Summary report from Board committees (item 12, BD-2016-52)**

20. The Board received and noted the summary report of Board Committee meetings held since June 2016, and noted in particular the efforts taken by the ACDAP to support and ensure coherence, across the UK, of DAP guidance and criteria.

**Any other business**

21. No other business was raised.

21. The date of the next meeting was confirmed as 14 December 2016, to coincide with the QAA AGM. The meeting would be held in Gloucester, further details would follow shortly.
Meeting of the Board of Directors

14 December 2016
Item 3
BD-2016-59

22. The Chair thanked all attendees for their contributions and closed the open session of the Board’s business.
Quality Assurance Agency for Higher Education
Meeting of the Board of Directors 14 December 2016
Chief Executive’s report

Executive summary
1. This paper presents the Chief Executive’s report to the Board on topics of interest and recent developments in relation to QAA. There continues to be a range of external policy drivers which will have significant impact on QAA and its future role.

Key risks and opportunities
2. The QAA strategic risk register and risk issues for QAA are considered separately by the Board [BD-2016-70].

Recommendations and decisions required
3. Recommendations to the Board are as follows:
   a. **Note** the information and updates provided in the report.

Enquiries
**Name:** Douglas Blackstock, Chief Executive  
**By telephone:** 01452 557004  
**By email:** d.blackstock@qaa.ac.uk
External policy developments

Higher Education & Research Bill 2016-17

4. The Higher Education & Research Bill has now progressed from the House of Commons to the House of Lords, with the second reading and debate taking place in early December. Detailed scrutiny in Committee stage may begin before the Christmas recess or in January when members return.

5. During the Bill’s progress through the House of Commons, the following amendments were accepted which the Board is invited to note:

- The Office for Students (OfS) must recommend to the Secretary of State an independent quality body to be designated following consultation, unless no suitable body exists (this had previously been at the discretion of the OfS). However, notwithstanding this, there does remain an element of discretion for the OfS as to whether it does consult on designation, unless instructed to do so by the Secretary of State
- An additional sub-clause preventing the OfS from performing any of its functions in a way prohibiting, or requiring the provision of, a particular course of study
- Legislative consent motions have been approved in Northern Ireland and are in the process of consideration by the Welsh and Scottish Governments
- Clarifying the fees that may be charged by the designated quality body
- Requiring the OfS to have at least one member with experience of representing or promoting the interests of students
- Requiring providers to publish, as well as produce, student protection plans
- Requiring that, in giving directions to the designated quality body, the OfS must have regard to the need to protect the expertise of that body

6. Several of these amendments relate to matters which QAA raised in its evidence to the Bill Committee and other briefings. QAA has provided a briefing for the Second Reading in the House of Lords and continues its programme of strategic engagement as the Bill progresses. We have also been tracking the process of legislative in the devolved administrations. It is expected that the Bill will receive Royal Assent in spring 2017.

Education Select Committee: inquiry into the impact of Brexit

7. In September, the House of Commons Education Select Committee launched an inquiry into the impact of Brexit on higher education. QAA submitted formal written evidence to the Committee in November. The timetable for further stages of the Committee’s inquiry has yet to be announced.

Universities UK review of sector agencies

8. The final report and recommendations from the Universities UK review of sector agencies are expected to be published in late January 2017. A letter from the review’s Chair, Sir David Bell, summarising the recommendations in relation to QAA, was sent to the Agency’s Chair on 30 November.

Scotland

Review of the Quality Enhancement Framework

10. During the autumn, QAA completed a sector consultation on ELIR, with responses received from all eighteen Scottish providers reviewed under that method. The final handbook for the next cycle of ELIR will be published in spring 2017.

Wales

Higher Education Funding Council for Wales: consultations

11. In September, the Higher Education Funding Council for Wales (HEFCW) opened a consultation on a draft Higher Education Strategy for Wales to 2026. HEFCW has been asked to submit an initial draft of the strategy to the Cabinet Secretary for Education by the end of December.

12. During the autumn, HEFCW also conducted two further consultations, to which QAA submitted formal written evidence, in relation to the revised operating model for quality assessment:

   a) Consultation on the external assurance of quality required by regulated institutions. This included provision for the sector in Wales collectively to appoint a single quality body to conduct external reviews. The proposed requirements for that body included: being listed on the European Quality Assurance Register; understanding the place of Wales within UK higher education; and having appropriate Welsh language capacity.

   b) Consultation on governing body annual assurance statements related to quality, focusing on the questions which accountable officers will be asked to complete for those statements in Wales.

QAA developments

Quality assessment

13. All contracts have now been signed for QAA’s work in relation to the revised model for quality assessment in England and Northern Ireland and the four programmes are underway:

   a) Quality Review Visit: QAA has completed a consultation on, and published, the Quality Review Visit handbook and student guidance. Selection of reviewers has also been completed.

   b) Verification: development work is ongoing and the process of selecting providers to take part in the first year pilots is expected to be completed following consideration by the Quality, Accountability & Regulation Strategic Advisory Committee (QARSAC) in December.

   c) Unsatisfactory Quality Scheme Investigations: QAA has completed its first investigation under the new scheme.

   d) International: a consultation on the revised method for transnational education (TNE) review on behalf of all of the UK funding bodies is currently underway, closing on 23 December. Proposals include a three year agreed programme of TNE activity, reviewed annually in order to respond to changing national or international priorities. Alongside the consultation, QAA has also submitted proposals to the funding bodies for strategic international engagement work.
Teaching Excellence Framework (TEF)

14. In late October, the Higher Education Funding Council for England (HEFCE) published the Teaching Excellence Framework: Year Two additional guidance, which supplements the specifications published by the Department for Education in September. The additional guidance was jointly developed by HEFCE and QAA. The application window for the TEF Year Two is now open, closing on 26 January 2017. Delivery of assessor and panel member training events, and provider briefings is underway by QAA.

M5 Group

15. In October, M5 Group members HESA, Jisc and QAA published a progress update on their collaboration, confirming a number of activities being delivered to support the sector, including:

- Design and implementation of customer relationship management systems at both HESA and QAA, using the expertise of Jisc
- Collaboratively managed IT service desks to share expertise from across the three organisations
- Development of an estates strategy (see London offices update below)

16. Longer term plans include the development of shared business continuity and information security resources, and collaborating on large-scale IT projects and application development.

London offices

17. As part of the estates strategy for the M5 Group, on 1 December QAA relocated its London base to the premises of Jisc at Brettenham House, near Waterloo Bridge. The relocation is expected to result in savings of around £60,000 per annum for the Agency, with staff benefiting from greater access to video conferencing facilities as part of a larger and more varied suite of available meeting spaces.

Interim statement on degree apprenticeships

18. QAA has begun a process of engagement and consultation with the sector, to develop a national-level statement on the characteristics of degree apprenticeships. The statement will provide key information about degree apprenticeships as they currently operate, including their context, distinctive features, content structure and delivery. It will align with the existing suite of characteristics statements that sit within Part A of the Quality Code (including foundation, master's and doctoral degrees).

International activities

European Quality Assurance Register (EQAR): substantive change reports

19. In October, QAA submitted a ‘substantive change report’ (a condition of participation in the register) to EQAR on the Agency’s International Quality Review (IQR) method. The report was considered by EQAR’s Register Committee, and feedback received in relation to publication of the IQR handbook on QAA’s website and the method’s follow-up processes.
20. It has been agreed with EQAR that a further substantive change report on QAA’s new contracts will be submitted early in the new year, once the new quality arrangements are sufficiently settled.

**British Council: Education Gateway pilot project**

21. QAA’s strong partnership with the British Council continues, with the recent selection of QAA as preferred partner for a pilot project in East Asia. The project, known as Education Gateway, represents an operational alliance between the two organisations, and will enable British Council staff in that region to promote partner products and services.

22. QAA has provided briefings to regional British Council staff (see International Quality Review, below) and it is hoped that the pilot project will result in a number of opportunities for the Agency.

**International Quality Review**

23. Following the launch of International Quality Review (IQR) in March 2016, QAA has successfully delivered an IQR scoping visit for the Kuwait International Law School, with a recommendation to proceed to the review stage. The review visit is expected to take place in the new year.

24. IQR will be one of QAA’s products and services included in the Education Gateway pilot project with the British Council (see above).

**ASEAN SHARE project**

25. QAA is participating in the four year European SHARE programme (EU Support to Higher Education in the ASEAN Region), which aims to build capacity and strengthen regional co-operation. The programme is led by the British Council, with Campus France, the European Association for Quality Assurance in Higher Education (ENQA), the European University Association (EUA) and the German Academic Exchange Service (DAAD). QAA’s involvement has included briefing agencies undergoing reviews in Indonesia, Malaysia, the Philippines and Thailand.

**Quality Beyond Boundaries Group**

26. In October, QAA’s Director of Universities, Quality Enhancement & Standards attended a meeting of the Quality Beyond Boundaries Group (QBBG) in Melbourne, Australia. QBBG is a network of agencies in countries which host or engage in significant amounts of transnational education. At the meeting, agreement was reached on a number of areas for further work, including:

- Developing joint approaches to auditing and quality assurance activities of providers operating across multiple QBBG jurisdictions with a view to enhancing the compatibility of frameworks, joint recognition and student mobility, and reducing regulatory burden on providers
- Further collaboration on transnational data collection and achieving a common understanding on data comparability
- Sharing information regarding schedules and review timeframes in each jurisdiction
- Continuing to share methodologies as a community of practice
**2017: QAA 20th anniversary**

27. A number of activities are being developed to commemorate 20 years of QAA and of the Dearing report, including joint activities with the Council for Higher Education Accreditation (CHEA) in the USA, as both organisations prepare to celebrate their twentieth anniversaries during 2017. QAA’s Chief Executive will speak at the CHEA annual conference in late January and this will be followed by a reciprocal address by CHEA’s President at QAA’s conference in May. The two agencies will also collaborate on a joint publication and launch event.

**Director of Resources**

28. Following an internal recruitment process Liz Rosser has been appointed to the post of Director of Resources.

**Recent publications**

29. Between 1 September and 30 November 2016, QAA published 30 review reports and 21 corporate publications. These included a range of subject benchmark statements and a thematic report on student engagement from Enhancement-led Institutional Reviews conducted between 2013-16.
Quality Assurance Agency for Higher Education

Meeting of the Board of Directors 14 December 2016

QAA Strategy 2017-2020

Executive summary

1. The current QAA strategy comes to an end this academic year. A new strategy needs to be in place in advance of the 2017-18 year: ideally this would be launched at QAA’s Annual Conference in May. The Board started to consider the components of the new strategy at its away day in October. This paper now seeks to move forward to reach a document on which we can commence consultation with stakeholders.

2. Following the meeting in October a draft document was circulated with a proposed vision, options for new values and proposed goals/aims and objectives. Some feedback has been received on that document which is incorporated into the discussion below.

3. The Board is asked to consider and approve the key components of the strategy outlined below from which a draft strategy 2017-2020 will be developed for consultation with key stakeholders.

Components of the Strategy

4. Mission: The current Mission is “To safeguard standards and improve the quality of UK higher education wherever it is delivered around the world.” At the away day the Board agreed to keep this as is but ensure contextualised wherever it is used - including inclusion of references to students. Although a small number of members have proposed alternatives to the Mission since that meeting, the consensus is that it remains appropriate for the current time. On that basis, the Board is invited to confirm the Mission.

5. Vision: Following feedback the following is proposed for approval “The UK wide independent quality body underpinning a world class higher education system”.

6. Values: Our current values are Integrity, professionalism, accountability, openness and Independence. These are very outward looking and we also have “ways of working” to govern how we behave internally: Collaborative, externally focused, innovative, professional and unified. Our aim is to combine and refresh these to have a single set of values which govern how we are perceived externally and how we act internally and externally. Following feedback from individual Board members the following are proposed to take forward:

   - Responsive
   - Collaborative
   - Accountable
   - Innovative
   - Integrity.
7. Once approved we will undertake further work to embed these values, including ensuring we clearly communicate what they mean for QAA and how they are translated into practice. This will be a particularly effective way to engage staff.

8. **Goals/aims:** Drawing on the discussions at the away day, the following is a draft for consideration:

*By 2020, QAA will be recognised and valued by students, institutions and governments as*

- the independent quality body of choice for all of UK higher education
- providing valued quality assurance and enhancement services to institutions, funders and clients
- delivering benefits for UK higher education from our international reputation and partnerships.

9. **Objectives:**

Ideally we would have two to four key SMART objectives under each aim. Some options to consider are as follows:

<table>
<thead>
<tr>
<th>the independent quality body of choice for all of UK higher education</th>
<th>providing valued quality assurance and enhancement services to institutions, funders and clients</th>
<th>delivering benefits for UK higher education from our international reputation and partnerships.</th>
</tr>
</thead>
<tbody>
<tr>
<td>• QAA becomes the designated HE quality body in England with strong sector support</td>
<td>• QAA develops and delivers a range of tailored activities/services which meet subscriber needs</td>
<td>• QAA secures improvements in the regulatory framework for UK TNE provision</td>
</tr>
<tr>
<td>• QAA wins sector support for a key role in quality assessment within Wales</td>
<td>• QAA acts as a key advisor to UK governments on HE quality and regulation</td>
<td>• Risk Based QA is understood and recognised internationally</td>
</tr>
<tr>
<td>• QAA delivers ELIR4 and the Enhancement Themes in Scotland</td>
<td>• QAA seen as a key source of advice and guidance by UKHE providers</td>
<td>• Take up of International Quality Reviews and other services endorses QAA as a leading ‘brand’.</td>
</tr>
<tr>
<td>• QAA contributes to the future quality assurance arrangements in Northern Ireland</td>
<td>• QAA delivers value for money to its stakeholders and is financially sustainable</td>
<td></td>
</tr>
</tbody>
</table>
Other feedback to consider

10. Following feedback from individual Board members, the Board might wish to consider the following questions:
   
   • Are the references to students as effective and appropriate as they could be? As identified at the Board away day our relationship with students is different to that of institutions and government so is there a way to better reflect that distinction?
   
   • Do we have aspirations to be a thought leader for the sector in both the UK and internationally, when it comes to quality assurance and should this be reflected in the strategy?

Next steps

11. Following discussions at the Board an amended strategy will be developed for consultation upon with key stakeholders, including QAA’s members, QAA Staff, the Nations (through the QAA Wales and QAA Scotland Committees) and students (through the Student Advisory Board). A revised draft will then be brought to the Board for final approval at its meeting in March.

Recommendations and decisions required

12. The Committee is invited to:
   
   a  Confirm that the current mission remains appropriate at this time
   
   b  Agree vision, values, aims and objectives on which to consult
   
   c  Delegate authority to the Chair to approve any further changes, prior to consultation, if required
   
   d  Endorse the proposed methods of consultation between this meeting and the March Board.

For consideration

Timescales

13. It is proposed that a new three year strategy be agreed at the March 2017 Board and launched at the QAA Annual Conference in May.

Resource implications


Risks and opportunities analysis

15. A failure to agree a strategy could result in the organisation lacking direction, making it difficult for activities to be prioritised and resources allocated appropriately.

16. The strategy is also an important public relations document and a way in which to publicise the organisation’s future direction.

Enquiries

Name:  Liz Rosser, Director of Resources
By telephone:  01452 557084
By email:  l.rosser@qaa.ac.uk
Quality Assurance Agency for Higher Education

Meeting of the Board of Directors 14 December 2016

Audit Committee’s annual report to the Board, including approval of the Annual report and consolidated financial statements

Executive summary

1 The main item of discussion at the November 2016 Audit Committee meeting was the Annual report and consolidated financial statements for the year ended 31 July 2016, which need to be approved by the Board prior to approval at the 2016 AGM. These financial statements are consolidated and therefore include the results for QAA Enterprises Limited. The financial statements for QAA Enterprises Limited were approved at its Directors’ meeting on 7 December.

2 The Board is required to approve the letter of representation for QAA which the auditors will require prior to signing their audit report. This confirms to the auditors the validity of representations on which they have relied during the audit process. The auditors are planning to issue an unqualified audit report and their audit findings report concluded that QAA had a good operating environment in place.

3 Other key items of discussion were as follows:
   • the internal audit annual report for the year ended 31 July 2016, which summarised the internal audit reports for the year
   • an annual report from the Audit Committee to the Board which will be provided to HEFCE under the terms of our contract
   • progress against outstanding internal audit recommendations
   • corporate risk register (discussed separately on the Board’s agenda).
   • feedback on external and internal audit and it was agreed to advise the Board to recommend the external auditor, Crowe Clark Whitehill, for re-appointment at the AGM.

Recommendations and decisions required

The Board is invited to:

i. **Note** the Annual report from Audit Committee to Board and **agree** to send the report to HEFCE (BD-2016-62a)
ii. **Approve** the Annual report and consolidated financial statements for the year ended 31 July 2016 for presentation to the AGM (BD-2016-62b)
iii. **Authorise** the Chair to sign the Annual report and financial statements and the letter
of representation (BD-2016-62c) on its behalf
iv. **Note** the financial statements of QAA Enterprises Limited (BD-2016-62d)
v. **Note** the external auditor’s Audit Findings Report (BD-2016-62e)
vi. **Note** the internal audit annual report for the year ended 31 July 2016 (BD-2016-62f)
vii. **Note** the evaluation of the auditors (paragraph 3) and **recommend** to the AGM the re-appointment of the external auditors.

Enquiries

**Name:** Liz Rosser, Director of Resources  
**By telephone:** 01452 557052  
**By email:** l.rosser@qaa.ac.uk
QAA Board of Directors meeting 14 December 2016

Annual report from the Audit Committee to the Board

Executive summary

1. An annual report from the Audit Committee is one way in which the Board and external partners can have confidence in QAA’s internal control systems and risk management arrangements.

2. Also the HEFCE residual contract requires that “QAA shall provide HEFCE with copies of its annual report of QAA's Audit Committee, external auditors' management letter and its internal auditors' annual report and a copy of its audited financial statements by 31 December in the year to which the accounts relate.”

Key risks and opportunities

3. Failure to provide HEFCE with the annual report of the QAA’s Audit Committee could result in HEFCE’s assessment that QAA has not adhered to the stipulations of its contract with HEFCE.

Recommendations and decisions required

4. The Board is required to:
   a. Note the Audit Committee report
   b. Comment as appropriate

For consideration

Timescales

5. The final version of the report will forwarded to HEFCE following the Board meeting.

Resource implications

6. The costs of Audit Committee meetings were delivered within the 2015-16 budget.

Enquiries

Name: Liz Rosser
By telephone: 01452 557084
By email: l.rosser@qaa.ac.uk
Annual Report from the Audit Committee to the Board for the year ended 31 July 2016

1 The terms of reference of the Audit Committee are included as Annex A. In order to fulfill its responsibilities, the Committee met three times during the year 2015-16. A summary of attendees at each meeting is included as Annex B. In line with the previous year it was agreed that, as far as possible, discussions would be grouped as follows:

- October/November meeting – external audit report and annual accounts
- January/February meeting - internal focus – policies, procedures and internal controls
- May/June/July meeting – internal audit reports.

2 At these meetings, papers were considered and endorsed, decisions made and recommendations put to the Board in the following key areas:

- Internal audit
- External audit
- Performance and appointment of auditors
- Treasury management
- Risk management
- Internal controls

3 The Committee considers that it worked effectively during the year, providing an appropriate level of challenge to officers and auditors, and sufficient assurance to the Board.

Internal audit

Provider:
RSM
St Philips Point
Temple Row
Birmingham
B2 5AF
Phone: +44 (0)121 214 3100
www.rsmuk.com

4 At its meeting in November 2015, the Committee considered the internal audit annual report for 2014-15, which concluded that QAA had adequate and effective governance, risk management and control processes to manage the achievement of its objectives. Regarding the adequacy and effectiveness of QAA’s arrangements for governance, risk management, control and economy, efficiency and effectiveness, under the internal auditors’ traffic light system, QAA received a green traffic light in all areas except the Framework for compliance with legal requirements and Framework for Business Development where a green/amber rating was given.
The internal audit plan for the year 2015-16, agreed in May 2015, was for a total of 30 days of audit work and covered the following areas:

- High Level Review of Information Technology (report received November 2015)
- Risk Management (report received February 2016)
- Project Governance and Management (report received February 2016)
- Key financial controls (report received May 2016)
- International Activities (report received May 2016)
- Follow up

The internal auditors presented the Annual internal audit report for the year ended 31 July 2016 to the Audit Committee in November 2016.

At each meeting, the Audit Committee received a report detailing QAA's progress against recommendations made by both the internal and external auditors. No untoward issues had been identified and the Committee found this progress to be satisfactory. Also at each meeting the Committee has an opportunity to receive feedback from the internal auditors (and external auditors for the October meeting) in the absence of the QAA officers.

The number of recommendations from internal and external auditors during 2015-16 were as follows:

<table>
<thead>
<tr>
<th></th>
<th>No of recommendations</th>
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<tbody>
<tr>
<td>B/fwd 2014-15</td>
<td>34</td>
</tr>
<tr>
<td>Raised in year</td>
<td>15</td>
</tr>
<tr>
<td>Addressed in year</td>
<td>39</td>
</tr>
<tr>
<td>C/fwd 2015-16</td>
<td>10</td>
</tr>
</tbody>
</table>

External audit

Provider:
Crowe Clark Whitehill
Carrick House
Lypiatt Road
Cheltenham
GL50 2QJ

At its meeting in November 2015, the Committee received and considered the external auditor’s Report to management, arising from the external audit for the year ended 31 July 2015. The auditors reported that QAA had a strong control environment in place. The report contained one recommendation.

The Committee also considered the draft Directors’ report and financial statements for the year ended 31 July 2015, and the Letter of Representation prepared for the Board to sign for the external auditors. Following approval by the Board at its meeting in December 2015, the Directors’ report and financial statements received an unqualified audit report.
Performance and appointment of auditors

10 The performance of the internal and external auditors is evaluated each year at the Audit Committee’s autumn meeting. At the November 2015 meeting management reported its satisfaction with CCW’s and RSM’s work and wished to continue to use the external and internal auditors’ services. Following approval by the Board at its meeting in December 2015 Crowe Clark Whitehall was reappointed as external auditor.

Treasury management

11 Following a decision by the Committee in 2011-12 to appoint an external organisation to operate a cash management service, combined with expansion of the investment policy to include discretionary fund management, investment performance has been monitored through the Finance and Strategy Committee.

12 In accordance with the requirements of QAA’s Treasury Management Policy the Audit Committee received at its meeting in May 2015 a report on the annual review of QAA’s appointed bankers which included consideration of the adequacy and effectiveness of all services provided.

Risk management

13 The Audit Committee reviewed the corporate risk register at all of its meetings. It considered changes to the strategic risks in the light of significant political and external developments and advised the Board and management accordingly.

Internal controls

14 As well as consideration of QAA’s internal control environment through the internal and external audit service, the Committee monitored this through a number of other means:

- by considering an external security assessment of QAA network and systems, and subsequent implementation of recommendations
- by receiving a report on QAA’s successful annual information security audit
- by receiving an annual report on credit card usage
- by receiving regular updates on developments in the business continuity planning arrangements, including the production of group business continuity plans
- by considering the controls in place for the management of emerging legal risks
- by conducting informal discussion sessions with members of the Executive team and senior management team on issues identified by the Committee as requiring further exploration.

15 The Committee oversaw QAA’s arrangements to promote economy, efficiency and effectiveness in QAA and considered an annual report from the Value for Money Group. The internal auditor’s annual report also provided a conclusion that QAA had appropriate economy, efficiency and effectiveness arrangements in place. The Committee endorsed a small number of departures from QAA’s purchasing regulations.
Information provided to the Board

16 The Audit Committee kept the Board up-to-date on its activities and discussions throughout the year, primarily through the presentation of minutes at Board meetings. In addition, a number of papers were presented to the Board for decision, following earlier discussions at the Audit Committee, as mentioned earlier in this paper.

Opinion

17 The overall conclusion of the Audit Committee, based on the information presented to it, is that the Quality Assurance Agency for Higher Education has effective arrangements for risk management, control and governance and for economy, efficiency and effectiveness (value for money) for the year to 31 July 2016.
Annex A

Audit Committee Terms of Reference

1 QAA is a company and a charity. Its Board members are the charity's trustees and the company's directors. As a charity it is charged with providing public benefit; as a company it is charged with providing benefit to the company's members. The Board appoints advisory committees to help QAA achieve its aims. Not all committee members are also Board members; those who are not Board members are not subject to the formal duties and liabilities of trustees and directors. They do, however, have the responsibility to work in the spirit of the expectations, duties and standards that apply to QAA's directors/trustees. Committee members should refer to the Board's Code of Best Practice, in particular paragraphs 2-8, 13-14, 19, 22 and 38-42. In carrying out their responsibilities, and in making proposals or recommendations to the Board from time to time, Board committees should have regard to the tests for public benefit and members’ benefit that are set out in paragraphs 53-57 of the Code.

2 The Audit Committee’s Terms of Reference are:

2.1 to advise the Board on:

2.1.1 the effectiveness of QAA's internal control systems

2.1.2 risk management, including:
   • the implications of the annual review of QAA's internal control arrangements
   • QAA's approach to risk management and overall risk management arrangements
   • the management of significant risks

2.1.3 external audit matters, including:
   • the appointment or re-appointment of the external auditor
   • the audit fee
   • the external auditor's management letter, and the management response
   • the provision of any non-audit audit services by the external auditors
   • the Committee's evaluation of the performance and effectiveness of the external auditors
   • any questions of resignation or dismissal of the external auditors

2.1.4 internal audit matters, including:
   • the appointment or re-appointment of the internal auditors
   • the audit fee
   • the terms of engagement of the internal auditors
   • significant internal audit reports and the management responses
   • the provision of any non-audit audit services by the internal auditors
   • the Committee's evaluation of the performance and effectiveness of the internal auditors
   • any questions of resignation or dismissal of the internal auditors
2.1.5 any reports from external agencies such as the Higher Education Funding Council for England Assurance Services and the National Audit Office.

2.1.6 arrangements to promote economy, efficiency and effectiveness in QAA.

2.2 to review the draft Directors' Report and Financial Statements, and advise the Board accordingly.

2.3 to consider, and discuss with the external auditors where appropriate:
   • the nature and scope of the audit, before the audit begins
   • the Directors' Report and Financial Statements
   • any issues arising from the audit, including a review of the management letter and the QAA response, and any other matters the external auditors may wish to discuss (in the absence of QAA staff where necessary).

2.4 to consider, and discuss with the internal auditors where appropriate:
   • the audit needs assessment, the audit plan and the resources available for internal audit
   • all internal audit reports and the management response to those reports.

2.5 to monitor the implementation of all agreed audit recommendations.

2.6 to consider any other issues requested by the Board, and to advise the Board accordingly.

3 The Audit Committee is authorised by the Board to:
   • investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee and all employees are directed to cooperate with any request made by the Audit Committee
   • obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

4 The Audit Committee shall also undertake the functions outlined in paragraphs 2 and 3 above on behalf of QAA Enterprises Ltd.

Membership

5 There shall be five members, of which at least one should have a background in finance, accounting or auditing. The quorum shall be three members.

6 All members shall be appointed by the Board; at least four - including the Chair - shall be appointed from among the Board members. Any member who is not a member of the Board shall be appointed for three years in the first instance, and shall be eligible for reappointment once only.

Secretariat

7 Three QAA officers: Head of Finance and Planning, Head of Governance and Lead Administrator (Audit Committee).
8 Membership is available at: www.qaa.ac.uk/about-us/corporate-governance/our-board.

Attendance at meetings

9 The Chief Executive, the Director of Resources and the Head of Finance normally attend meetings of the Audit Committee.

10 A representative of the external auditors and the internal auditors shall attend meetings where business relevant to them is to be discussed.

Frequency of meetings

11 The Audit Committee normally meets three times a year. The external auditors or the internal auditors may request a meeting if they consider it necessary.

Reporting

12 The minutes of meetings of the Audit Committee will be circulated to all members of the Board.

13 The Audit Committee receives and considers the annual reports of the internal and external auditors and reports to the Board after each meeting. The Directors' Report and Financial Statements include a summary of the Audit Committee's work each year, including the reliance that may be placed on the internal control system and risk management systems, and the arrangements for securing economy, efficiency and effectiveness.

Membership during the year ended 31 July 2016

Members

Professor Joy Carter
Professor Antony Chapman
Ms Jane Hern (Chair, from December 2015)
Ms Sue Reece (from 15 March 2016)
Mr Andy Smart
Mr John Tredwell (Chair, until November 2015; retired as member of the Board)
Annex B

Meetings during the year ended 31 July 2016

Meeting 10 November 2015

Attending members: Professor Joy Carter
                  Professor Antony Chapman
                  Ms Jane Hern
                  Mr Andy Smart
                  Mr John Tredwell (Chair)

Attending officers: Mrs Caroline Blackburn
                   Miss Lavinia Blackett
                   Mr Douglas Blackstock
                   Ms Anett Loescher
                   Mrs Liz Rosser

Also in attendance: Mr Guy Biggin (Crowe Clarke Whitehill, external auditors)
                   Ms Louise Tweedie (RSM, internal auditors)

Meeting 5 February 2016

Attending members: Professor Joy Carter
                  Professor Antony Chapman
                  Ms Jane Hern (Chair)
                  Ms Sue Reece
                  Mr Andy Smart

Attending officers: Mrs Caroline Blackburn
                   Miss Lavinia Blackett
                   Mr Douglas Blackstock
                   Mr Graham Hardy
                   Ms Anett Loescher
                   Mrs Liz Rosser

Also in attendance: Ms Louise Tweedie (RSM, internal auditors)
                   Mr Paul Greaves, Leadership Foundation for Higher Education

Meeting 5 May 2016

Attending members: Professor Joy Carter
                  Ms Jane Hern (Chair)
                  Ms Sue Reece
                  Mr Andy Smart

Attending officers: Mrs Caroline Blackburn
                   Mr Douglas Blackstock
                   Ms Anett Loescher
                   Mrs Liz Rosser

Apologies: Professor Antony Chapman
Annual Report and Consolidated Financial Statements for the Year Ended 31 July 2016

The Quality Assurance Agency for Higher Education

Company registration number: 03344784
Charity registration numbers: 1062746 and SC037786
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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**

<table>
<thead>
<tr>
<th>Date</th>
<th>Activity</th>
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<tbody>
<tr>
<td>August 2015</td>
<td>QAA submits its formal response to the Quality Assessment Review consultation on future arrangements in England, Northern Ireland and Wales</td>
</tr>
<tr>
<td>September</td>
<td>QAA publishes revised qualification characteristics statements for foundation, master’s and doctoral degrees</td>
</tr>
<tr>
<td>October</td>
<td>Douglas Blackstock, QAA’s Chief Operating Officer, takes up the post of Chief Executive for the Agency</td>
</tr>
<tr>
<td></td>
<td>Publication of the findings of the second year of Higher Education Review (2014-15)</td>
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<tr>
<td></td>
<td>QAA’s 2015 Quality Matters student conference takes place in Birmingham</td>
</tr>
</tbody>
</table>
The Quality Assurance Agency for Higher Education

Year ended 31 July 2016

Date | Activity
--- | ---
November | • 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 | • 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 | • QAA submits its formal response to the Department of Business, Innovation & Skills Green Paper consultation, *Fulfilling our Potential: teaching excellence, social mobility and student choice*
       | • 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 | • 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 | • 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 | • 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
<table>
<thead>
<tr>
<th>Date</th>
<th>Activity</th>
</tr>
</thead>
</table>
| May   | • 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  | • 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  | • 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:

<table>
<thead>
<tr>
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<tbody>
<tr>
<td><strong>Publicly funded providers</strong></td>
<td></td>
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</tr>
<tr>
<td>England (higher education institutions)</td>
<td>29</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>29</td>
</tr>
<tr>
<td>England (colleges)</td>
<td>60</td>
<td>-</td>
<td>3</td>
<td>-</td>
<td>63</td>
</tr>
<tr>
<td>Northern Ireland</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td>Scotland</td>
<td>-</td>
<td>5</td>
<td>-</td>
<td>-</td>
<td>5</td>
</tr>
<tr>
<td>Wales</td>
<td>4</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>94</td>
<td>5</td>
<td>3</td>
<td>1</td>
<td>103</td>
</tr>
<tr>
<td><strong>Alternative and other providers</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Educational Oversight</td>
<td>49</td>
<td>-</td>
<td>-</td>
<td>58</td>
<td>107</td>
</tr>
<tr>
<td>Course Designation</td>
<td>7</td>
<td>-</td>
<td>-</td>
<td>46</td>
<td>53</td>
</tr>
<tr>
<td>Other higher education institutions</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>57</td>
<td>-</td>
<td>-</td>
<td>104</td>
<td>161</td>
</tr>
<tr>
<td><strong>TOTAL REVIEWS</strong></td>
<td>151</td>
<td>5</td>
<td>3</td>
<td>105</td>
<td>264</td>
</tr>
</tbody>
</table>

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 year\(^1\), 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 providers\(^2\):

- 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.

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\(^1\) 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.

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.

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**

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.

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.

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.

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**

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

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.

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.

<table>
<thead>
<tr>
<th>Method</th>
<th>Eligible to appeal</th>
<th>Appealing pending</th>
<th>Chose not to appeal</th>
<th>Appeal in progress</th>
<th>Rejected by independent reviewer</th>
<th>Appealed by panel</th>
<th>Upheld</th>
<th>Stopped (referred back to QAA team)</th>
</tr>
</thead>
<tbody>
<tr>
<td>HER*</td>
<td>16</td>
<td>0</td>
<td>15</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>HER+</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>HER</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wales HER</td>
<td>2</td>
<td>0</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>(Alternative Providers)</td>
<td>12</td>
<td>1</td>
<td>6</td>
<td>1</td>
<td>3</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>30</strong></td>
<td><strong>1</strong></td>
<td><strong>23</strong></td>
<td><strong>2</strong></td>
<td><strong>3</strong></td>
<td><strong>0</strong></td>
<td><strong>0</strong></td>
<td><strong>1</strong></td>
</tr>
</tbody>
</table>

*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.
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.

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

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

Students

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.

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).

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.

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

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.

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.

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 – 1 million 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
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

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

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.

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.

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

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

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**

- 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**

- 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**

- 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

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-Bhatt  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.
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.

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

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.

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

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

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

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.

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:
  o Advisory Committee on Degree Awarding Powers
• Management of the QAA Recognition Scheme for Access to HE:
  o Access Recognition and Licensing Committee
• Student engagement and student issues:
  o 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.
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.

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.’

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

<table>
<thead>
<tr>
<th>Risk area</th>
<th>Management and controls</th>
</tr>
</thead>
</table>
| Uncertainties and changes to the UK higher education quality assurance, regulatory and policy landscape, which could adversely affect QAA’s future role | • Sustained senior level engagement with UK governments, sector bodies, subscribers and other stakeholders  
• Active participation in consultations, parliamentary inquires, 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                                        | • 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 |

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:

**THESE ACCOUNTS HAVE NOT BEEN APPROVED**

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 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.

THIS AUDIT REPORT HAS NOT BEEN SIGNED

Guy Biggin
Senior Statutory Auditor

For and on behalf of

Crowe Clark Whitehill LLP
Statutory Auditor

Carrick House
Lydiatt Road
Cheltenham
Gloucestershire
GL50 2QJ

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

<table>
<thead>
<tr>
<th>Notes</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£</td>
<td>£</td>
</tr>
<tr>
<td>Unrestricted fund s</td>
<td>Unrestricted fund s</td>
<td></td>
</tr>
</tbody>
</table>

**Income from:**

- Charitable activities 6 15,286,940 14,709,021
- Other trading activities 4 17,590
- Investments 5 142,096 124,000
- Other 13,604 18,000

**Total income** 15,460,230 14,851,021

**Expenditure on:**

- Fundraising trading costs
- Investment management costs 25,427 (1,011,034)
- Raising funds 26,286 26,000
- Charitable activities 7, 8 15,765,712 14,979,021

**Total expenditure** 15,791,998 15,005,021

Net gains on investments 15 26,602 227,000

**Net (expenditure)/income and net movement in funds for the year** 9 (305,166) 73,000

**Reconciliation of funds**

- Total funds brought forward 4,945,235 4,871,021
- Total funds carried forward 23 4,640,069 4,945,021

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)

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td></td>
<td>£</td>
<td>£</td>
<td>£</td>
<td>£</td>
</tr>
<tr>
<td>Fixed assets:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tangible assets</td>
<td>13</td>
<td>1,646,423</td>
<td>1,977,256</td>
<td></td>
</tr>
<tr>
<td>Investments</td>
<td>15</td>
<td>2,738,395</td>
<td>4,021,505</td>
<td></td>
</tr>
<tr>
<td>Total fixed assets</td>
<td></td>
<td>4,384,818</td>
<td>5,998,761</td>
<td></td>
</tr>
<tr>
<td>Current assets:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debtors</td>
<td>16</td>
<td>781,721</td>
<td>723,568</td>
<td></td>
</tr>
<tr>
<td>Cash at bank and in hand</td>
<td></td>
<td>3,817,449</td>
<td>2,038,342</td>
<td></td>
</tr>
<tr>
<td>Total current assets</td>
<td></td>
<td>4,599,170</td>
<td>2,761,910</td>
<td></td>
</tr>
<tr>
<td>Liabilities:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Creditors - amounts falling due within one year</td>
<td>17</td>
<td>(2,266,136)</td>
<td>(2,226,436)</td>
<td></td>
</tr>
<tr>
<td>Net current assets</td>
<td></td>
<td>2,333,034</td>
<td>535,474</td>
<td></td>
</tr>
<tr>
<td>Total assets less current liabilities</td>
<td></td>
<td>6,717,852</td>
<td>6,534,235</td>
<td></td>
</tr>
<tr>
<td>Provision for liabilities</td>
<td>21</td>
<td>(1,043,783)</td>
<td>(220,000)</td>
<td></td>
</tr>
<tr>
<td>Pension provision liability</td>
<td>22</td>
<td>(1,034,000)</td>
<td>(1,369,000)</td>
<td></td>
</tr>
<tr>
<td>Total net assets</td>
<td></td>
<td>4,640,069</td>
<td>4,945,235</td>
<td></td>
</tr>
<tr>
<td>The funds of the group and charity:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Designated funds</td>
<td>23</td>
<td>1,594,713</td>
<td>1,228,394</td>
<td></td>
</tr>
<tr>
<td>General funds</td>
<td>23</td>
<td>3,045,356</td>
<td>3,716,841</td>
<td></td>
</tr>
<tr>
<td>Total funds as at 31 July 2016</td>
<td></td>
<td>4,640,069</td>
<td>4,945,235</td>
<td></td>
</tr>
</tbody>
</table>

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:

**THESE ACCOUNTS HAVE NOT BEEN APPROVED**

Christopher Banks CBE, Chair
Statement of cash flows
for the year ended 31 July 2016

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£</td>
<td>£</td>
<td>£</td>
<td>£</td>
</tr>
<tr>
<td><strong>Cash flows from operating activities:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>27</td>
<td>581,604</td>
<td>956,721</td>
<td>564,733</td>
</tr>
<tr>
<td><strong>Cash flows from investing activities:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment income</td>
<td>142,096</td>
<td>124,444</td>
<td>142,096</td>
<td>124,444</td>
</tr>
<tr>
<td>Proceeds from sale of investments</td>
<td>1,763,367</td>
<td>1,071,511</td>
<td>1,763,367</td>
<td>1,071,511</td>
</tr>
<tr>
<td>Purchase of investments</td>
<td>(471,793)</td>
<td>(1,220,351)</td>
<td>(471,793)</td>
<td>(1,220,351)</td>
</tr>
<tr>
<td>Purchase of tangible fixed assets</td>
<td>(256,343)</td>
<td>(732,251)</td>
<td>(256,343)</td>
<td>(732,251)</td>
</tr>
<tr>
<td>Proceeds from sale of tangible fixed assets</td>
<td>2,038</td>
<td>2,168</td>
<td>2,038</td>
<td>2,168</td>
</tr>
<tr>
<td><strong>Net cash provided by/(used in) investing activities</strong></td>
<td>1,179,365</td>
<td>(754,479)</td>
<td>1,179,365</td>
<td>(754,479)</td>
</tr>
<tr>
<td><strong>Change in cash and cash equivalents in the year</strong></td>
<td>1,760,969</td>
<td>202,242</td>
<td>1,744,098</td>
<td>202,444</td>
</tr>
<tr>
<td>Cash and cash equivalents at the beginning of the year</td>
<td>2,081,603</td>
<td>1,879,361</td>
<td>2,060,802</td>
<td>1,858,358</td>
</tr>
<tr>
<td>Cash and cash equivalents at the end of the year</td>
<td>28</td>
<td>3,842,572</td>
<td>2,081,603</td>
<td>3,804,900</td>
</tr>
</tbody>
</table>

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 note19).

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:

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

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

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover</td>
<td>17,590</td>
<td></td>
</tr>
<tr>
<td>Cost of sales and administrative costs</td>
<td>(2,059)</td>
<td>1,398</td>
</tr>
<tr>
<td><strong>Net profit for the year</strong></td>
<td>15,531</td>
<td>1,398</td>
</tr>
</tbody>
</table>

The assets and liabilities of the subsidiary were:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets</td>
<td>37,672</td>
<td>20,801</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>(23,352)</td>
<td>(22,012)</td>
</tr>
<tr>
<td><strong>Total net assets/(liabilities)</strong></td>
<td>14,320</td>
<td>(1,211)</td>
</tr>
</tbody>
</table>

5 Income from investments

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

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividend and interest income from quoted investments</td>
<td>122,585</td>
<td>105,722</td>
</tr>
<tr>
<td>Interest from cash held in interest bearing bank accounts</td>
<td>19,511</td>
<td>18,722</td>
</tr>
<tr>
<td><strong>Total investment income for the year</strong></td>
<td>142,096</td>
<td>124,444</td>
</tr>
</tbody>
</table>
6 Income from charitable activities

<table>
<thead>
<tr>
<th>Note</th>
<th>2016</th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subscriptions</td>
<td>4,957,076</td>
<td></td>
</tr>
<tr>
<td>Contracts with higher education funding bodies</td>
<td>7,023,338</td>
<td></td>
</tr>
<tr>
<td>Alternative providers of higher education</td>
<td>2,237,480</td>
<td></td>
</tr>
<tr>
<td>Other contracts and related income</td>
<td>1,069,046</td>
<td></td>
</tr>
<tr>
<td><strong>Total income from charitable activities</strong></td>
<td><strong>15,286,940</strong></td>
<td></td>
</tr>
</tbody>
</table>

**Analysis by source:**
- **UK Governments** | 124,026 |
- **UK higher education funding councils** | 6,797,873 |
- **UK higher education institutions** | 4,652,576 |
- **UK further education institutions** | 553,500 |
- **UK alternative providers of higher education** | 2,562,335 |
- **Other** | 870,459 |
| **Total income from charitable activities** | **15,560,769** |

- **Release income deferred in prior years** | 17 | 1,038,387 |
- **Defer income received in current year** | 17 | (1,312,216) |
| **Total income from charitable activities** | **15,286,940** |

7 Expenditure on charitable activities

<table>
<thead>
<tr>
<th>Note</th>
<th>2016</th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td>secure the standards of UK hig</td>
<td>10,544,879</td>
<td>9,753,905</td>
</tr>
<tr>
<td>Enhance the quality and her education</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- **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

<table>
<thead>
<tr>
<th>Charitable activities</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enhance the quality and secure the standards of UK HE</td>
<td>£</td>
<td>£</td>
</tr>
<tr>
<td>Provide leadership and enhancing the quality of HE</td>
<td>£</td>
<td>£</td>
</tr>
<tr>
<td>Extend and enhance the value and reach of QAA’s services</td>
<td>£</td>
<td>£</td>
</tr>
<tr>
<td>Governance</td>
<td>£</td>
<td>£</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Direct costs</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Staffing costs</td>
<td>4,060,981</td>
<td>1,400,726</td>
</tr>
<tr>
<td></td>
<td>679,331</td>
<td>-</td>
</tr>
<tr>
<td>Other review costs</td>
<td>2,922,437</td>
<td>224,898</td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>3,147,335</td>
</tr>
<tr>
<td>Other direct costs</td>
<td>283,970</td>
<td>225,626</td>
</tr>
<tr>
<td></td>
<td>117,099</td>
<td>626,695</td>
</tr>
<tr>
<td>Total direct costs</td>
<td>7,267,388</td>
<td>1,851,250</td>
</tr>
<tr>
<td></td>
<td>796,430</td>
<td>- 9,915,068</td>
</tr>
<tr>
<td></td>
<td>8,919,833</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Support costs</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Staffing costs</td>
<td>1,520,589</td>
<td>604,013</td>
</tr>
<tr>
<td></td>
<td>196,220</td>
<td>181,602</td>
</tr>
<tr>
<td>Other staff costs</td>
<td>129,350</td>
<td>46,151</td>
</tr>
<tr>
<td></td>
<td>17,261</td>
<td>3,934</td>
</tr>
<tr>
<td>Premises</td>
<td>452,926</td>
<td>207,510</td>
</tr>
<tr>
<td></td>
<td>55,634</td>
<td>12,677</td>
</tr>
<tr>
<td>Office costs</td>
<td>62,615</td>
<td>26,167</td>
</tr>
<tr>
<td></td>
<td>7,947</td>
<td>1,812</td>
</tr>
<tr>
<td>Information systems</td>
<td>256,041</td>
<td>88,130</td>
</tr>
<tr>
<td></td>
<td>33,457</td>
<td>7,624</td>
</tr>
<tr>
<td>Professional fees</td>
<td>75,001</td>
<td>48,753</td>
</tr>
<tr>
<td></td>
<td>43,148</td>
<td>941</td>
</tr>
<tr>
<td>Other support costs</td>
<td>172,543</td>
<td>136,321</td>
</tr>
<tr>
<td></td>
<td>198,709</td>
<td>1,518</td>
</tr>
<tr>
<td>Depreciation</td>
<td>387,283</td>
<td>136,339</td>
</tr>
<tr>
<td></td>
<td>51,759</td>
<td>11,794</td>
</tr>
<tr>
<td>Governance **</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>106,647</td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>106,647</td>
</tr>
<tr>
<td>Total support costs</td>
<td>3,056,348</td>
<td>1,293,384</td>
</tr>
<tr>
<td></td>
<td>604,135</td>
<td>328,549</td>
</tr>
<tr>
<td>Reallocate governance</td>
<td>221,143</td>
<td>77,851</td>
</tr>
<tr>
<td></td>
<td>29,555</td>
<td>(328,549)</td>
</tr>
<tr>
<td>Total support costs by aim</td>
<td>3,277,491</td>
<td>1,371,235</td>
</tr>
<tr>
<td></td>
<td>633,690</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>5,282,416</td>
<td>5,442,559</td>
</tr>
</tbody>
</table>

| 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 | - |
| Restructure - Other costs | 19,928 | 8,960 |
| | 2,279 | - |
| Pension provision - net deficit contributions | (253,316) | (90,976) |
| | (39,708) | - |
| Pension provision - unwinding of discount | 32,324 | 11,609 |
| | 5,067 | - |
| 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

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

10 Analysis of staff costs

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

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:

<table>
<thead>
<tr>
<th>Range</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>£170,000 - £179,999</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td>£140,000 - £149,999</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>£100,000 - £109,999</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>£80,000 - £89,999</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>£70,000 - £79,999</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>£60,000 - £69,999</td>
<td>9</td>
<td>5</td>
</tr>
</tbody>
</table>

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:

<table>
<thead>
<tr>
<th>Year</th>
<th>Employer contributions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>174,246</td>
</tr>
<tr>
<td>2015</td>
<td>132,914</td>
</tr>
</tbody>
</table>
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

<table>
<thead>
<tr>
<th>Group and charity</th>
<th>Leasehold improvements</th>
<th>Computer equipment</th>
<th>Furniture and other equipment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£</td>
<td>£</td>
<td>£</td>
</tr>
<tr>
<td><strong>Cost</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 1 August 2015</td>
<td>1,228,925</td>
<td>3,588,201</td>
<td>487,681</td>
</tr>
<tr>
<td>Additions</td>
<td>51,285</td>
<td>146,192</td>
<td>58,866</td>
</tr>
<tr>
<td>Disposals</td>
<td></td>
<td>(74,309)</td>
<td></td>
</tr>
<tr>
<td><strong>At 31 July 2016</strong></td>
<td>1,280,210</td>
<td>3,660,084</td>
<td>546,547</td>
</tr>
<tr>
<td><strong>Depreciation</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 1 August 2015</td>
<td>239,599</td>
<td>2,855,280</td>
<td>232,672</td>
</tr>
<tr>
<td>Charge for the year</td>
<td>128,954</td>
<td>372,310</td>
<td>85,912</td>
</tr>
<tr>
<td>Eliminated on disposals</td>
<td>-</td>
<td>(74,309)</td>
<td>-</td>
</tr>
<tr>
<td><strong>At 31 July 2016</strong></td>
<td>368,553</td>
<td>3,153,281</td>
<td>318,584</td>
</tr>
<tr>
<td><strong>Net book value at 31 July 2016</strong></td>
<td>911,657</td>
<td>506,803</td>
<td>227,963</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net book value at 31 July 2015</td>
<td>989,326</td>
<td>732,921</td>
<td>255,009</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contracted for but not provided</td>
<td>7,000</td>
<td>101,000</td>
</tr>
<tr>
<td>Authorised but not yet contracted for</td>
<td>-</td>
<td>205,000</td>
</tr>
<tr>
<td></td>
<td>7,000</td>
<td>306,000</td>
</tr>
</tbody>
</table>

15 Fixed asset investments

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

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

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:

<table>
<thead>
<tr>
<th>Group and charity At 31 July 2016</th>
<th>Group and charity At 31 July 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost</td>
<td>Market Value</td>
</tr>
<tr>
<td>£</td>
<td>£</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Group and charity At 31 July 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost</td>
</tr>
<tr>
<td>£</td>
</tr>
</tbody>
</table>

- in the UK 25,123 25,123 43,261 43,261
- outside the UK 2,355,938 2,738,395 3,656,276 4,021,505

Holdings representing more than 5% of the investment portfolio by carrying value:

DB X-Trackers (FTSE All-Share) 602,828
Mayfair Capital Investment Management (Property Income Trust For Charity) 211,627

16 Debtors

<table>
<thead>
<tr>
<th>Group</th>
<th>Charity</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>2015</td>
</tr>
<tr>
<td>£</td>
<td>£</td>
</tr>
<tr>
<td>Trade debtors</td>
<td>412,186</td>
</tr>
<tr>
<td>Sundry debtors</td>
<td>7,710</td>
</tr>
<tr>
<td>Prepayments</td>
<td>266,844</td>
</tr>
<tr>
<td>Accrued income</td>
<td>94,981</td>
</tr>
<tr>
<td>Subsidiary undertaking</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>781,721</strong></td>
</tr>
</tbody>
</table>

Trade debtors are stated after provision for doubtful debts of £22,322 (2015: £3,210)
17 Creditors: amounts falling due within one year

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade creditors</td>
<td>134,678</td>
<td>262,411</td>
<td>134,678</td>
<td>262,411</td>
</tr>
<tr>
<td>Taxation and social security</td>
<td>226,344</td>
<td>214,975</td>
<td>226,344</td>
<td>214,975</td>
</tr>
<tr>
<td>Pension contributions</td>
<td>131,114</td>
<td>115,846</td>
<td>131,114</td>
<td>115,846</td>
</tr>
<tr>
<td>Other creditors</td>
<td>269</td>
<td>13,783</td>
<td>269</td>
<td>13,783</td>
</tr>
<tr>
<td>Accruals</td>
<td>357,470</td>
<td>476,989</td>
<td>355,870</td>
<td>475,529</td>
</tr>
<tr>
<td>Deferred income</td>
<td>1,416,261</td>
<td>1,142,432</td>
<td>1,416,261</td>
<td>1,142,432</td>
</tr>
</tbody>
</table>

The movement in deferred income was as follows:
- At start of year: 1,142,432
- Release income deferred in prior years: (1,038,387)
- Defer income received in current year: 1,312,216

At end of year: 1,416,261

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:

<table>
<thead>
<tr>
<th></th>
<th>Group and charity 2016</th>
<th>Group and charity 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£</td>
<td>£</td>
</tr>
<tr>
<td><strong>Land and buildings</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Within one year</td>
<td>293,700</td>
<td>299,000</td>
</tr>
<tr>
<td>Between two and five years</td>
<td>333,300</td>
<td>627,000</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Within one year</td>
<td>40,300</td>
<td>43,100</td>
</tr>
<tr>
<td>Between two and five years</td>
<td>600</td>
<td>3,100</td>
</tr>
<tr>
<td></td>
<td>667,900</td>
<td>972,200</td>
</tr>
</tbody>
</table>
19 Financial instruments

<table>
<thead>
<tr>
<th></th>
<th>Group 2016</th>
<th>2015</th>
<th>Charity 2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial assets measured at amortised cost</td>
<td>£514,877</td>
<td>£311,906</td>
<td>£536,629</td>
<td>£332,458</td>
</tr>
<tr>
<td>Financial liabilities measured at amortised cost</td>
<td>(£623,531)</td>
<td>(£869,029)</td>
<td>(£621,931)</td>
<td>(£867,569)</td>
</tr>
</tbody>
</table>

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:

<table>
<thead>
<tr>
<th></th>
<th>Group and Charity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Holiday pay</td>
</tr>
<tr>
<td>------------------</td>
<td>-------------</td>
</tr>
<tr>
<td>At 1 August 2015</td>
<td>220,000</td>
</tr>
<tr>
<td>Provided during the year</td>
<td>20,000</td>
</tr>
<tr>
<td><strong>At 31 July 2016</strong></td>
<td><strong>240,000</strong></td>
</tr>
</tbody>
</table>

22 Pension liability provision

The total pension cost charged to the SOFA is:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employer contributions payable in the year (note 10)</td>
<td>1,000,381</td>
<td>856,308</td>
</tr>
<tr>
<td>Deficit contributions payable in the year (included in employer contributions above)</td>
<td>(78,000)</td>
<td>(96,000)</td>
</tr>
<tr>
<td>Change in expected future deficit contributions</td>
<td>(306,000)</td>
<td>688,000</td>
</tr>
<tr>
<td><strong>Total pension cost charged to the SOFA</strong></td>
<td><strong>616,381</strong></td>
<td><strong>1,448,308</strong></td>
</tr>
</tbody>
</table>

The movement in the provision since 1 August 2014 is:

<table>
<thead>
<tr>
<th></th>
<th>Group and charity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2016</td>
</tr>
<tr>
<td></td>
<td>£</td>
</tr>
<tr>
<td>At 1 August (as restated)</td>
<td>1,369,000</td>
</tr>
<tr>
<td>Charged to SOFA – deficit contributions payable in the year</td>
<td>(78,000)</td>
</tr>
<tr>
<td>(Credited)/charged to the SOFA – change in expected future deficit contributions</td>
<td>(306,000)</td>
</tr>
<tr>
<td>Unwinding of discount</td>
<td>49,000</td>
</tr>
<tr>
<td><strong>At the year end</strong></td>
<td><strong>1,034,000</strong></td>
</tr>
</tbody>
</table>
23 Analysis of charitable funds

Analysis of movements in unrestricted funds

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

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

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

24 Pensions (defined benefit schemes)

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

<table>
<thead>
<tr>
<th>Group and charity</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Universities Superannuation Scheme (USS)</td>
<td>743,935</td>
<td>619,515</td>
</tr>
<tr>
<td>Superannuation Arrangements for the University of London (SAUL)</td>
<td>256,446</td>
<td>236,793</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,000,381</strong></td>
<td><strong>856,308</strong></td>
</tr>
</tbody>
</table>

Employer contributions outstanding at the balance sheet date (included above) 89,529 77,617

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:

<table>
<thead>
<tr>
<th></th>
<th>Employer</th>
<th>Employee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 31 March 2016</td>
<td></td>
<td></td>
</tr>
<tr>
<td>USS Final Salary Section</td>
<td>16.00%</td>
<td>7.50%</td>
</tr>
<tr>
<td>USS Career Revalued Benefits Section</td>
<td>16.00%</td>
<td>6.50%</td>
</tr>
<tr>
<td>SAUL Final Salary Section</td>
<td>13.00%</td>
<td>6.00%</td>
</tr>
<tr>
<td>SAUL Career Average Revalued Earnings Section</td>
<td>13.00%</td>
<td>6.00%</td>
</tr>
</tbody>
</table>

|                      |          |          |
| 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:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate</td>
<td>3.6%</td>
<td>3.3%</td>
</tr>
<tr>
<td>Pensionable salary growth</td>
<td></td>
<td></td>
</tr>
<tr>
<td>First year</td>
<td>n/a</td>
<td>3.5%</td>
</tr>
<tr>
<td>Subsequent years</td>
<td></td>
<td>4.0%</td>
</tr>
<tr>
<td>Price inflation (CPI)</td>
<td>2.2%</td>
<td>2.2%</td>
</tr>
</tbody>
</table>
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:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Males currently aged 65</td>
<td>24.3</td>
<td>24.2</td>
</tr>
<tr>
<td>Females currently aged 65</td>
<td>26.5</td>
<td>26.3</td>
</tr>
<tr>
<td>Males currently aged 45</td>
<td>26.4</td>
<td>26.2</td>
</tr>
<tr>
<td>Females currently aged 45</td>
<td>28.8</td>
<td>28.6</td>
</tr>
</tbody>
</table>

The financial position of the scheme is:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scheme assets</td>
<td>£49.8bn</td>
<td>£49.1bn</td>
</tr>
<tr>
<td>Total scheme liabilities</td>
<td>£58.3bn</td>
<td>£60.2bn</td>
</tr>
<tr>
<td>FRS 102 total scheme deficit</td>
<td>£8.5bn</td>
<td>£11.1bn</td>
</tr>
<tr>
<td>FRS 102 total funding level</td>
<td>85%</td>
<td>82%</td>
</tr>
</tbody>
</table>

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:

<table>
<thead>
<tr>
<th>Group and charity</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>The People’s Pension</td>
<td>7,792</td>
<td>5,783</td>
</tr>
<tr>
<td>Employer contributions outstanding at the balance sheet date</td>
<td>477</td>
<td>697</td>
</tr>
</tbody>
</table>
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

<table>
<thead>
<tr>
<th></th>
<th>At 1 August 2014 as reported</th>
<th>Pension adjustment</th>
<th>Holiday pay adjustment</th>
<th>At 1 August 2014 as restated</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£</td>
<td>£</td>
<td>£</td>
<td>£</td>
</tr>
<tr>
<td>Total assets less current liabilities</td>
<td>5,843,336</td>
<td>-</td>
<td>-</td>
<td>5,843,336</td>
</tr>
<tr>
<td>Provision for liabilities</td>
<td>-</td>
<td>-</td>
<td>(220,000)</td>
<td>(220,000)</td>
</tr>
<tr>
<td>Pension liability provision</td>
<td>-</td>
<td>(752,000)</td>
<td>-</td>
<td>(752,000)</td>
</tr>
<tr>
<td><strong>Net assets and reserves</strong></td>
<td>5,843,336</td>
<td>(752,000)</td>
<td>(220,000)</td>
<td>4,871,336</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>At 31 July 2015 as reported</th>
<th>Pension adjustment</th>
<th>Holiday pay adjustment</th>
<th>At 31 July 2015 as restated</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£</td>
<td>£</td>
<td>£</td>
<td>£</td>
</tr>
<tr>
<td>Total assets less current liabilities</td>
<td>6,534,235</td>
<td>-</td>
<td>-</td>
<td>6,534,235</td>
</tr>
<tr>
<td>Provisions</td>
<td>-</td>
<td>-</td>
<td>(220,000)</td>
<td>(220,000)</td>
</tr>
<tr>
<td>Pension liability provision</td>
<td>-</td>
<td>(1,369,000)</td>
<td>-</td>
<td>(1,369,000)</td>
</tr>
<tr>
<td><strong>Net assets and reserves</strong></td>
<td>6,534,235</td>
<td>(1,369,000)</td>
<td>(220,000)</td>
<td>4,945,235</td>
</tr>
</tbody>
</table>
26 Transition to FRS 102 (continued)

Reconciliation of the consolidated SOFA for the year ended 31 July 2015

<table>
<thead>
<tr>
<th>At 31 July 2015 as reported</th>
<th>Pension adjustment</th>
<th>Holiday pay adjustment</th>
<th>At 31 July 2015 as restated</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>£</strong></td>
<td><strong>£</strong></td>
<td><strong>£</strong></td>
<td><strong>£</strong></td>
</tr>
<tr>
<td>Income</td>
<td>14,851,971</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Expenditure</td>
<td>(14,388,728)</td>
<td>(617,000)</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>463,243</td>
<td>(617,000)</td>
<td>-</td>
</tr>
<tr>
<td>Gains and losses</td>
<td>227,656</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Net movement in funds</td>
<td>690,899</td>
<td>(617,000)</td>
<td>-</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Group</th>
<th>Charity</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>2015</td>
</tr>
<tr>
<td><strong>£</strong></td>
<td><strong>£</strong></td>
</tr>
<tr>
<td>Net income/(expenditure) for the year</td>
<td>(305,166)</td>
</tr>
<tr>
<td>Adjustments for:</td>
<td></td>
</tr>
<tr>
<td>Depreciation charge</td>
<td>587,176</td>
</tr>
<tr>
<td>Gains on investments</td>
<td>(26,602)</td>
</tr>
<tr>
<td>Investment income</td>
<td>(142,096)</td>
</tr>
<tr>
<td>Surplus on the sale of tangible fixed assets</td>
<td>(2,038)</td>
</tr>
<tr>
<td>Increase in debtors</td>
<td>(58,153)</td>
</tr>
<tr>
<td>Increase in creditors</td>
<td>39,700</td>
</tr>
<tr>
<td>Increase in provisions</td>
<td>488,783</td>
</tr>
<tr>
<td><strong>Net cash provided by operating activities</strong></td>
<td>581,604</td>
</tr>
</tbody>
</table>

28 Analysis of cash and cash equivalents

<table>
<thead>
<tr>
<th>Group</th>
<th>Charity</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>2015</td>
</tr>
<tr>
<td><strong>£</strong></td>
<td><strong>£</strong></td>
</tr>
<tr>
<td>Cash at bank and in hand - liquid assets</td>
<td>3,817,449</td>
</tr>
<tr>
<td>Cash at bank - fixed asset investments</td>
<td>25,123</td>
</tr>
<tr>
<td><strong>Cash at bank and in hand at the end of the year</strong></td>
<td>3,842,572</td>
</tr>
</tbody>
</table>
## 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
The Quality Assurance Agency for Higher Education
Southgate House
Southgate Street
Gloucester
GL1 1UB

Crowe Clark Whitehill LLP
Carrick House
Lydiatt Road
Cheltenham
GL50 2QJ

14 December 2016

Dear Directors

The Quality Assurance Agency for Higher Education

We provide this letter in connection with your audit of the financial statements of The Quality Assurance Agency for Higher Education for the year ended 31 July 2016 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of the group and of the charity as at 31 July 2016 and of the results of the group’s and the charity’s operations for the year then ended in accordance with UK Generally Accepted Accounting Practice ("UK GAAP").

We confirm that the following representations are made in respect of the group and the parent charity on the basis of sufficient enquiries of management and staff with relevant knowledge and experience and, where appropriate, of inspection of supporting documentation and that, to the best of our knowledge and belief, we can properly make each of these representations to you.

1. We have fulfilled our responsibility for the fair presentation of the financial statements in accordance with UK GAAP.

2. We acknowledge as trustees our responsibility for making accurate representations to you.

3. We acknowledge our responsibility for the design and implementation of internal control to prevent and detect fraud and errors.

4. We confirm that we have received confirmation from each director who was a director at the time of the approval of the financial statements that:

   (a) they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that you are aware of that information and

   (b) That so far as they are aware there is no relevant audit information of which you are unaware.
5 We have provided you with all accounting records and relevant information, and granted you unrestricted access to persons within the entity, for the purposes of your audit.

6 All the transactions undertaken by the group and the charity have been properly reflected and recorded in the accounting records or other information provided to you.

7 In respect of accounting estimates and judgements, we confirm our belief that the significant assumptions used are reasonable.

8 We have considered the adjustments in Appendix 3, proposed by you. In our judgement, these adjustments are appropriate given the information available to us. We further confirm that we have now made these adjustments to the financial statements.

9 We do not wish to adjust the financial statements for the actual errors set out in Appendix 3 as we believe that the errors are immaterial, both individually and in aggregate, to the financial statements as a whole.

10 We are not aware of any actual or possible litigation or claims against the company whose effects should be considered when preparing the financial statements.

11 All grants, donations and other incoming resources, the receipt of which is subject to specific terms and conditions, have been notified to you. There have been no breaches of terms or conditions in the application of such incoming resources.

12 We are not aware of any breaches of our charitable trusts and have advised you of the existence of all endowments and funds maintained by us.

13 There have been no events since the balance sheet date which require disclosure or which would materially affect the amounts in the financial statements. Should any material events occur which may necessitate revision of the figures in the financial statements, or inclusion in a note thereto, we will advise you accordingly. We specifically authorise Caroline Blackburn to provide an update for you to cover the time period between the signing of this letter and the date of your audit report.

14 We have assessed that there is no significant risk that the financial statements are materially misstated as a result of fraud.

15 We are not aware of any fraud or suspected fraud affecting the group or the charity involving those charged with governance, management or other employees who have a significant role in internal control or who could have a material effect on the financial statements.

16 We are not aware of any allegations by employees, former employees, regulators or others of fraud, or suspected fraud, which would have an impact on the financial statements.

17 We are not aware of any frauds that have not been included in the fraud log/register.

18 We are not aware of any known or suspected instances of non-compliance with those laws and regulations which provide a legal framework within which the group and charity conducts its business.
19 We confirm that complete information has been provided to you regarding the identification of related parties and that we are not aware of any significant transactions with related parties.

20 We confirm we have appropriately accounted for and disclosed related party relationships and transactions in accordance with applicable accounting standards and with the recommendations of the applicable charity SORP.

21 The group and charity meet their day to day working capital requirements through management of liquid resources. The nature of the group and charity’s operation is such that there can be considerable unpredictable variations in the timing of cash flows. The trustees have prepared projected cash flow information for a period of at least twelve months from the date of their approval of the financial statements. On the basis of this cash flow information, the trustees consider it appropriate to prepare the financial statements on a going concern basis.

22 In the event that we publish the trustees’ report, independent auditor’s report and financial statements electronically, we acknowledge our responsibility for ensuring that controls over the maintenance and integrity of the entity’s web site are adequate for this purpose.

23 There are no liabilities or contingent liabilities or guarantees that we have given to third parties other than those disclosed in the financial statements.

24 The group and charity have complied with all aspects of contractual agreements that could have a material effect on the consolidated and parent charity’s financial statements in the event of non-compliance.

Yours faithfully

Trustee
Signed on behalf of the board
The Quality Assurance Agency for Higher Education
Date: 14 December 2016
QAA Enterprises Limited

Directors' report and financial statements for the year ended 31 July 2016

Registered in England and Wales No. 07588108
## Contents

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<th>Section</th>
<th>Page</th>
</tr>
</thead>
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<tr>
<td>Independent Auditors’ report</td>
<td>4</td>
</tr>
<tr>
<td>Profit and loss account</td>
<td>6</td>
</tr>
<tr>
<td>Balance sheet</td>
<td>7</td>
</tr>
<tr>
<td>Notes to the financial statements</td>
<td>8</td>
</tr>
</tbody>
</table>
The directors present their report and financial statements for the year ended 31 July 2016.

Parent undertaking

The company is a wholly owned trading subsidiary of The Quality Assurance Agency for Higher Education (QAA), a charity and a company limited by guarantee. QAA is the ultimate parent undertaking and has held one £1 ordinary share since incorporation of the company. No further shares have been issued.

Principal activities

The company's objects, as outlined in its Articles of Association, are as follows:

• 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.

It is intended that any surpluses from these activities will be gift-aided to QAA.

Results for the period

The company has recorded a profit of £15,531 (2015: £1,398). The directors consider this to be a reasonable result.

Post balance sheet review

QAA continues to seek suitable business opportunities for the group and where it is appropriate the activity will be undertaken through QAA Enterprises Limited.

The company will rely on the support of QAA in the short-term until activity volume increases.
Directors

The directors who have served the company since 1 August 2015 were as follows:

Christopher Banks (Chair)
Lavinia Blackett (appointed 18 December 2015)
Douglas Blackstock
Diane Hill
Janet Hull
Chris Jelley
Anthony McClaran (resigned 2 October 2015)

Company Secretary

Lavinia Blackett

Statement of directors’ responsibilities

The directors are responsible for preparing the Directors’ report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards) and applicable law. Under company law the directors 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 company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company’s transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.
Information to auditor

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.

Small company rules

These accounts have been prepared in accordance with the provisions applicable to companies subject to the small companies regime.

Auditor

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

This report was approved by the board on 2016.

THESE ACCOUNTS HAVE NOT BEEN APPROVED

Registered and principal office: Southgate House
Southgate Street
Gloucester
GL1 1UB

Signed by order of the board

Lavinia Blackett
Company Secretary
QAA Enterprises Limited
Independent Auditor's Report
To The Members of QAA Enterprises Limited

We have audited the financial statements of QAA Enterprises Limited for the year ended 31 July 2016 which comprise the Profit and Loss Account, the Balance Sheet and the related notes numbered 1 to 10.

The financial reporting framework that has been applied in their preparation is applicable law and the Financial Reporting Standard for Smaller Entities (Effective January 2015) (United Kingdom Generally Accepted Accounting Practice applicable to Smaller Entities).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the 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 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 directors and auditor

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. 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 company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Directors' 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 company's affairs as at 31 July 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice applicable to Smaller Entities; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' 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 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies exemption in preparing the directors' report.

THIS AUDIT REPORT HAS NOT BEEN SIGNED

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:
QAA Enterprises Limited
Profit and loss account
For the year ended 31 July 2016

<table>
<thead>
<tr>
<th>Notes</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£</td>
<td>£</td>
</tr>
<tr>
<td>Turnover</td>
<td>1, 2</td>
<td>17,590</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Gross profit</td>
<td>17,590</td>
<td>-</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>(2,059)</td>
<td>1,398</td>
</tr>
<tr>
<td>Operating profit on ordinary activities before taxation</td>
<td>15,531</td>
<td>1,398</td>
</tr>
<tr>
<td>Tax on profit on ordinary activities</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Profit for the financial year</td>
<td>15,531</td>
<td>1,398</td>
</tr>
<tr>
<td>Retained loss brought forward</td>
<td>(1,212)</td>
<td>(2,610)</td>
</tr>
<tr>
<td>Retained profit/(loss) carried forward</td>
<td>14,319</td>
<td>(1,212)</td>
</tr>
</tbody>
</table>

There were no recognised gains or losses other than those included in the profit and loss account.

The company's turnover and expenses all relate to continuing operations.

The notes on pages 8 to 9 form part of these financial statements.
QAA Enterprises Limited  
Balance sheet (company number: 07588108)  
As at 31 July 2016

<table>
<thead>
<tr>
<th>Notes</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£</td>
<td>£</td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash at bank and in hand</td>
<td>37,672</td>
<td></td>
</tr>
<tr>
<td><strong>Creditors: amounts falling due</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>within one year</td>
<td>5</td>
<td>(23,352)</td>
</tr>
<tr>
<td><strong>Net current liabilities</strong></td>
<td>14,320</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Share capital</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Allotted, called up and fully paid</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ordinary £1 shares</td>
<td>6</td>
<td>1</td>
</tr>
<tr>
<td><strong>Reserves</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit and loss account</td>
<td>7</td>
<td>14,319</td>
</tr>
<tr>
<td><strong>Shareholder funds</strong></td>
<td>14,320</td>
<td></td>
</tr>
</tbody>
</table>

These accounts have been prepared in accordance with the provisions applicable to companies subject to the small companies’ regime.

The financial statements were approved by the board on 2016 and signed on its behalf by:

THESE ACCOUNTS HAVE NOT BEEN APPROVED

Christopher Banks  
Director

The notes on pages 8 to 9 form part of these financial statements.
1 Accounting policies

a Application of accounting policies

The following accounting policies have been applied consistently in dealing with items that are considered material to the company’s financial statements.

b Accounting conventions

The financial statements have been prepared under the historical cost convention in accordance with the Financial Reporting Standard for Smaller Entities (effective January 2015). The financial statements follow the Companies Act 2006.

c Going concern

The financial statements have been prepared on a going concern basis.

d Turnover

Turnover comprises the invoiced value of services supplied by the company, net of Value Added Tax and trade discounts. The company is not registered for VAT.

2 Turnover

The turnover relates wholly to services provided within the UK.

3 Operating profit

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£</td>
<td>£</td>
</tr>
</tbody>
</table>

The operating loss is stated after charging:

- Director’s emoluments and other benefits
- Auditors' remuneration:
  - Audit services
  - Taxation services
- Interest payable to parent undertaking

4 Taxation

No liability to UK corporation tax will arise on ordinary activities for the year ended 31 July 2016 (2015: £nil) because all of the profits made during the year will be gift aided to the parent undertaking.
QAA Enterprises Limited  
Notes to the financial statements (continued)  
For the year ended 31 July 2016

5  Creditors: amounts falling due within one year

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parent undertaking</td>
<td>21,752</td>
<td>20,552</td>
</tr>
<tr>
<td>Accruals</td>
<td>1,600</td>
<td>1,460</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>23,352</strong></td>
<td><strong>22,012</strong></td>
</tr>
</tbody>
</table>

6  Share capital

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>£1 Ordinary Shares</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Allotted, called up and fully paid</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

7  Reconciliation of movement in shareholder's funds

<table>
<thead>
<tr>
<th></th>
<th>Share capital</th>
<th>Profit and loss account</th>
<th>Total shareholder funds</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£</td>
<td>£</td>
<td>£</td>
</tr>
<tr>
<td>Balance at 1 August 2015</td>
<td>1</td>
<td>(1,212)</td>
<td>(1,211)</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>-</td>
<td>15,531</td>
<td>15,531</td>
</tr>
<tr>
<td>Balance at 31 July 2016</td>
<td>1</td>
<td>14,319</td>
<td>14,320</td>
</tr>
</tbody>
</table>

8  Parent organisation and controlling party

The controlling party of the company is The Quality Assurance Agency for Higher Education (QAA) by virtue of its 100% shareholding of the company. QAA is also the smallest and the largest group for which consolidated financial statements are prepared. Financial statements of this organisation can be obtained from The Quality Assurance Agency for Higher Education, Southgate House, Southgate Street, Gloucester, GL1 1UB. QAA is a company limited by guarantee, registered in England and Wales. QAA is also a charity, registered in England and Wales, and Scotland.

9  Related party transactions

As a wholly owned subsidiary, QAA Enterprises Limited has taken advantage of the exemption in FRS 8 Related Party Disclosures and has not disclosed transactions with QAA.

10 Post balance sheet events

There were no post balance sheet events requiring disclosure.
The Quality Assurance Agency for Higher Education

Year ended 31 July 2016
Audit Findings Report
The Directors
The Quality Assurance Agency for Higher Education
Southgate House
Southgate Street
Gloucester
GL1 1UB

24 October 2016

Dear Directors

Audit for the year ended 31 July 2016

Following the completion of our audit fieldwork on the financial statements of The Quality Assurance Agency for Higher Education and its subsidiary entity QAA Enterprises Limited for the year ended 31 July 2016 we have pleasure in submitting our Audit Findings Report setting out the most significant matters which have come to our attention during our audits and of which we believe you need to be aware when considering the financial statements. The matters included in this report have been discussed with The Quality Assurance Agency for Higher Education’s management during our audit and at our closing meeting on 13 October 2016 and Douglas Blackstock, Liz Rosser and Caroline Blackburn have seen a draft of this report and we have incorporated their comments and/or proposed actions where relevant.

We would like to express our appreciation for the assistance provided to us by the finance team and the other staff at the charity during our audit.

Use of this report

This report has been provided to the Finance and Strategy Committee and Audit Committee to consider and ratify on behalf of the Board of Directors, in line with your governance structure. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. It should not be made available to any other parties without our prior written consent.

Yours sincerely

Crowe Clark Whitehill LLP
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<td>31</td>
</tr>
</tbody>
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1. Audit overview

Audit approach
Our audit is designed primarily to enable us to form an opinion on your financial statements and was carried out in accordance with International Standards on Auditing (UK and Ireland). Our work combines substantive procedures, involving direct verification of balances and transactions including obtaining confirmations from third parties where we considered this to be necessary, with a review of certain of your financial systems and controls. No restrictions or limitations were placed on our audit.

Our evaluation of the systems of control at The Quality Assurance Agency for Higher Education was carried out for the purposes of our audit and accordingly it is not intended to be a comprehensive review of systems and processes. It would not necessarily reveal all weaknesses in accounting practice or internal controls which a special investigation might highlight, nor irregularities or errors not material in relation to the financial statements.

Audit completion
We have substantially completed our audits in accordance with our Audit Planning Report which was sent to you and the senior management team on April 2016, subject to the matters set out below.

- Completion of the post-Balance Sheet events review.
- Review of the final financial statements.
- Receipt of the signed letters of representation.

The final three items we have identified as outstanding are work we usually carry out just prior to us signing our audit report.

We will report to you orally in respect of any modifications to the findings or opinions contained in this report that arise on completion of the outstanding matters. On satisfactory completion of the outstanding matters, we anticipate issuing an unmodified audit opinion on the truth and fairness of the financial statements.

Key audit matters
In Section 2 we have also discussed in detail the findings from our work in relation to the following matters.

- Income
- Management override of controls.

Materiality and identified misstatements
As we explained in our Audit Planning Report, we do not seek to certify that the financial statements are 100% correct; rather we use the concept of “materiality” to plan our sample sizes and also to decide whether any errors or misstatements discovered during the audit (by you or us) require adjustment. The assessment of materiality is a matter of professional judgement but overall a matter is material if its omission or misstatement would reasonably influence the economic decisions of a user of the financial statements.

The audit materiality for the financial statements set as part of our audit planning took account of the level of activity of / funds held by The Quality Assurance Agency for Higher Education and was set at approximately 1% of total incoming resources. We have reviewed this level of materiality based on the draft financial statements for year ended 31 July 2016 and are satisfied that it continues to be appropriate.

We also report to you any unadjusted individual errors other than where we consider the amounts to be trivial, and for this purpose we have determined trivial to be £2,000.

We have listed in Appendix 3 any misstatements we have noted which have not been adjusted by management. We will be requesting confirmation from the Trustees in our audit representation letter that you do not wish to adjust for these misstatements.

Ethical Standards
Crowe Clark Whitehill LLP has procedures in place to ensure that its partners and professional staff comply with both the Ethical Standards and the Guide
to Professional Ethics issued by The Institute of Chartered Accountants in England and Wales.

We consider that there are no further developments in relation to these standards since the date of our Audit Planning Report which should be brought to your attention.

**Legal and regulatory requirements**

In undertaking our audit work we considered compliance with the following legal and regulatory requirements, where relevant.

- Companies Act 2006
- Charities Act 2011
- The Charities (Accounts and Reports) Regulations 2008 (or updated Regulations if enacted before completion of the financial statements)
- Financial Reporting Standard 102 (FRS 102)
- The Charities SORP (FRS102) (effective 1 January 2015)

**Financial statements**

The trustees of The Quality Assurance Agency for Higher Education are responsible for the preparation of the consolidated financial statements on a going concern basis (unless this basis is inappropriate). The Directors are also responsible for ensuring that the financial statements give a true and fair view, that the process your management go through to arrive at the necessary estimates or judgements is appropriate, and that any disclosure on going concern is clear, balanced and proportionate.

**Directors' responsibilities**

Under the provisions of the Companies Act, the Directors' Report is required to include a statement confirming for each director who was a director at the time of the approval of the financial statements that:

- they have each taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information; and
- so far as they are aware there is no relevant audit information of which the company's auditor is unaware.

This report has been prepared for the private use of the Trustees of The Quality Assurance Agency for Higher Education and its contents should not be disclosed to third parties without our prior written consent. We assume no responsibility to any other person who has access to this report.
2. **Significant matters from our audit**

We reported in our Audit Planning Report a number of areas we identified as having specific audit risk including the potential risk from management override of controls which auditing standards deem to be a significant risk for all audits. We have commented below on the results of our work in these areas as well as on any key additional risks, judgements or other matters in relation to the financial statements of The Quality Assurance Agency for Higher Education identified during our audit.

### 2.1 Reporting under FRS 102

The financial statements for the year ended 31 July 2016 are the first prepared by The Quality Assurance Agency for Higher Education under FRS 102 - the Financial Reporting Standard applicable in the UK and Republic of Ireland - and the Charities SORP 2015.

Section 35 of FRS 102 sets out how an entity prepares its first financial statements that conform to this standard. The key requirements are the restatement of the opening balance sheet at the date of transition (i.e. for The Quality Assurance Agency for Higher Education at 1 August 2014 and the restatement of the comparative balance sheet (i.e. at 31 July 2015) in accordance with FRS 102.

More details on the new Charity SORP can be seen on a separate Charity Commission SORP website: [http://www.charitysorp.org/](http://www.charitysorp.org/).

#### Changes to the Trustees’ Report

The structure of the Trustees’ Report has not changed significantly, but there is a requirement to enhance the disclosures in certain areas, namely risk management, remuneration policy and fund accounting.

#### Financial statements transitional adjustments and disclosures

Note 26 to the financial statements reconciles the charity’s funds as determined in accordance the previous financial reporting framework with its funds determined in accordance with FRS 102 at two dates:

(a) the date of transition to FRS 102 (1 August 2014); and

(b) the end of the latest period presented in the entity’s most recent annual financial statements determined in accordance with its previous financial reporting framework (31 July 2015).

FRS 102 also requires the presentation of a reconciliation of “profit or loss” determined in accordance with its previous financial reporting framework and reported in the entity’s most recent annual financial statements to its profit or loss determined in accordance with FRS 102 for the same period. This is shown in Note 26 to the financial statements.

#### Financial statements restatements and presentation changes

**Employee benefits – pension scheme**

As mentioned last year and discussed at the planning stage of the 2016 audit, the main change to the financial statements this year due to FRS 102 has been to bring in the discounted future cash flows of additional payments to be made in respect of the USS and SAUL multi-employer pension schemes. The liability on transition at 1 August 2014 of £752k has been brought in to the financial statements as a restatement to the 2015 brought forward position, with a liability of £1,369k showing at 31 July 2015 and £1,034k at 31 July 2016. Discount rates have been used based on high quality corporate bonds as determined by management of 3.6% in 2016 and 3.3% in 2015.

**Overall SoFA presentation**

The SORP has simplified the presentation in the SoFA, with four incoming resource headings (donations, earned income split between income earned from charitable activities and other activities, and investment and other income). There is a similar simplification of expenditure headings with three headings (fundraising costs, expenditure on charitable activities and other expenditure).

There is no longer a requirement to disclose governance costs on the face of the SoFA. These costs are instead disclosed in the notes as a component of support costs.
**Overall balance sheet presentation**

The format of the balance sheet has not changed significantly under FRS 102 and the new SORP.

**Cash flow statement**

The format of cash flow statements has been simplified with cash flows being identified as resulting from operating activities, financing activities and investment activities.

**Financial instruments**

FRS102 requires more disclosures in the financial statements in relation to all financial instruments, including basic financial instruments, as well as on the associated risks.

**Going concern**

As required by FRS 102, The Quality Assurance Agency for Higher Education has included in Note 2 a statement confirming that there are no material uncertainties about the charity’s ability to continue as a going concern.

**Remuneration of key management**

Charities reporting under FRS 102 are required to disclose the total amount of employee benefits received by its key management personnel for their services to the charity.

### 2.2 Income

As per our planning report we highlighted income as a significant area of focus for our testing. During the audit we considered the risks associated with income and focused on four aspects:

- Completeness (has all income due been appropriately recognised in the period?);
- Benefit (has income been recognised in the appropriate period?)
- Fund allocation (have donor restrictions on the use of income been appropriately captured in the financial statements?); and
- Accuracy (where income is owed at the year end, is it likely to be received or should it be provided against?)

From our audit work we have concluded that the recorded subscription income appropriately reflects the number of subscribers during the year, taking into account the student numbers at each subscribing organisation.

Our testing on higher education funding contracts confirmed that the income was being treated in line with the underlying documentation and had been recognised in the correct period.

We also performed detailed substantive testing on other income streams, such as review and monitoring fees of higher and further education organisations.

We have also applied analytical review procedures to income in the context of the financial statements as a whole against budgeted and prior year.

We are pleased to report that our work on this area did not identify any audit issues.

### 2.3 Management override of controls

In any entity, management and those charged with governance need to implement a system of internal control designed to provide reasonable assurance about the achievement of the entity’s objectives with regard to the reliability of financial reporting.

The risk of management override of controls is considered to be a fraud risk and is therefore always a ‘significant’ risk in terms of our audit. International Standard on Auditing (UK and Ireland) 240 (ISA 240) requires that the auditor design and perform audit procedures:

- To test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- To review accounting estimates for bias and evaluate whether the circumstances producing any bias represent a risk of material misstatement due to fraud; and

*Significant matters from our audit*
For significant transactions that are outside the normal course of business or that otherwise appear to be unusual, evaluate whether the business rationale (or the lack thereof) suggests that they may have been entered into for the purposes of fraudulent financial reporting or to conceal misappropriation of assets.

During the audit we reviewed the process of raising adjusting journals and the controls over these journal entries. We are pleased to report that no issues were found during our testing of management override of controls.
3. Other matters from our audit

In addition to matters relating to the key areas of accounting and audit focus as reported in Section 2, we have also noted the following matters from our audit work which we should bring to your attention.

3.1 Impact of the HEFCE tendering process for the future of the assessment of quality in higher education, and relating restructuring of the charity

Following the announcement of the revised structure of the procurement process, due to the higher education funding councils having put quality assurance out to tender from 31 July 2016, we noted in our planning report that at that time, QAA were in the process of applying for a number of the ‘jobs’ that had been put out to tender.

It was known that this would have a significant impact on QAA and the financial performance and position of the Charity, with a resulting reduction in income from HEFCE.

It has now been confirmed that 4 out of 6 of the contracts were successfully secured by QAA for the July 2017 financial year, which equates to £1.4m income, compared to £5.5m previously. The budgeted income for 16/17 is £11.7m compared to £15.5m for 15/16, being a 24% reduction.

With this confirmed prior to the July 16 financial year end, QAA undertook a restructure of the charity leading to reducing staff numbers from 180 to 120. It is considered that going forward the charity is the right size and shape for the current structure.

Under FRS102:
21.11C A restructuring gives rise to a constructive obligation only when an entity:
(a) has a detailed formal plan for the restructuring identifying at least:
(i) the business or part of a business concerned;
(ii) the principal locations affected;
(iii) the location, function, and approximate number of employees who will be compensated for terminating their services;
(iv) the expenditures that will be undertaken; and
(v) when the plan will be implemented; and
(b) has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.
21.11D An entity recognises a provision for restructuring costs only when it has a legal or constructive obligation at the reporting date to carry out the restructuring.

Consultations with staff began prior to the year end, it is therefore appropriate to recognise the provision at the year-end, as the plan had been announced to those affected by the year-end and therefore a valid expectation had been created.

A provision of £804k has been included within these financial statements. The provision was made up of redundancy entitlement and payment in lieu of notice. We have challenged management as to what element of payment in lieu of notice is a liability at the year end. As agreed with management, the provision has now been adjusted to remove the element relating to the provision of notice periods of those staff members that continued to work their notice period post year end.

As part of the ongoing review regarding the going concern assumption used in preparing the financial statements, we reviewed forecasts and budgets prepared considering the possible outcomes of the process to ensure the going concern assumption is still appropriate.

3.2 Payroll

Whilst not being a significant or specific risk, we highlighted payroll as an additional area of focus for our audit testing given that it is the largest single expenditure for QAA.

During our audit work we reviewed the controls in place over monthly processing including the reconciliation of the payroll to the nominal ledger.
In addition to this we performed analytical procedures that considered gross pay, deductions and staff members year on year to ensure that all trends and relationships appeared reasonable and that the totals agreed with the ledger. We also verified a sample of staff between the payroll and other HR records, agreeing their costs to supporting documentation.

We are pleased to report that our work on this area did not identify any audit issues.
4. Fraud and error

In our Audit Planning Report, we explained that the responsibility for safeguarding the assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with the directors of The Quality Assurance Agency for Higher Education.

In accordance with International Auditing Standards, we planned our audit so that we have a reasonable expectation of detecting material misstatements in the financial statements or accounting records (including any material misstatements resulting from fraud, error or non-compliance with law or regulations).

However, no internal control structure, no matter how effective, can eliminate the possibility that errors or irregularities may occur and remain undetected. In addition, because we use selective testing in our audit, we cannot guarantee that errors or irregularities, if present, will be detected. Accordingly our audit should not be relied upon to disclose all such misstatements or frauds, errors or instances of non-compliance as may exist.

As part of our audit procedures we made enquiries of management to obtain their assessment of the risk that fraud may cause a significant account balance to contain a material misstatement. Usually fraud in the charity sector is not carried out by falsifying the financial statements. Falsifying statutory financial statements usually provides little financial benefit, as compared to say a plc where showing a higher profit could lead to artificial share prices or unearned bonuses. However falsifying financial statements can be used to permit a fraud or to avoid detection. As a generality charities represented by its management and its trustees do not actively try to falsify financial statements as there are not the same incentives to do so. In the charity world fraud is usually carried out through misappropriation or theft.

We have reviewed and discussed the accounting and internal controls systems management has put in place to address these risks and to prevent and detect error. However, we emphasise that the directors, Audit Committee and management should ensure that these matters are considered and reviewed on a regular basis.

We have included the following statements in the letter(s) of representation which we require from the directors when the financial statements are approved.

- The directors acknowledge their responsibility for the design and implementation of internal control to prevent and detect fraud and errors.
- The directors have assessed that there is no significant risk that the financial statements are materially misstated as a result of fraud.
- The directors are not aware of any fraud or suspected fraud affecting the charity involving management, those charged with governance or employees who have a significant role in internal control or who could have a material effect on the financial statements.
- The directors are not aware of any allegations by employees, former employees, regulators or others of fraud, or suspected fraud, affecting the charity’s financial statements.

We draw your attention to bullet point 2 above which presupposes that an assessment has been made. We have not been made aware of any actual or potential frauds which could affect the 2016 financial statements, or the period since the 2016 year end.

We emphasise that this section is provided to explain our approach to fraud and error, but the responsibility to make and consider your own assessment rests with yourselves.

Considering risks of fraud

The following provides further information on the three kinds of fraud that charities such as The Quality Assurance Agency for Higher Education should consider.

a) Frauds of diversion

This is where income or other assets due to The Quality Assurance Agency for Higher Education are diverted before they are entered into the accounting records or control data. Essentially, it is easy to check what is there but very
difficult to establish that it is all there. Therefore ensuring the completeness of income provided to a charity becomes difficult.

b) Frauds of extraction

This is where funds or assets in possession of The Quality Assurance Agency for Higher Education are misappropriated. Such frauds can involve own staff, intermediaries or partner organisations since they require assets that are already in the possession of the entity being extracted fraudulently. This could be by false invoices, overcharging or making unauthorised grant payments.

Essentially such frauds are carried out due to weaknesses in physical controls over assets and system weaknesses in the purchases, creditors and payments cycle. The cycle can be evaluated by considering questions such as who authorises incurring a liability and making a payment. On what evidence? Who records liabilities and payments? Who pays them and who checks them?

The close monitoring of management accounts, ledger entries and strict budgetary controls are also generally seen as an effective way of detecting and deterring frauds in this area.

c) Backhanders and inducements

There is also an inherent risk that individuals who are able to authorise expenditure or influence the selection of suppliers can receive inducements to select one supplier over the other. This risk can be mitigated by robust supplier selection and tendering procedures. We understand that major spend decisions are not taken by one person and therefore this risk is reduced.
5. Eight hallmarks of a risk aware charity

We have in previous reports discussed a number of key aspects on risk management. These have included:

- linking strategy to risk management;
- emphasising the impact of a risk over its likelihood;
- considering risk appetite;
- evaluating the risk that comes with working with third parties; and
- key issues to manage cyber security risks.

Our experience of working with charities that are at the forefront in all these areas has led us to identify certain hallmarks of a risk aware organisation.

**Hallmark #1: A risk aware charity has a clear strategy and effective governance**

The starting point for any organisation is to have a clear strategy and effective implementation plans. All too often we see charities which have shaped their strategy and therefore thought about “what they should be doing” but have not considered “how they should be doing it”. It is important to consider the strategic options and develop the long term aims and controls establishing an operational plan that underpins the strategic framework. A robust set of strategic options should be formulated, each followed through to its logical end state, including the implications for the allocation of people, funds, and other resources. The risk is that the organisation finds itself with inadequate resources to deliver its plans and flounders in the implementing of its strategy.

**Consider:**

- Do we have a clear strategy?
- Have we considered our strategic options?
- Do we have an operational plan? Have we considered both “what should we be doing” as well as “how should we do it”?
- Have we considered the resource implications of implementing our plan?

- Have we communicated the strategy and the implementation plan to key stakeholders within the charity?

Effective governance is at the heart of any well run, well-functioning organisation. Effective governance is about the right “tone at the top” and trustees who are willing and able to challenge assumptions, ask the right questions and ensure that the facts are properly considered. It is also about appropriate delegation with clearly stipulated authority levels and effective reporting back protocols. Some of the recent challenges on areas such as fundraising indicate that sometimes key decisions have been delegated to individuals with insufficient monitoring and understanding of what was happening.

**Consider:**

- Do trustees delegate to management within a clearly defined and appropriate scope of authority?
- Do we have effective reporting mechanisms?
- Do trustees receive timely information in a format that is understandable?
- Do trustees and senior management challenge robustly and ask the right questions?

**Hallmark #2: A risk aware charity links strategy to risk management**

A risk aware charity is one that links strategy and risk management. Ultimately good risk management is about ensuring we have identified those risks and opportunities that can impact on our strategic aims. It is also about being able to manage both risks and opportunities.

**Consider:**

- Do we understand the key risks that might prevent the charity from achieving its goals?
- Have we carried out both a top down and bottom up risk mapping process which considers both strategic and operational risks? Is our...
risk register reviewed regularly by the Trustees and Senior Management to ensure lessons learned and changing circumstances are properly reflected?

Hallmark #3: A risk aware charity horizon scans and anticipates beyond the current strategic plan

A risk aware charity thinks beyond the current strategic period to the next one. It considers what is on the horizon that can stop it from achieving its mission. As organisations mature they can face a decline in innovation. It is important that both the “business as usual” as well as emerging opportunities are considered concurrently. For this to happen organisations must gather information beyond the usual timescales and extend beyond the usual sources. They must consult others with different perspectives.

Consider:

➤ Have we considered what we need to do now to be innovative for the future?
➤ Have we considered what we need to do now to set the seeds for the next strategic period?
➤ Do we actively horizon scan and disseminate that value added information to support decision-making?
➤ Do we balance investment in the current with the need to invest for the future (in terms of delivering charitable outcomes and impact, income generation and infrastructure)?

Hallmark #4: A risk aware charity understands the need to take risks and innovate

All too often risk registers are about downside risks but successful organisations need to innovate to grow and deliver and to do that they need to take risks. All too often organisations and individuals focus all their attention on what could go wrong but this may mean that they will miss opportunities which will drive growth and create value for their stakeholders.

Consider:

➤ Have we identified what risks the charity needs to take to be successful?

➤ Do we have a process for managing opportunities? Do we seek to exploit/share or enhance the benefit of the opportunity for our organisations?

Hallmark #5: In a risk aware charity risk appetite/tolerance is articulated and understood

The consideration of risk and how risk is managed is particularly important for charities because their governance structure means that those who are ultimately responsible for the charity, its trustees, are not normally involved in the day to day running of its operations. The setting of risk appetite:

➤ Depends on understanding the importance of different objectives and actions and the risks that have to be taken to achieve those objectives.
➤ Needs to be considered for individual programmes and projects, and also across operating areas, geographies, activities, functions.
➤ Needs to consider the overall portfolio of risks to ensure that an organisation’s risks and response are appropriate, balanced and sustainable.

Understanding of the organisational risk appetite is important as “over responding” in control measures or management of risk can lead to extra costs and / or inhibited activity. Furthermore in order for management to innovate and consider upside risk they need to have a clear understanding of Trustees risk appetite.

Consider:

➤ Is there a clear understanding of Trustees’ risk appetite? Has this been communicated broadly throughout the organisation?
➤ Is the risk response on the risk register appropriate in the context of the risk appetite?
➤ Have we considered the cost and benefit of managing our risks?

Hallmark #6: A risk aware charity embeds risk management at all levels with the right tone set at the top

One of the hardest parts of establishing an effective risk management process is embedding it across an organisation. To achieve it though it is essential that

Eight hallmarks of a risk aware charity
the right tone is set at the top by not only the Trustees but also by the Senior Management Team and that there is engagement at all levels – both top down and bottom up.

There is no one answer to embedding risk across an organisation. It is more about doing a number of things and keeping these up. For example the risk register should not be something that is dusted off annually to tick the box but one that is regularly considered by the charity, discussed, updated and reviewed. There should also be regular training and development programmes for staff and for Trustees. It should be included as part of the Trustee induction. There should be clear links to strategy and performance management as well as a discussion of key learning points.

**Consider:**
- Do management and Trustees set the right tone at the top?
- Do we regularly monitor, review, update and discuss our risk register?
- Do we have regular training for staff and Trustees?
- Is there discussion of key learning points which feedback into our risk and strategy process?

**Hallmark #7: A risk aware charity understands the need for assurance and performance management and builds these into the process**

Most charities try to foster a culture of empowerment. True and effective empowerment needs responsibility, authority and accountability. This increases the need for review and monitoring controls.

The assurance framework should give assurance to the Trustees, management, funders, regulators and other stakeholders that the responsibilities of governance and stewardship have been met. This means that the assurance framework should focus on operational process, systems effectiveness and the alignment of activity with strategy.

At key element is effective performance management which is a key part of strategic risk management. There should be alignment of the charity’s mission with goals with performance metrics.

**Consider:**
- Do we have an assurance framework which links our organisational strategy and the risks and uncertainties that can impact on the strategic aims?
- Is our assurance framework risk focused and take account of the charity’s strategy, governance and risk management processes in determining the approach and the areas to cover?
- Do we measure and monitor KPIs related to strategic risks?
- Do we include financial and non-financial KPIs?

**Hallmark #8: A risk aware charity communicates effectively**

Accountability and transparency are of vital importance to charities. The final and perhaps one of the most critical hallmarks of a risk aware charity is effective communication. This requires an effective communication strategy and communication plan. UK charities need to pay due regard to the serious incident reporting requirements as set out by the Charity Commission and ensure that there are proper processes in place that ensure incidents are captured on a timely basis and reported up to management, Trustees and if appropriate to the regulator.

SORP2015 requires the trustees to disclose the principal risks and uncertainties facing the charity and an explanation of how the charity manages these including a brief explanation about those factors that support the conclusion that the charity is a going concern.

**Consider:**
- Do we have a strong risk statement in our annual report?
- Have we identified who are stakeholders are and considered their communication needs?
- Do we have a communication strategy and a communication plan? Is this shared within the charity and well understood?
6. **The Data Protection Act 1998: how exposed is your charity?**

The Data Protection Act (DPA) defines the UK law on the processing of personal data. Modern technology and modern working practices are interwoven with data processing and data sharing. The DPA therefore remains one of the most important pieces of legislation for organisations of all sizes. Most charitable organisations hold vast amounts of personal data, such as names and addresses of donors, supporters, and beneficiaries. Many also hold sensitive personal data such as racial or ethnicity details, information regarding religion, physical or mental health conditions, or criminal record details.

With such levels of data the charity sector has significant legal obligations under the DPA, not to mention substantial moral obligations, to protect this data from harm.

**Why should protection of data be a priority for every organisation?**

The DPA is a piece of legislation with sharp teeth. One of several pieces of important legislation regulated by the Information Commissioner’s Office (ICO), the DPA creates significant obligations for controllers/processors of personal information to protect personal data in their care. Failure to protect data in accordance with the requirements of the DPA could have severe consequences.

- The ICO is empowered to request data from a data controller within a set deadline, and failure to comply, or the provision of intentionally false information, is a criminal offence.
- The ICO can serve assessment notices to conduct compulsory audits.
- The ICO is also empowered to issue enforcement notices and ‘stop now’ notices, which can force a data controller to cease to process personal data (which would bring an end to most operations). Failure to comply is a criminal offence.
- It is possible for the officers of the charity (including Trustees and Senior Managers) to be personally criminally liable, if the offence was committed with their consent, connivance or neglect.

- Employees, in some circumstances, can also be held criminally liable if data is disclosed without the consent of the data subject/controller.
- Although the offence under the Act will not result in a prison sentence, the ICO can issue fines up to £500k (from 6 April 2010) and in certain circumstances the fines can be unlimited.

Furthermore, for some businesses, the potential damage to reputation can be even more concerning. Many organisations therefore extend data protection controls across information and processes beyond the immediate scope of the Act to manage reputational risk.

Asked about the DPA most individuals would focus on the seventh principle, which dictates requirements on data security. However there are eight principles in total, each with wide ranging consequences for the procedures of every entity that collects, stores, processes and/or controls personal data. All eight principles are summarised below, including details of the principle and key aspects to consider in each case. As you read through the detail consider:

- Is this information new to you, or are you already well informed about your responsibilities?
- Which elements are particularly relevant to your organisation and for what data would it be particularly pertinent?
- Who in your organisation is responsible in each case?

**Principle One: Fair and Lawful**

Personal data shall be processed fairly and lawfully and, in particular, shall not be processed unless –

(a) at least one of the following conditions is met:

- consent
- contract with data subject
- legal obligation
- vital interests
- public function in the public interest
Do you always ensure that if you wish to use or disclose the personal data for a purpose that is additional to, or different from, the original specified purpose that this is communicated with the data subject transparently?

**Principle Three: Adequacy**

Data shall be **adequate, relevant and not excessive** in relation to the purpose or purposes for which they are processed.

Is the data you hold for a purpose always simultaneously both **sufficient for the purposes and no more than necessary**?

**Principle Four: Accuracy**

All data must be **accurate** and, where necessary, **kept up to date**.

Do you ensure that for all data sets held you are taking reasonable steps to ensure the personal data remains accurate?

Is the source of the personal data always well documented and clear?

When was the last time you updated your databases or completed a data cleansing exercise?

**Principle Five: Retention**

All data must **not kept for longer** than is necessary for the purpose or purposes.

Does your organisation have a policy for data retention – determining the length of time data is held?

Are you careful about when data is deleted, ensuring that the data is truly no longer required?

Are your organisation-wide processes sufficiently clear and detailed to ensure that the destruction process is suitably robust?

**Principle Six: Rights**

Data may only be processed in accordance with the **rights of data subjects** under this Act

These rights are:

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**Crowe Clark Whitehill LLP**

**The Data Protection Act 1998: how exposed is your charity?**
a right of access to a copy of the information comprised in their personal data

a right to object to processing that is likely to cause or is causing damage or distress

a right to prevent processing for direct marketing

a right to object to decisions being taken by automated means

a right in certain circumstances to have inaccurate personal data rectified, blocked, erased or destroyed

a right to claim compensation for damages caused by a breach of the Act.

Does your organisation have a named individual for Data Protection; does everyone know who they are?

Do you have a Data Protection Policy, and have staff read it?

Do all staff know the rules behind Subject Access Requests? Would they know what to do and the regulatory deadlines for taking specific actions?

Is your data sufficiently catalogued to allow you to quickly, efficiently and comprehensively respond to a Subject Access Request?

Does all your direct marketing include the option for the data subject to ‘opt out’ and is this information accurately captured to ensure compliance (see also other related requirements in the Privacy and Electronic Communications Act)?

Do you have confidentiality/non-disclosure clauses in place with any of your 3rd party providers who have access to your personal data?

**Principle Seven: Security**

Personal data must be subject to **appropriate technical and organisational measures** to prevent unauthorised or unlawful processing, accidental loss, destruction or damage to such data. This principle takes into account:

- state of technological development; size and resources
- nature of personal data and likely harm if breached
- reliability of employees
- written contracts and obligations on data processors

**Are your systems appropriately designed to ensure the security is fit for purpose for all personal data storage (both off- and online)?**

**Does everyone in the organisation know who is responsible for data security?**

**Is the individual responsible for data security sufficiently informed and trained in the requirements of the DPA and other relevant aspects of legislation and industry best practice?**

**How does the individual responsible for data security remain up to date with constant changes in cyber based risks?**

**Does everyone know how to respond to a breach of security swiftly and effectively to minimise loss of data and damage caused by the breach?**

**Principle Eight: International**

Data must **not be transferred to a country or territory outside the European Economic Area** (EEA) unless that country or territory ensures an adequate level of protection for the rights and freedoms of data subjects in relation to the processing of personal data.

**Do you know where the personal data held is being stored?**

**Do you know where your third party service providers store your data?**

If any of your data is transferred and/or stored outside the EEA, what controls are in place to ensure an adequate level of protection for the rights and freedoms of data subjects in relation to the processing of personal data?

**For those operating internationally, are you up to date and aware of the requirements of the data protection laws within the countries in which you are operating?**

*The Data Protection Act 1998: how exposed is your charity?*
7. Cyber security: a strategic risk management issue

Today’s organisations collect process and retain more information than they have ever done. For not for profits, this information can be internal so can be about their own operations or employees or their ‘business’ or collected from external sources such as from beneficiaries, donors, or even customers, if they run any trading activities.

The impact of this digital retention of information means that organisations have become more dependent on information systems and more vulnerable to attack by sophisticated cybercriminals or even their own employees.

The results of numerous surveys and research show that organisations are still not adequately protected against cyber-attacks. Nearly two-thirds of companies across sectors and regions responding to a joint research carried out by McKinsey and the World Economic Forum described the risk of cyber-attack as a “significant issue that could have major strategic implications.”

The impact of the controls put in place to mitigate against this risk is thought to be having negative business impacts by slowing the use of technology such as the use of public-cloud services and even reducing productivity by limiting the employee’s ability to effectively share information.

Making organisations cyber-resilient is therefore now regarded as a key strategic risk management issue which should be monitored by Chief Executives and Boards. The following are some of the factors that organisations should consider.

- Prioritise which information asset should be protected – so for example for a charity with large donor base this could be the donor information.
- Consider differentiating protection based on the prioritisation – so for example, more rigorous passwords or encryptions.
- Integrate security into technology projects from the outset.
- Use defences such as firewalls to uncover attacks – consider penetration testing.

- Test the organisations response to breaches – so make sure there is a strategy in place known by the communication team for managing the messages when a breach occurs.
- Raise your employees and users understanding and awareness of the importance of protecting the not for profit’s information. Often organisations are made vulnerable to attacks because employees and volunteers do not observe the basic information security measures – for example by emailing sensitive files to a large group or using memory sticks with bugs or clicking on unsecure links. Help the organisation understand the risks.

Cybersecurity should become a board agenda item and be integrated into functions such as HR or donor management or fundraising.

The Department for Business, Innovations & Skills (BIS) have produced a paper entitled, “Cyber Risk Management – A Board Level Responsibility” and produced 6 questions to assist organisations in supporting strategic level discussions and ensuring that the right safeguards and cultures are in place. We believe that these questions, with a slight change in focus, are equally applicable to charities.

Key Questions for Senior Management and Boards

Protection of key information assets is critical

1. How confident are we that our charity’s most important information is being properly managed and is safe from cyber threats?
2. Are we clear that the Trustees and Senior Management are likely to be key targets?
3. Do we have a full and accurate picture of the following?
   - The impact on our charity’s reputation or existence if sensitive internal beneficiary or supporter information held by the charity was to be lost or stolen?
   - The impact on the charity’s activities if its online activities were disrupted for a short or sustained period?
Exploring who might compromise our information and why is critical.

4. Do we receive regular intelligence from the Chief Information Officer / Head of Security on who may be targeting our charity, their methods and their motivations?

5. Do we encourage our technical staff to enter into information sharing exchanges with other charities in our sector and/or across the economy in order to benchmark, learn from others and help identify emerging threats?

Pro-active management of the cyber risk at Board level is critical

6. The cyber security risk impacts reputation, culture, staff, information, process control, brand, technology, pricing and finance. Are we confident that:

   ▶ We have identified our key information assets and thoroughly assessed their vulnerability to attack?

   ▶ Responsibility for the cyber risk has been allocated appropriately? Is it on the risk register?

   ▶ We have a written information security policy in place, which is championed by us and supported through regular staff training? Are we confident the entire workforce understands and follows it?
Appendix 1 - Systems and controls issues

We are pleased to note that there were no systems and controls issues to report from the 2016 audit.

Our evaluation of the systems of control at The Quality Assurance Agency for Higher Education was carried out for the purposes of our audit and accordingly it is not intended to be a comprehensive review of your business processes. It would not necessarily reveal all weaknesses in accounting practice or internal controls which a special investigation might highlight, nor irregularities or errors not material in relation to the financial statements.
# Appendix 2 - Update from last year

We have set out below the systems and control issues on which we reported after our audit last year together with an update on how the points raised have been addressed including information on the progress made at the time of the audit of the 2015 financial statements.

<table>
<thead>
<tr>
<th>Recommendation fully implemented or no longer relevant</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recommendation partially implemented</td>
<td>2</td>
</tr>
<tr>
<td>No progress on recommendation</td>
<td>3</td>
</tr>
</tbody>
</table>

Please note that these colour codings are based on the status of the actions taken rather than the severity of the observation which is shown against the observation itself. The Charity Commission is presently consulting on the mandatory disclosure requirements where an auditor will need to make disclosures to the Charity Commission. This includes a possible new requirement to disclose matters where there is “Evidence that, without reasonable cause, trustees have not taken action on matters identified by the auditor or examiner in their scrutiny of accounts for a previous year”.

<table>
<thead>
<tr>
<th>Observations in 2015</th>
<th>Update 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Foreign currency petty cash</strong></td>
<td><strong>1</strong></td>
</tr>
<tr>
<td>Following our work last year on the year end bank balances we noted that the foreign currency petty cash was being held at a historic exchange rate. Balances were translated as the effective rate on the day of purchase and this was not updated for future changes in exchange rates. As outlined in SSAP 20 Foreign currency translation, at the year-end all foreign currency assets and liabilities denominated in a foreign currency should be translated at the spot rate on that date. We noted that the differences were trivial, however we suggested that the foreign currency petty cash is reconciled on a regular basis to reflect the spot rate at the month end and differences are taken to the SoFA as foreign currency gains/losses.</td>
<td>We are pleased to note that the foreign currency petty cash was translated at the year end spot rate. Our recommendation from the prior year has therefore been fully implemented.</td>
</tr>
</tbody>
</table>
Appendix 3 - Reporting audit adjustments

International Standard on Auditing (UK and Ireland) require that we report to you all misstatements which we identified as a result of the audit process but which were not adjusted by management, unless those matters are clearly trivial in size or nature.

Our audit approach is based on consideration of audit materiality as explained in section 1 of this report. We determine materiality for the purposes of the charity’s statutory reporting by our judgement as to what adjustments would influence the readers’ perceptions of the financial statements. We do not therefore seek to review all immaterial amounts.

For the purpose of reporting non-trivial items identified as a result of our audit work which have not been adjusted in the financial statements we set out in our Audit Planning Report that we would report unadjusted misstatements greater than £2,000 unless they are qualitatively material at a lower amount.

We have reported in section 2 above significant matters from our audit and the potential financial impact. We have summarised in Appendix 6 attached, the potential overall impact of these items on the financial statements.
Appendix 4 - External developments

We have summarised below some of the developments and changes in the charity sector over the recent period which we believe may be of interest and relevant to you. Please note that this information is provided as a summary only and that you should seek further advice if you believe that you have any specific related issues or intend to take or not take action based on any of the comments below.
We issue a regular technical briefing for charities by email. If you would like to receive this please email your details to nonprofits@crowecw.co.uk. Alternatively, these briefings are available on our website.

Charity Commission - What can we do to build public trust in charities?

Following the Charity Commission’ Public Trust & Confidence research which showed a significant drop in trust in charities, they have published four blogs commenting on what can be done to build trust.

Public Trust 1: How can we rebuild public trust in charities?
Public Trust 2: How do you choose which charity to support?
Public Trust 3: How do charities tell the public what they want to know?
Public Trust 4: our action plan on Governance.

“If you know what matters to the public, and you act on it decisively, you can regain trust - we’ve seen that in other sectors,” said Sarah Atkinson, Director of Policy & Communications.

The four blogs provide an analysis of what the report says about the drop in trust, comments on what charities can do to be more accountable to the public, what tools the public can use to find out more about the charity they are donating time or money to, and a look at governance in the sector and how it can be improved. The blogs are available on the GOV.UK website:

Charity Commission – New fundraising guidance

Linked in with the above research on public trust, the Commission has also published new guidance for charity trustees about fundraising from the public, CC20. The guidance sets out 6 key principles to help trustees comply with their legal duties when overseeing their charity’s fundraising and ensure that they meet their responsibilities. These principles are:

▶ planning effectively;
▶ supervising your fundraisers;
▶ protecting your charity’s reputation, money and other assets;
▶ identifying and ensuring compliance with the laws and regulations that apply specifically to your charity’s fundraising;
▶ identifying and following any recognised standards that apply to your charity’s fundraising; and
▶ being open and accountable.

The guidance also provides a useful checklist for trustees to document the steps taken to ensure compliance with these principles which should be completed and regularly reviewed to demonstrate that the board is aware of their responsibilities and discharging them as required. The disclosure requirements are also discussed.

The guidance is available on the GOV.UK website:

Charity Commission – Take early steps to manage financial difficulties

The Commission in September 2016 published 2 reports as part of a proactive project exploring the financial resilience of the charitable sector and identifying wider lessons for charities who may be experiencing financial distress.

External developments
The case studies demonstrate that early steps to address financial difficulties and confront them pragmatically minimised the risk to beneficiaries. Charities have a number of different options to explore including the possibilities of mergers and collaborations to achieve positive outcomes despite financial difficulties.

There are some key messages from the reports.

► Being prepared to address financial difficulties effectively is an important part of a trustee’s duties to act in the charity’s best interests, manage the charity’s resources effectively and ensure the charity is accountable.

► Charities that are able to identify pressures and risks early are best placed to address them.

► The Commission expect trustees to take seriously any concerns expressed by their charity’s auditor or independent examiner and take appropriate action in response.

The Commission has provided guidance to help trustees identify and deal with situations of financial difficulty, in particular planning for and managing financial difficulties in CC12. The future outlook for charities remains challenging and trustees must stay alert to the risks of financial distress and manage them actively.

The reports are available on the GOV.UK website:


Charity Commission - Charities and litigation: a guide for trustees

In August 2016 the Commission published new guidance on what charity trustees need to know when thinking about taking or defending legal action generally, and when the Commission needs to be involved.

The guidance applies to all types of legal action that a charity might have to take or defend but not to criminal cases or challenges to decisions by the Commission. It is relevant to all charities whether they are CIOs, companies, trusts, membership bodies or have another structure and also applies to both registered and unregistered charities.

The guidance is available on the GOV.UK website:


Brexit and Charities

Much has been written about the possible impact of the EU referendum on the UK economy, on business and charities. However given the uncertainties around the UK’s exit negotiations it is not possible to fully evaluate the impact. This makes planning for the future hard particularly given other challenges the UK charity sector has been facing over the last year.

The only certainty then is that there will be uncertainty, at least in the medium term and charities like all other businesses need to factor this into their future planning. Organisations that survive and even flourish will be those that cope with the uncertainties and make good lasting decisions.

We believe that there are six key areas that charity trustees may need to review following the Brexit referendum:

► Strategies and scenario planning
► Management structures and skills including those of Trustees
► Budgeting and planning
► Performance management
► Reserves policy
► Risk registers

We have published a paper with more detailed comments in each of these areas on our website.

Charities (Protection and Social Investment) Act 2016

The Charities (Protection and Social Investment) Act 2016 received Royal Assent on 16 March 2016 with the first phase coming into force on 31 July 2016.

The purpose of the Act is to protect charities from abuse, strengthen the powers of the Charity Commission for England and Wales, and enable charities to more easily undertake social investment (investing their funds in a way that furthers their charitable purpose as well as providing a financial return). The Act will enable the Charity Commission to:

- direct that a charity be closed down after an inquiry;
- issue official warnings to charities;
- disqualify a person who is unfit to serve as a charity trustee in certain circumstances; and
- address some gaps and weaknesses in the Charity Commission’s existing powers.

The Act gives charities a new specific and simple power to make social investments along with clear duties when doing so. This power has now come into force and to reflect this change the Charity Commission has updated its publication CC14 Charities and investment matters: a guide for trustees and also issued an interim guidance “Social Investment by charities - the new power introduced by the Charities (Protection and Social Investment) Act 2016”. This guidance is available on the GOV.UK website: https://www.gov.uk/government/publications/charities-and-investment-matters-a-guide-for-trustees-cc14

Additionally, the Act also includes new powers to protect vulnerable people from rogue fundraisers. Charities with incomes over £1 million will have to set out in their trustees’ annual report their fundraising approach and the Act also provides to reserve certain powers to control fund-raising by charitable institutions.


Six insights for trustees from Kids Company and others

The recent high profile collapse of Kids Company has led to an increased focus on charities, their structures and the role of trustees. Considering this and other operational case reports published in 2015 by the Charity Commission, we have summarised 6 key lessons for trustees and for charities. The Select Committee report was published on 1 February and we will be looking at these to consider whether any updates are required to our report.

The full report can be found at: https://www.croweclarkwhitehill.co.uk/wp-content/uploads/sites/2/2016/01/five-insights-for-trustees-from-2015.pdf.  

A summary of the main insights are as follows:

**Trustee oversight – relationship with the chief executive**

The emphasis at Select Committee hearings following the collapse of Kids Company was on the challenge that the Board and its Chair had exercised over the Chief Executive and whether assumptions and judgements were adequately challenged, as well as over the personality of the Chief Executive and whether there was dominant influence which may have impacted the decision made by the Board.

Trustees may need to delegate decisions on day-to-day management matters to employees and the scope of authority should be clearly stipulated with effective reporting back protocols. The 6 main duties of charity trustees are set out in the Charity Commission guidance CC3: The Essential Trustee. The underlying theme is that trustees should challenge and question, and ensure they receive timely information that can be understood.

**The role of the Chair**

Most major corporate failures have their roots in failures of corporate governance. The role the Chair of a Board of Trustees varies, and “a Chair can only make decisions in accordance with any provision in the governing document or delegated authority agreed by the trustees, and should notify the other trustees of any decisions made” as stated in Charity Commission guidance.
Tenure of trustees and the Chair

The Chair of Kids Company had been in office since 2003, and he was challenged on this fact: his tenure arguably stopped him from providing fresh perspective and scrutiny, bringing in new ideas or looking at new approaches. Had he become so involved so strongly that it was impossible for him to separate himself from that?

In 2012 Lord Hodgson recommended that “trusteeship should normally be limited in a charity’s constitution to three terms of no more than three years’ service each”. Whilst the Commission at present does not give any guidance on tenure of trustees or chairs, it has stressed the importance of regular review of a charity’s governance structure and sometimes undertaking a wider strategic review to ensure that the charity “remains effective, fit for purpose and accords with best practice”.

Reserves and cash flow management

Whilst charity law requires income received by a charity to be spent within a reasonable period of receipt, trustees must ensure that they make what the Commission states as “balanced and adequately informed decisions, thinking about the long term as well as the short term”. They must set a reserves policy which considers future sustainability, balancing what is needed now with what will be needed in the future and “provides assurance that the finances of the charity are actively managed and its activities are sustainable”.

The challenge for Kids Company was rapid growth from income of £2.4m in 2004 to £23m in 2013. Despite this, free reserves at 31 December were £434k, less than a week’s expenditure. This demand-led model meant the charity collapsed at the first hint of reputational trouble.

The Charity Commission has updated its guidance on reserves on the 29th of January ahead of the publication of the PAC report on Kids Company (CC19: Building Resilience): Whilst there is no ‘one size fits all’ yardstick, trustees must link reserves with the risk management and forecasting process and consider its operating realities.

Risk management and financial controls

With regard to Kids Company, there were questions around financial controls, distribution of funds to beneficiaries and the appropriateness of payments and expenditure to beneficiaries which were raised by at the Parliamentary Enquiry.

The Charity Commission has useful guidance around financial controls and risk management. The absolute minimum for any well run organisation is robust effective systems, processes and controls as well as a sound risk management process. As Hallmark 4 of the Charity Commission’s guidance CC10 states, “an effective charity is always seeking to improve its performance and efficiency, and to learn new and better ways of delivering its purposes. A charity’s assessment of its performance, and of the impact and outcome of its work, will feed into its planning processes and will influence its future direction”.

Measuring and reporting performance

Interestingly whilst acknowledging that Kids Company did do valuable work with its vulnerable clients, the report states that “it is both sad and disappointing that robust evaluation of the outcomes of Kids Company’s work is lacking” and that the charity “invested so little in highlighting and evaluating the outcomes of its work”. The report states: “The Trustees were either ignorant of this exaggeration or simply accepted it, because it helped to promote the charity’s fundraising”.

It is not easy to measure impact as there are issues around attribution and contribution to consider as well as ‘evaluability’ which, as HM Treasury explains, is ‘the extent to which activities can be measured to produce reliable evidence based judgements of performance, impact and value for money.’

The key for Trustees is to satisfy themselves of the value for money aspects of their activities as well as the impact of their work and to get assurance over the process which management have adopted in the collection and verification of the data including assessment of impact and how these compare to sector practice.

Gender Pay Reporting

Despite the Equal Pay Act being brought in 45 years ago, women still often, in many industries, earn less than men in the UK. The latest ONS Annual Survey of Hours and Earnings report found the gender pay gap for median earnings of full-time and part-time employees combined stands at 19.2%, which is unchanged since 2014.
In 2015 David Cameron vowed to end the gender pay gap in a generation. After a period of consultation, between 12 February and 11 March 2016, it has been announced that from 2018 companies that employ over 250 people will be required to report on the earnings of men and women in the workplace publicly.

Businesses and organisations will be required to publish gender pay by grade/level and bonus details on an annual basis, including how many women and men are in each pay range. To highlight where these pay gaps are prominent they will be ranked by sector in a league table, providing clarity on where any gap is not being addressed.

If businesses or organisations fail to address gender pay disparities they are at risk of inclusion in these publicly available league tables, brand reputation could be at risk. The first report is due to be published in April 2018, leaving a short amount of time to ensure that you have the adequate data available. It is important to consider what auditing of payroll and bonus arrangements you may need to carry out to ensure you are prepared.

**The Apprenticeship Levy**

The Apprenticeship Levy, which comes into effect in April 2017, will be a levy on UK employers to fund new apprenticeships. In England, control of apprenticeship funding will be put in the hands of employers through the Digital Apprenticeship Service.

The rate for the levy will be set at 0.5% of an employer’s pay bill and will be collected via PAYE. However, employers will receive an allowance of £15,000, the effect of which will be that the levy will only be payable on pay bills in excess of £3,000,000.

When preparing budgets and forecasts for future periods, employers affected by this will need to ensure that they have:

- estimated the amount of the levy;
- estimated any savings available from their current training budget;
- considered any savings from the employer’s NIC apprenticeship exemption (under 25’s); and
- assessed the number of trainees required to transfer into apprenticeships to cover the costs.

The levy will apply to the “total pay bill” subject to Class 1 NIC so should exclude many benefits in kind however it will include other remuneration in “total employee earnings” such as bonuses and share awards which are subject to PAYE/NIC withholdings.

The legislation includes a connected persons rule, similar to the Employment Allowance connected persons rule, so employers who operate multiple payrolls will only be able to claim one allowance.

Further details on this levy can be found at: [https://www.gov.uk/government/publications/apprenticeship-levy](https://www.gov.uk/government/publications/apprenticeship-levy)

**The Modern Slavery Act**

The Modern Slavery Act 2015 came into force in March 2015. The Act tackles slavery in the UK and consolidates previous offences relating to trafficking and slavery. Part 6 of the legislation ‘Transparency in supply chains etc.’ requires that commercial organisations produce a slavery and human trafficking statement for each financial year of the organisation. Commercial organisations are defined as those supplying goods or services and having turnover of £36m and over.

Where a charity meets the definition of a commercial organisation under the Act, it is required to make such a statement. The statement must include ‘the steps the organisation has taken during the financial year to ensure that slavery and human trafficking is not taking place in any of its supply chains, and in any part of its own business’. The Government publication ‘Transparency in Supply Chains etc. – A practical guide’ explains that “this does not mean that the organisation in question must guarantee that the entire supply chain is slavery free. Instead, it means an organisation must set out the steps it has taken in relation to any part of the supply chain (that is, it should capture all the actions it has taken).”


**Common Reporting Standard (CRS)**

The Common Reporting Standard (CRS), which asks financial institutions to report on account holders as a method of preventing tax evasion, came into
force at the beginning of this year, and will place a significant administrative burden on grant-making charities in particular.

In 2012 the UK and the US signed a treaty to bring FATCA into UK law with the aim of developing a global network of legislation similar to FATCA in order to prevent individuals and entities using offshore structures to evade tax. The CRS was published by the Organisation for Economic Co-operation and Development (OECD) in 2014. For policy reasons, it purposefully captures charities and brings them into the transparency regime.

Following publication of the CRS, the European Union incorporated the CRS into an EU Directive in order to make disclosure of financial account information mandatory between EU Member States. This directive is known as the EU Directive on Administrative Cooperation (DAC). The CRS and DAC have now been implemented into UK law by The International Tax Compliance Regulations 2015.

Implications for charities

The new regulations require UK financial institutions to undertake due diligence on their account holders and to make reports to HMRC where required. This means that a charity may receive forms from its bank and/or investment manager requesting that it “categorise” itself for the purposes of the CRS.

Although most charities do not provide financial services, and so would not expect to be classed as a “financial institution”, the definition of “financial institution” under the CRS is very broad. This means that some charities particularly endowed charities and those that receive a large proportion of their income from investments will be categorised as a “financial institution” and in such cases, the charity may itself be under an obligation to make reports to HMRC.

The first reporting deadlines for financial institutions under the CRS are not until 2017. However, charities should evaluate whether they are in scope now and if they are then given the onerous nature of the new reporting requirements should now start considering their due diligence and reporting requirements.

In response to various representations, we understand HMRC have indicated they will publish guidance notes on completing CRS forms especially for charities. However, there is no timescale for this.

Definition of a financial institution

A charity may be regarded as an investment entity if it is managed by a financial institution and its gross income is primarily attributable to investing, reinvesting, or trading in financial assets. A charity must meet both of these criteria to be deemed a financial institution. It is important to note that in general:

- an entity is regarded as being “managed by a financial institution” where it has appointed a financial institution (for example, a professional investment manager) to manage all or part its assets on a discretionary basis;
- an entity’s income is “primarily attributable” to investing, reinvesting, or trading in financial assets where this activity accounts for at least 50% of the charity’s gross income.

Definition of a non-financial entity

If a charity is not a financial institution then it will be a “non-financial entity” (NFE). A charity which is an NFE will not have its own reporting requirements under the CRS but for the purposes of CRS classification forms, the charity will still need to consider whether it is an “active” or “passive” NFE.

Where a UK charity is not a “financial institution” it is likely that it will be classed as an “active NFE”. A charity is likely to view classification as an active NFE as preferable, as active NFES are usually not required to provide further information relating to their controlling persons.

Reporting obligations for charities classed as financial institutions

Charities that are “financial institutions” under the CRS will need to identify whether they maintain “financial accounts” which must be reported to HMRC.

Charities that may be deemed to maintain “financial accounts” include those who have issued equity interests, bonds or other debt instruments and also those charities constituted as trusts who make grants to beneficiaries. Where such charities are “financial institutions” they will need to perform due diligence upon their account holders or beneficiaries and will need to report certain information regarding these account holders or beneficiaries to HMRC.
All of the individuals or entities to whom grant makers make grants will be treated as account holders, regardless of where they are located. This means that these charities will have to perform due diligence on all grants made.

By way of example this will include charities recording and verifying the tax identification numbers of beneficiaries and organisations that they fund both in the UK and in reporting jurisdictions based on the self-certified and in some cases documented statements made by grant-recipients.


Sector bodies have written to the Minister for Civil Society to express their deep concern over the impact of the CRS on grant making charities and asked that charities be excluded under the same rules as the FATCA.

Understanding your governing document

One of a trustee’s main duties is to ensure their charity is keeping in line with its principles and purposes, which are set out in the charity’s governing document. The governing document is likely to be a constitution, trust deed, or article of association and acts as ‘the rulebook’ for a charity.

A well-written governing document will tell you many of the things you need to know about your charity, and will contain the answers to many frequently asked questions, such as:

► what the charity exists to do (its purposes, as explained in its objects clause)
► the kinds of activities that it can undertake to further those purposes, what powers it has and any limits on them
► who the trustees are, how many trustees there should be and how they are appointed and removed
► how to call meetings and what notice periods to give to call an annual or special general meeting (AGM or SGM)
► how to change the governing document, and which rules can be changed
► whether the charity has members and, if so, who can be a member and what their rights and responsibilities are
► how to close the charity down

If you are a registered charity and don’t have a copy of your governing document you can ask the Charity Commission to provide one, but it’s very important that each trustee is given a copy, with a master copy saved in a safe place. You should also share it at AGMs and SGMs.


Raising awareness of mandate fraud

Mandate fraud continues to be a significant fraud loss to the charity sector. Mandate fraud occurs when the fraudster tricks a victim into changing bank account details, in order to divert legitimate payments intended for a genuine organisation (e.g. a charity supplier) to bank accounts instead controlled by fraudsters. This often involves the fraudster impersonating an organisation representative, either by email, direct mail or telephone communication. The fraudster may also use headed paper and/or the company logo to lend credibility and to gain the charity’s trust. Liability for any financial loss normally falls to the charity.

FALCON, the Fraud and Linked Crime Online team at the Metropolitan police, have launched an initiative to raise awareness of this type of fraud. Police fraud prevention officers will provide charities with best practice advice and guidance on fraud reduction strategies. For further information contact sterling@met.police.uk, or download a mandate fraud awareness poster. For information on FALCON, guidance on protecting yourself against scams, and current police fraud alerts visit the Fraud Alert page on their website.

http://content.met.police.uk/Article/Mandate-fraud/1400013159214/1400013159214

Updated whistleblowing guidance

Charity employees can report concerns about serious wrongdoing at their charity to the Charity Commission at whistleblowing@charitycommission.gsi.gov.uk. When done in line with Public Interest Disclosure Act criteria, whistleblowers have some protection if they’re treated unfairly or dismissed as a result.
The Charity Commission has recently updated Whistleblowing guidance for charity employees. This summarises the Charity Commission’s role and how to blow the whistle, and links to their more detailed guidance. Complaints about charities, which explains what happens when a concern is raised and the powers the Charity Commission has to investigate and put matters right.

It is recommended that you have in place a whistleblowing policy with an internal system for effectively picking up staff concerns that could seriously affect the charity (like disasters, costly legal claims and loss of reputation). This aligns with best practice and can help trustees comply with their duty to act in the charity’s best interests and manage its charity’s resources responsibly, not least by helping to identify concerns about fraud. Public Concern at Work’s article on this matter considers this in more detail.

https://www.gov.uk/guidance/whistleblowing-guidance-for-charity-employees
http://www.pcau.org.uk/files/Blowing%20the%20whistle%20of%20foul.pdf

Grants to non-charities

The Charity Commission issued draft guidance in February 2016 for trustees of charities wanting to make grants to non-charitable organisations. The guidance explains what you need to do if you are considering a grant to an organisation that isn’t a charity and reminds trustees that grants made by a charity much only be used for activities which are within its charitable purposes. The guidance also provides a useful checklist of matters to consider when making grants to non-charities and complements the existing guidance on working with other charities.

It should be noted that the Charity Commission has published this guidance as a draft to give charities and their advisers the opportunity to comment and inform the final version. This is not a formal consultation. The content draws from existing Commission guidance, and does not represent any new regulatory requirement.

https://www.gov.uk/guidance/draft-guidance-grant-funding-an-organisation-that-isn’t-a-charity

Updated guidance on Charities and trading

The Charity Commission has in February 2016 updated its guidance on Charities and trading (CC35). The guidance overview clarifies that a charity will not pay tax on profits it makes from trading if:

- it is making money from helping the charity’s aims and objectives, known as ‘primary purpose trading’;
- it is engaging in ‘ancillary trading’, where income is generated from activities which contribute indirectly to the furtherance of the charity’s purposes;
- the level of trade that isn’t primary purpose falls below the charity’s small trading tax exemption limit,
- the income is generated through a lottery; or
- is connected with certain fundraising events (as set out in section 3.13 of the guidance).

CC35 explains that the profits from a trade carried on by a trading subsidiary do not qualify for charity tax exemption and are liable to corporation tax in the usual way. However, payments made by the trading subsidiary as Gift Aid to its parent charity can reduce its taxable profits. Tax exemption is available to the recipient charity in respect of the income which it receives from the trading subsidiary. See below for additional comment on the payment of Gift Aid donations by trading subsidiaries.

A charity is also not exempt from paying VAT when trading but may be eligible for some VAT reliefs.


Gift Aid donations from Charity trading subsidiaries

In October 2014, the Charity Commission withdrew its guidance regarding the payment of gift aid amounts in excess of the subsidiary’s distributable profits. CC35 previously endorsed the practice of donating all taxable profits of a subsidiary to the parent charity, even in cases where this amount exceeded the profits available for distribution under Companies Act 2006, on the basis that the payment was not considered a distribution. Tax relief on the payment meant that no tax was payable by the subsidiary.

Following the Commission’s withdrawal of this guidance, the ICAEW issued Technical Release 16/14BL ‘Guidance on donations by a company to its
parent charity’ on this matter in October 2014, having sought the opinion of Counsel. The legal advice provided confirmed that the payment of gift to a parent is a distribution and therefore, in cases where payments exceeded the taxable profits available for distribution, payments of the excess were unlawful.

In February 2016, HMRC and the Charity Commission issued updated guidance in this area. At the same time, the ICAEW technical release was updated to reflect this new guidance. Links to the revised guidance are provided below -


Appendix 5 - Upcoming Non Profits events, courses and briefings

We believe it is important to keep our clients up to date on the issues that affect them. As a part of our ongoing communication, we regularly hold seminars and courses. Below are details of our upcoming events – please visit our website or register to our mailing list to stay updated - nonprofits@crowecw.co.uk

Breakfast briefings

► Board of the future 14 Nov 2016

These briefings will be run by experts from our Non Profits team. Registration and breakfast from 8:30, sessions commence at 9:00.

Trustee essentials

► Trustee essentials 27 Oct 2016

Our Trustee essentials seminars have been developed to consider the issues facing trustees. We will take an in-depth look at the key areas of responsibility which will provide trustees with useful information, tools and techniques. These sessions cost £50 each and are full day seminars.

Other seminars and conferences in London

► Social Care Triple Tax Seminar 14 Oct 2016
► Social housing update 2 Nov 2016
► INGO conference 2016 24 Nov 2016

Partnership seminars and conference

► CFG Finance for fundraisers 7 Oct 2016
► Charity reform: implementing guidance on fundraising and governance 19 Oct 2016
► Fraud Advisory Panel: Good governance and fraud risk management 8 Dec 2016

Tax updates

► Charities update 30 Nov 2016

These free updates will be run by experts from our Non Profits team.

Tax training courses

► Input tax (especially S33) recovery (Manchester)* 5 Oct 2016
► Introduction to charity VAT** 5 Oct 2016
► Introduction to charity VAT (Manchester)** 12 Oct 2016
► Charity VAT reliefs* 9 Nov 2016
► Charity VAT reliefs (Manchester)* 16 Nov 2016

These interactive training courses are run with a small number of delegates at a cost £195 **£295.

Further information and registration

To register for any of the above events, please visit our website www.crowecw.co.uk/nfp or email nonprofits@crowecw.co.uk
### Appendix 6 - Summary of Adjusted and Unadjusted Differences

#### Summary of Differences

<table>
<thead>
<tr>
<th>Description</th>
<th>(Surplus) / Deficit O/S (U/S)</th>
<th>Assets O/S (U/S)</th>
<th>Liabilities / Reserves O/S (U/S)</th>
<th>Difference Adjusted?</th>
<th>(Surplus) / Deficit O/S (U/S) Not Corrected</th>
</tr>
</thead>
<tbody>
<tr>
<td>Original consolidated (surplus) / deficit as presented for audit planning</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>972,166</td>
</tr>
<tr>
<td>Adjusted Audit Adjustments</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provision for payments in lieu of notice</td>
<td>(600,650)</td>
<td>-</td>
<td>600,650</td>
<td>Yes</td>
<td>-</td>
</tr>
<tr>
<td>Accrual for retention payments</td>
<td>(66,350)</td>
<td>-</td>
<td>66,350</td>
<td>Yes</td>
<td>-</td>
</tr>
<tr>
<td>Consolidated (Surplus) / deficit per final accounts</td>
<td>(667,000)</td>
<td>-</td>
<td>667,000</td>
<td></td>
<td>305,166</td>
</tr>
</tbody>
</table>

#### Reconciliation

- (600,650)
- (66,350)
- 305,166
QAA

Annual Internal Audit Report - Year ended 31 July 2016

Presented at the Audit Committee meeting of: 8 November 2016

RSM Risk Assurance Services LLP
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1 The annual internal audit opinion .............................................................................................................. 2
2 The basis of our internal audit opinion ......................................................................................................... 4
3 Our performance ........................................................................................................................................... 5
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Appendix B: Summary of internal audit work completed 2015/2016 ................................................................ 7
For further information contact ..................................................................................................................... 9

As a practising member firm of the Institute of Chartered Accountants in England and Wales (ICAEW), we are subject to its ethical and other professional requirements which are detailed at http://www.icaew.com/en/members/regulations-standards-and-guidance.

The matters raised in this report are only those which came to our attention during the course of our review and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made.

Recommendations for improvements should be assessed by you for their full impact before they are implemented. This report, or our work, should not be taken as a substitute for management’s responsibilities for the application of sound commercial practices. We emphasise that the responsibility for a sound system of internal controls rests with management and our work should not be relied upon to identify all strengths and weaknesses that may exist. Neither should our work be relied upon to identify all circumstances of fraud and irregularity should there be any.

This report is supplied on the understanding that it is solely for the use of the persons to whom it is addressed and for the purposes set out herein. Our work has been undertaken solely to prepare this report and state those matters that we have agreed to state to them. This report should not therefore be regarded as suitable to be used or relied on by any other party wishing to acquire any rights from RSM Risk Assurance Services LLP for any purpose or in any context. Any party other than the Board which obtains access to this report or a copy and chooses to rely on this report (or any part of it) will do so at its own risk. To the fullest extent permitted by law, RSM Risk Assurance Services LLP will accept no responsibility or liability in respect of this report to any other party and shall not be liable for any loss, damage or expense of whatsoever nature which is caused by any person’s reliance on representations in this report.

This report is released to our Client on the basis that it shall not be copied, referred to or disclosed, in whole or in part (save as otherwise permitted by agreed written terms), without our prior written consent.

We have no responsibility to update this report for events and circumstances occurring after the date of this report.

RSM Risk Assurance Services LLP is a limited liability partnership registered in England and Wales no. OC389499 at 6th floor, 25 Farringdon Street, London EC4A 4AB.
1  THE ANNUAL INTERNAL AUDIT OPINION

This report provides an annual internal audit opinion, based upon and limited to the work performed, on the overall adequacy and effectiveness of the organisation’s risk management, control, governance and economy, efficiency and effectiveness processes. The opinion should contribute to the organisation’s annual governance reporting.

1.1 The opinion

For the 12 months ended 31 July 2016, the head of internal audit opinion for QAA is as follows:

Head of internal audit opinion 2015/2016

The organisation had an adequate and effective framework for risk management, governance, internal control and economy, efficiency and effectiveness.

Please see appendix A for the full range of annual opinions available to us in preparing this report and opinion.

1.2 Scope of our work

The formation of our opinion is achieved through a risk-based plan of work, agreed with management and approved by the audit committee, which should provide a reasonable level of assurance, subject to the inherent limitations described below.

The opinion does not imply that internal audit has reviewed all risks and assurances relating to the organisation. The opinion is substantially derived from the conduct of risk-based plans generated from a robust and organisation-led assurance framework. As such, the assurance framework is one component that the Governing Body takes into account in completing its annual governance reporting.

1.3 Factors and findings which have informed our opinion

Governance

To inform our governance opinion for 2015/2016, we have taken into consideration the governance and oversight related elements of each of the assignments undertaken as part of the 2015/2016 internal audit plan. For example, as part of the Key Financial Controls review we reviewed the presentation of the Finance Report to the Board.

In addition, our governance opinion is also informed by our attendance at meetings of the Audit Committee throughout the year.

Risk Management

Our opinion on risk management is informed by the assessment of the risk mitigation procedures undertaken in the areas covered by the risk-based reviews completed as part of the 2015/2016 internal audit plan and also the specific Risk Management audit which resulted in a Green (substantial assurance) opinion.

In addition, our risk management opinion is also informed by the discussions we have had with management, through our cumulative knowledge of the Agency’s risk management systems and processes, and attendance at Audit Committee meetings.
Internal Control

The results of the following internal audit reviews have been taken into consideration in determining our control opinion for 2015/2016:

- High Level Review of Information Technology
- Project Governance and Management
- Project Governance and Management – Part 2: Review of Quality Assurance Programme
- Key Financial Controls
- International Activities

Our report in relation to Project Governance and Management (Part 1) received an Amber Green (reasonable assurance) opinion. The Part 2 report in the same area received a Green (substantial assurance) opinion.

We have raised a total of four Medium priority management actions during 2015/2016. Action plans have been agreed and we have been informed these are being progressed.

Economy, Efficiency and Effectiveness

Our audit of International Activities considered how activities had been decided upon, who undertook the activities, how they were funded and costed and how the benefits of the activities were assessed.

Our audit of Key Financial Controls: General Ledger considered the arrangements in place to ensure that key financial activities were undertaken timely to enable the prompt close down of each month and the production of monthly Finance Reports.

At the date of issue of this report, the Regularity Audit Opinion and the External Auditor’s Management Letter for 2015/2016 have not been published. We reserve the right to amend our annual opinion as a result of the Opinion / Management Letter, once issued.

A summary of internal audit work undertaken, and the resulting conclusions, is provided at appendix B.

1.4 Topics judged relevant for consideration as part of your annual governance reporting

The Agency is required to include a Statement of Corporate Governance and Internal Control within their financial statements. As your internal audit provider, the assignment opinions and advisory reviews that we undertake and report on during the year are part of the framework of assurances that assist the Board (through the Audit Committee) prepare an informed statement and provide the opinions required.

Our overall opinion may be used by the Board in the preparation of the 2015/2016 Statement.

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. This report is prepared solely for the use of the Governing Body and senior management of QAA.
2 THE BASIS OF OUR INTERNAL AUDIT OPINION

As well as those headlines discussed at paragraph 1.3, the following areas have helped to inform our opinion. A summary of internal audit work undertaken, and the resulting conclusions, is provided at appendix B.

2.1 Acceptance of internal audit recommendations
All of the recommendations made during the year were accepted by management.

2.2 Implementation of internal audit recommendations
Our follow up of the actions agreed to address previous years’ internal audit findings shows that the organisation had made good progress in implementing the agreed actions.

<table>
<thead>
<tr>
<th>Recommendation Categorisation</th>
<th>Completed</th>
<th>Superseded</th>
<th>In Progress</th>
<th>Outstanding</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Medium</td>
<td>5</td>
<td>2</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Low</td>
<td>4</td>
<td>1</td>
<td>4</td>
<td>0</td>
</tr>
</tbody>
</table>

2.3 Working with other assurance providers
In forming our opinion we have not placed any direct reliance on other assurance providers.

2.4 Conflicts of interest
RSM has not undertaken any work or activity during 2015/2016 that would lead us to declare any conflict of interests.
3 OUR PERFORMANCE

3.1 Wider value adding delivery
As part of our client service commitment, during 2015/2016 we have undertaken the following:

- Issued client updates and general briefings during the year which have been appended to our Progress Reports to the Audit Committee;
- Shared practice across the sector through our work;
- Made suggestions throughout our audit reports based on our knowledge and experience in the sector to provide areas for consideration; and
- Maintained regular contact with management and responded to queries.

3.2 Conformance with internal auditing standards
RSM affirms that our internal audit services are designed to conform to the International Standards for the Professional Practice of Internal Auditing (the Standards).

Under the Standards, internal audit services are required to have an external quality assessment every five years. Our risk assurance service line commissioned an external independent review of our internal audit services in 2011 to provide assurance whether our approach meets the requirements of the International Professional Practices Framework (IPPF) published by the Global Institute of Internal Auditors (IIA).

The external review concluded that “the design and implementation of systems for the delivery of internal audit provides substantial assurance that the standards established by the IIA in the IPPF will be delivered in an adequate and effective manner”. Work is in hand to arrange our next review.

The risk assurance service line has in place a quality assurance and improvement programme to ensure continuous improvement of our internal audit services. Resulting from the programme, there are no areas which we believe warrant flagging to your attention as impacting on the quality of the service we provide to you.

3.3 Performance indicators
A number of performance indicators were agreed with the audit committee. Our performance against those indicators is as follows:

<table>
<thead>
<tr>
<th>Delivery</th>
<th>Target</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audits commenced in line with original timescales</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>% audit reports presented to agreed Audit Committee meetings</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Quality</th>
<th>Target</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conformance with IIA standards</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Attendance at Audit Committee</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>
APPENDIX A: ANNUAL OPINIONS

The following shows the full range of opinions available to us within our internal audit methodology to provide you with context regarding your annual internal audit opinion.

<table>
<thead>
<tr>
<th>Head of internal audit opinion 2015/2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>The organisation had an adequate and effective framework for risk management, governance, internal control and economy, efficiency and effectiveness.</td>
</tr>
<tr>
<td>The organisation had an adequate and effective framework for risk management, governance, internal control and economy, efficiency and effectiveness. However, our work has identified further enhancements to the framework of risk management, governance, internal control and economy, efficiency and effectiveness to ensure that it remains adequate and effective.</td>
</tr>
<tr>
<td>There are weaknesses in the framework of governance, risk management, internal control and economy, efficiency and effectiveness such that it could be, or could become, inadequate and ineffective.</td>
</tr>
<tr>
<td>The organisation does not have an adequate framework of risk management, governance, internal control or economy, efficiency and effectiveness.</td>
</tr>
</tbody>
</table>
**APPENDIX B: SUMMARY OF INTERNAL AUDIT WORK COMPLETED 2015/2016**

<table>
<thead>
<tr>
<th>Assignment</th>
<th>Assurance level</th>
<th>H</th>
<th>M</th>
<th>L</th>
<th>A</th>
<th>S</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Level Review of Information Technology</td>
<td>Advisory</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>5</td>
<td>0</td>
</tr>
<tr>
<td>Follow Up</td>
<td>Good Progress</td>
<td>0</td>
<td>1</td>
<td>3</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Project Governance and Management</td>
<td></td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Risk Management</td>
<td></td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Project Governance and Management – Part 2: Review of Quality Assurance Programme</td>
<td></td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Key Financial Controls</td>
<td></td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>International Activities</td>
<td></td>
<td>0</td>
<td>1</td>
<td>4</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

All of the assurance levels and outcomes provided above should be considered in the context of the scope, and the limitation of scope, set out in the individual Assignment Report.
We use the following levels of opinion classification within our internal audit reports. Reflecting the level of assurance the board can take:

Taking account of the issues identified, the Board cannot take assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied or effective. Urgent action is needed to strengthen the control framework to manage the identified risk(s).

Taking account of the issues identified, the Board can take partial assurance that the controls to manage this risk are suitably designed and consistently applied. Action is needed to strengthen the control framework to manage the identified risk(s).

Taking account of the issues identified, the Board can take reasonable assurance that the controls in place to manage this risk are suitably designed and consistently applied. However, we have identified issues that need to be addressed in order to ensure that the control framework is effective in managing the identified risk(s).

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(s) are suitably designed, consistently applied and operating effectively.
FOR FURTHER INFORMATION CONTACT

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Tel: 07528 970109

rsmuk.com

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Quality Assurance Agency for Higher Education

Meeting of the Board of Directors 14 December 2016

Appointments to the Board and Board committees

1. This paper provides an update on recommended appointments of QAA Board and Committee members.

Board appointments

2. The recruitment of successors to retiring independent Board members Jane Hern and Chris Jelley closed on 7 October; sixteen applications were received. The selection process was informed by the Board’s skills audit conducted earlier this year, which suggested that the Board’s range of skills would benefit from the addition of members with strong professional backgrounds in business development and finance/audit, respectively.

3. Following the due process of recruitment and selection, the Board is invited to appoint Mr Oliver Johnson pursuant to Article 46(iii) in the membership category ‘independent member’ for an initial three-year term with effect from 18 December 2016. Mr Johnson has a background in business development and innovation. Positions held include Chief Executive of the Wine Society, Commercial Director for Denby and Sales Director of Mercedes-Benz UK. He is an experienced non-executive director having held a number of positions in public (education and healthcare) and commercial organisations (insurance).

4. For the second vacancy, the recruitment process did not yield convincing candidates. The approach to recruiting to the position has been reviewed, and action has been taken with the aim to identify, and propose to the Board, suitable candidates for appointment in February 2017.

Appointment to the QAAE Board

5. Mr Chris Jelley’s retirement from the QAA Board will result in his ineligibility to serve as a Director of the QAAE Board in the membership category ‘two representatives appointed by the Board of Directors of QAA, each of whom may also be Directors on the Board of QAA’. The QAAE Board recommends to the Board to appoint Mr Oliver Johnson as Mr Jelley’s successor, for an initial three-year term with effect from 18 December 2016.

Committee appointments

6. The Board is invited to make the following appointments

   a. to the Scotland Committee:
      • Mr David Scott, Institutional Support and Development Manager at sparqs, for a three-year term to 14 December 2019
b to the Finance and Strategy Committee:

- Mr Oliver Johnson, for a three-year term to 14 December 2019

The Board is further advised to note that a vacancy arises on the Audit Committee with Ms Jane Hern’s retirement and Ms Sue Reece’s accession to the position of Chair held by Ms Hern. The vacancy is to be filled by one of the independent members of the Board.

Timescales

All recommendations for appointments should be ratified at the Board’s meeting on 14 December 2016. This will allow timely implementation of appointments and all relating processes.

Enquiries

Name: Lavinia Blackett
By telephone: 01452 557078
By email: l.blackett@qaa.ac.uk
Quality Assurance Agency for Higher Education

Meeting of the Board of Directors 14 December 2016

Governance Review – Reformed QAA Board committee structure

1. At its away-day in October 2016, the Board considered a reformed Board committee structure recommended by the Governance Review Working Group. The high level proposals for reform included:
   - the creation, at Board level, of an Honorary Treasurer role, and the subsequent dissolution of the Finance and Strategy Committee (FSC)
   - the reform of the Audit Committee into an Audit and Risk Committee
   - the retention of the Nomination and Remuneration Committee
   - the reform of the Scotland and Wales committees, and of the Student Advisory Board, into strategic advisory committees, working under substantially re-defined remits and memberships
   - the retention of the Access Recognition and Licencing Committee (ARLC) and of the Advisory Committee for Degree Awarding Powers (ACDAP) ‘as are’, instigating reform as and when necessary/appropriate in view of any implications emanating from the Higher Education and Research Bill (HERB) and the reformed regulatory and operational environment for the operations of Access to HE, degree-awarding powers and university title.

2. In summary, the Board committee structure under these proposals will largely remain the same:

   ![Diagram of Board committee structure]

3. This may not immediately represent reform, however, the committee structure as proposed will ensure that the Agency:
   - has effective structures and clear delegated authorities to discharge its governance functions
   - has an effective UK-wide remit integrating the nations’ perspectives and interests into strategic decision-making
   - operates for the benefit of students who it chooses to integrate into its governance structures

4. The review of the Board’s committee structure was informed by the constructive engagement of Committee Chairs and key stakeholders with the GRWG. These discussions have supported the GRWG in identifying those proposals for which there was broad consensus, and highlighted others where more nuanced opinions suggest further developmental work will be beneficial. The GRWG received particularly positive feedback regarding its proposals to reform the roles and remits of the Board’s strategic advisory committees, cf. item 11 on today’s agenda.
5. In addition to the review of the Board’s committee structure *per se*, the review of the Board committees’ Terms of Reference will introduce streamlined membership, and clearly define committees’ respective remits and decision-making powers. The introduction and operationalisation of Standard ToR for all governance committees of the QAA Board will govern the conduct of meetings and overall management of committees by the respective secretariats. These steps, in combination with the process improvements already delivered through the implementation of recommendations from the first phase of the governance review, will result in a committee structure that will effectively and efficiently support the Board in discharging its duties, and that aligns with the principles underpinning recent organisational change towards lean and agile operations.

6. In order to ensure that the changes proposed above in relation to the governance committees (in particular, the proposal to disband the FSC and create and Honorary Treasurer post) do not compromise the Board’s and trustees’ ability to discharge their statutory duties, a mapping exercise will be undertaken across all governance committees and functions. The aim of this will be to clearly identify the responsibilities and delegated authorities that would need to transfer from the current to proposed arrangements to ensure that the governance structure was sound and operated efficiently to support the Board and trustees in fulfilling their responsibilities and duties. This exercise will inform the review of the scheme of delegation, and will provide the Board with an assessment of the risks involved in transitioning to the proposed arrangements. The Audit Committee will review this assessment at its meeting in February.

**Recommendations and decisions required**

7. The Board is invited to **approve** the QAA Board Committee structure as proposed, and to **endorse** the outlined approach to implementing and consolidating the reform.

**Timeframe**

8. If agreed, the proposed committee structure will be implemented in stages. All committees in the categories ‘Advisory’ and ‘Operational’ will be transitioned over the coming months with the aim of being fully operational under their reviewed ToR by June 2017, subject to the Board’s approval of reviewed Terms of Reference in March 2017. The updating of processes and practices in view of the reviewed ToR is expected to be managed and undertaken by the respective committee secretariats.

9. The creation of an Honorary Treasurer as part of a reform of the Board is in the gift of the company members, who will be consulted with in the coming months. If the role is created, an Audit and Risk Committee as proposed should be implemented and the FSC disbanded in parallel, subject to the outcome of the mapping exercise commissioned by the Audit Committee. New arrangements should be in place, and respective role specifications and ToR be approved by the Board by June 2017, so that the new arrangements are fully operational when the business year 2017-18 commences.

**Resource implications**

10. The work is to be undertaken by current resource in the Governance team, who may commission external legal advice as and if required.

**Enquiries**

Lavinia Blackett, Head of Governance; 01452 557078; l.blackett@qaa.ac.uk
Quality Assurance Agency for Higher Education
Meeting of the Board of Directors 14 December 2016
Summary report of Board committee meetings

Executive summary

1. This paper presents an overview of Board committee meetings since the Board’s meeting on 12 October 2016. The paper summarises, and brings to the Board’s attention, Committees’ discussions as well as key issues which the Committees are currently focussing on. Confidential issues and items requiring the Board’s approval are not included in this report but feature as separate items, as necessary and appropriate, on today’s meeting agenda.

2. From early 2017 Board members will have access to all committee minutes and papers via the trustee website.

Recommendations and decisions required

3. The Board is invited to note the summary report.

Committee reports

Audit Committee (AC)

4. At its meeting on 8 November 2016, the Audit Committee considered its annual report to the Board, including QAA’s Annual Report and consolidated financial statements, and annual external and internal auditors’ reports, see item 8 of today’s meeting agenda. The Committee further considered an initial proposal for its reviewed Terms of Reference within the context of the governance review, and agreed next steps as outlined in more detail in item 10 on today’s agenda. The Committee also undertook its termly review of the risk register and brings the register to the Board’s attention under item 15.

Meeting minutes are available from Lavinia Blackett, l.blackett@qaa.ac.uk

Access Recognition and Licencing Committee (ARLC)

5. At its meeting on 8 November 2016, the ARLC received a report on AVAs’ first submission under the new monitoring method, and approved the recommendation that three submissions were not accepted. It noted the variation in the interpretation of requirements and AVAs’ engagement with the process.

6. Documentation for the AVA monitoring method was considered in detail, with the committee making useful contributions to its development, particularly around statements relating to licensing criteria compliance, financial viability and business continuity.

7. The meeting also considered the first set of data reports for 2015-16, noting an increase in the number of private training providers approved to deliver Access to HE and a slight increase in the proportion of students nationally achieving ABB+ equivalence, set at a minimum of 30 credits at Distinction and 15 credits at Merit (the value determined by HEFCE for student number controls in 2013). Reports on the successful Access to HE higher education admissions fair and Research Network both held in October were also received.
Advisory Committee on Degree Awarding Powers (ACDAP)

8. The Welsh Government has advised that it is now likely to publish updated DAP criteria in December, at which time QAA will publish revised guidance for applicants in Wales.

9. Confidential ACDAP business and detailed reporting/minutes from the Committee’s meeting on 8 September 2016 are scheduled in today’s closed session of the Board.

Meeting minutes are available from Isanna Trevail, i.trevail@qaa.ac.uk

Student Advisory Board (SAB)

10. The Student Advisory Board (SAB) met on 9 November 2016, and Robert Cashman was welcomed to his inaugural meeting as Co-Chair. The SAB considered in particular the proposed changes to its Terms of Reference in the context of QAA’s governance review. Proposals intended to re-define the SAB as a strategic advisory committee to the Board, and proposed a review of membership in light of the re-defined remit. The SAB provided comment on the proposed Terms of Reference, and members welcomed in particular the potential to contribute to setting the strategic direction of the Agency.

Meeting minutes are available from Maureen McLaughlin, m.mclaughlin@qaa.ac.uk

QAA Wales Committee

12. The QAA Wales Committee met on 17 November 2016 in Cardiff for its 25th meeting, and first meeting under its new Chair, Professor Maria Hinfelaar.

13. The Committee advised on its proposed new terms of reference, welcoming the move to become a more strategic body that advises QAA Board. It agreed to the revised terms of reference subject to further clarification of the roles and remits of committee members, and the addition of representation from HE in FE and Welsh Medium provision to the membership.

14. The Committee received a summary and advised on QAA’s draft response to HEFCW’s consultation on the external assurance of quality required by regulated institutions, noting the QAA should continue to advocate that ‘enhancement’ remain a priority in external quality assurance in Wales. It advised that it would be appropriate for QAA to respond to HEFCW’s consultation on governing body annual assurance statements related to quality if it identified any overlap with its proposed arrangements for external quality assurance reviews. It also endorsed a paper advising the QAA Board of HEFCW’s Higher Education Strategy for Wales to 2026, cf., item 11b.

15. The Committee received and noted reports on QAA’s transformation process, an update on QAA’s engagement with the Higher Education and Research Bill and Teaching Excellence Framework, and its annual report on its work in Wales 2015-16.

Meeting minutes are available from Gemma Long, g.long@qaa.ac.uk
QAA Scotland Committee

16. The QAA Scotland Committee met on 22 November 2016. Most of the discussion at the meeting was dedicated to the proposed new Terms of Reference for the Committee.

17. An update was provided to the Committee on the new QAA structure in Scotland and the rest of the UK, as well as on the significant progress that had been made since the Committee’s last meeting on the Higher Education and Research Bill and the Teaching Excellence Framework.

18. The Committee discussed the significant progress with the review of the Quality Enhancement Framework, including the development of the revised ELIR method, consideration of the new iteration of the Enhancement Themes and the Working Group on Student Engagement. The committee noted the clear commitment to retaining the enhancement-led approach in Scotland.

19. The Committee was informed about the successful outcomes of the previous year’s Focus On project looking at Managing Collaborative Activity, as well as the current Focus On projects on the postgraduate student experience and institution-led review. It was felt that these Focus On projects will be a repository of good practice which other colleagues in the UK can learn from and it was suggested that the outcomes of the projects could be showcased at the upcoming QAA Conference. The draft QAA Scotland Annual Report for 2015-16 was also approved and is due to be published online before the end of the year; a link to the report will be circulated to Board members.

Meeting minutes are available from James Harrison, j.harrison@qaa.ac.uk.

Enquiries

Name: Lavinia Blackett
By telephone: 01452 557078
By email: l.blackett@qaa.ac.uk
Quality Assurance Agency for Higher Education

Meeting of the Board of Directors 14 December 2016

Consultation on the Higher Education Strategy for Wales to 2026

Executive summary

1. This paper provides a summary of the key matters QAA Wales Committee wishes to draw to the attention of the Board concerning the consultation being undertaken to develop the Higher Education Strategy for Wales.

Key risks and opportunities

2. There is a risk that if QAA Board is not kept informed of, and advised on, the development of HEFCW’s higher education strategy for Wales 2026 it will lack information, knowledge and understanding of the context and direction in which the Welsh sector will be working over the medium term.

3. The Strategy for Higher Education, when finalised, will set the principles, values and direction for the sector, and of HEFCW’s work, over the coming decade. The consultation on the draft strategy indicates that there should be an opportunity for QAA to support the Welsh sector in the ambition to provide high quality, flexible higher learning to meet the needs of Wales. The draft strategy and approach to the consultation align with QAA’s own values in the approach to openness, collaboration and co-regulation.

Recommendations and decisions required

QAA Wales Committee invites the Board to take due note of the factors driving higher education strategy in Wales as highlighted in the attached paper.

Enquiries

Name: Maria Hinfelaar, Chair of the Wales Committee; Rowena Pelik (Director of Nations and International)
By telephone: 01452 557644
By email: R.Pelik@qaa.ac.uk
Draft Higher Education Strategy for Wales to 2026: principal matters and implications for QAA and QAA Board

Background

4. Welsh Government asked HEFCW to develop a Strategy for Higher Education in Wales over the 10-year period to 2026, to do so in partnership with providers and to submit an initial draft by the end of December 2016. Following the May 2016 election in Wales, it was subsequently agreed with the new Cabinet Secretary that the strategy should be high level and based on the seven well-being goals in the Well-being of Future Generations (Wales) Act 2015. The strategy is for the Welsh Government.

5. HEFCW issued a Circular (W16/33HE) on 30 September 2016 inviting responses by 4 November 2016; it also organised a consultation event on 19 October 2016. That event was addressed by Kirsty Williams, the Cabinet Secretary for Education, by David Blaney CEO of HEFCW and by a panel of speakers who had been asked to challenge the draft, identify gaps, additions, deletions or improvements. A structured discussion by delegates followed. The structure and tone of the event encouraged open debate and a wide range of views.

6. This paper draws heavily on the draft strategy. All quotations are from the draft strategy; the paper both summarises and paraphrases the strategy and acknowledges it as a source of much of the information presented.

Policy context for the information of QAA Board

7. The Well-being of Future Generations (Wales) Act 2015 is a significant and innovative piece of legislation. It is important that QAA Board is aware of it and its significance for public bodies in Wales and that this legislation will impact on how the Welsh Government and HEFCW exercise their responsibilities. As such, it will indirectly impact on higher education providers, even though they are not subject to its provisions.

8. The Well-being of Future Generations (Wales) Act 2015, as well as the Diamond and Hazekorn reviews, and the earlier Higher Education (Wales) Act 2015, are the inescapable drivers shaping strategic direction – nationally, for the sector and for providers – and thus for QAA’s work in Wales.

Important elements of the draft strategy for the information of QAA Board

9. It is important that QAA and QAA Board take into account a number of aspects of the strategy, once it is finalised, in its engagement with providers in Wales and in developing and devising any programmes of work that Wales may award to QAA.

10. The Well-being of Future Generations (Wales) Act 2015 (the Act) applies to all public bodies, including the Welsh Government and its Ministers, as well as to HEFCW. It is innovative as it seeks to put sustainable development into effect. In doing so, it recognises the importance of higher education economically, socially and culturally.

11. The seven goals of the Act are a prosperous, resilient, healthier, more equal, globally responsible Wales, with cohesive communities, vibrant culture and thriving Welsh language. Each of these is defined in the Act. QAA will need to ensure that is
aware of these policy goals in its work in Wales. Education is woven through the goals. That for a prosperous Wales, for example, refers to a society ‘which develops a skilled and well-educated population in an economy which generates wealth and provides employment opportunities.’ It suggests increased demand for higher level qualifications, training and education and the importance of research leading to innovation with industry.

12. **International outlook and role:** the draft strategy, and discussions at the consultation event, emphasise the international role and ambition of higher education and its providers in Wales. It stresses the need for the HE system in Wales to be internationally competitive and outwardly focused while also meeting civic, regional and national needs. The Well-being of Future Generations Act is international in another sense – recognising the importance of taking into account how improving the economic, social, environmental and cultural well-being of Wales may also make a positive contribution to global well-being. The strategy outlines existing strengths and looks to increased international partnerships, increased joint responsibility for programme design and development, more opportunities for inward and outward mobility for students, faculty and in work.

13. **Demand rather than supply:** the draft strategy emphasises the future demand from Wales for higher education rather than the supply asking ‘what will Wales need?’ against each of the seven goals of the Act. Thus demand is, for example, about society’s need to ensuring that there are the healthcare workers to meet the future needs of population; it is also about widening access to healthcare professions in order to meet those needs and those of individuals to train, or re-train, to meet changing healthcare demands. Implicit is a learner-focused and economy/society-orientation, rather than provider or supply-based way of thinking.

14. **Consultation and partnership:** the open consultation characterised the approach taken by HEFCW and it is an expectation of the sector in Wales, sector agencies and representative bodies that they work collaboratively and in partnership. This aligns with QAA’s ethos, values, and established approach and it is important that partnership continues to characterise our future work in Wales. The consultation clearly presented a draft strategy open to modification as a result of consultation feedback – and after the submission of an initial draft to the Welsh Government in December 2016.

15. **HE or post-compulsory education and training?** And the nature of the graduate of the future: The draft ‘is inclusive of further education but not explicit in its coverage’. As a result of the proposal in the Hazelkorn review the post-compulsory landscape and its oversight may change¹. The strategy makes reference to training and education, responsiveness to emerging needs, regional needs, for upskilling and for graduates with the necessary skills, motivation, knowledge and attributes ‘to be the drivers of the future economy.’ Those skills include enterprise, entrepreneurship and an appreciation of sustainability. It envisages a more flexible, responsive HE system, meeting a greater diversity of needs.

16. **Equality:** Addressing inequalities, creating a more inclusive and fairer society is woven throughout the draft strategy – it also identifies a lack of coherent learning pathways and opportunities and the need for a ‘step change,’ stressing the need for flexible approaches, contextualised admissions, a focus on progression and success and greater responsiveness to diverse learner needs. Stress is also placed on extending access to selective institutions and professions, underrepresentation

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¹ The Welsh Government’s response to Hazelkorn should be known before the end of 2016.
and specific areas of inequality. Provision that is more inclusive than a full-time model is seen as a pre-requisite of change. The vision is an HE system without barriers.

17. **Diversity and strength:** The draft suggests a vision of a resilient sector where ‘providers play better to their strengths,’ where ‘there is greater diversity of mission’ and pooling of strengths/close working with the need for collaborative arrangements to ‘mature and develop.’ It suggests that new types of institution may emerge. This suggests a degree of change that may be uncomfortable or challenging for some providers.

18. **Research:** There is strong emphasis on the importance of world-class research in areas of strength that will impact on the prosperity of Wales, will drive innovation and build on enhanced partnership between HE, government and industry to maximise social and economic benefit. The importance of basic research is acknowledged but also effective knowledge exchange with a suggestion that collaboration with industry will be rewarded and that HEIs, together with industry, need to be better at converting research into effective innovation.

19. **Implementation:** The strategy is high-level and, once finalised and approved, will be followed by more detailed plans for implementation, including HEFCW’s own corporate strategy and HEFCW’s requirements of HE providers and expectations of other sector bodies to help ensure strategic alignment.

20. **Financial context.** The draft recognises that the funding climate is likely to remain constrained but that resources will be necessary to enable the delivery of the strategy.

**Implications for QAA**

21. **QAA’s traditional role** is to provide the high quality and respected external quality assurance of academic quality and standards against the UK Quality Code and to do so in a way that ensures that the UK meets the expectations set out in the Standards and guidelines for quality assurance in the European Higher Education Area (2015) and carries credibility across the UK, throughout the European Higher Education Area and world-wide. The strategy for Higher education in Wales, provides an opportunity for QAA to continue to provide this service for the HE sector in Wales as well as providing quality assessment that enables continuing eligibility for the Teaching Excellence Framework should providers wish to participate.

22. The strategy also opens up the possibility, should the HE sector in Wales wish it, to provide a wider approach to quality assessment that embraces, within the context of an HE provider’s mission and strategy, the assessment of the effectiveness of the providers’ economic and social engagement, regional and cultural interaction and progress in meeting the needs of diverse learners. This broader notion of external quality review can be found in countries such as Finland and provides advisory commentary of good practice and areas for development from which the sector as a whole is able to learn.
21 November 2016

Dear Member

I am pleased to confirm that this year’s Annual General Meeting (AGM) of the Quality Assurance Agency for Higher Education (QAA) will be held on 14 December 2016. This meeting will be held after the open business of the Board meeting at 12:20pm in QAA’s head office, Southgate House, Southgate Street, Gloucester, GL1 1UB, Nevis and Snowdon meeting rooms.

Please find enclosed a copy of the minutes from QAA’s 2015 AGM and the Annual Report and Consolidated Financial Statements for the year ended 31 July 2016. These will be proposed at the meeting for formal approval.

By way of information, we would like to take this opportunity to summarise Board retirements, appointments and re-appointments approved by the Board of Directors in accordance with the Company's Articles of Association during the last year and up to the date of this notice. These were as follows:

<table>
<thead>
<tr>
<th>Retirements</th>
<th>Capacity</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professor Antony Chapman</td>
<td>Appointed by the Representative Bodies (Art 46i)</td>
<td>31.08.2016</td>
</tr>
<tr>
<td>Mr Alex Pool</td>
<td>Independent student member appointed by the Board (Art 46iv)</td>
<td>03.03.2016</td>
</tr>
<tr>
<td>Professor Petra Wend</td>
<td>Appointed by the Representative Bodies (Art 46i)</td>
<td>07.05.2016</td>
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<tr>
<th>Appointments</th>
<th>Capacity</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr Robert Cashman</td>
<td>Independent student member appointed by the Board (Art 46iv)</td>
<td>15.06.2016</td>
</tr>
<tr>
<td>Professor Maria Hinfelaar</td>
<td>Appointed by the Representative Bodies (Art 46i)</td>
<td>01.09.2016</td>
</tr>
<tr>
<td>Professor Craig Mahoney</td>
<td>Appointed by the Representative Bodies (Art 46i)</td>
<td>08.05.2016</td>
</tr>
<tr>
<td>Ms Sue Reece</td>
<td>Independent member appointed by the Board (Art 46iii)</td>
<td>14.12.2015</td>
</tr>
<tr>
<td>Mr Oliver Johnson</td>
<td>Independent member appointed by the Board (Art 46iii)</td>
<td>14.12.2016 (expected)</td>
</tr>
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<tr>
<th>Re-appointments</th>
<th>Capacity</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professor Joy Carter</td>
<td>Appointed by the Representative Bodies (Art 46i)</td>
<td>22.06.2016</td>
</tr>
<tr>
<td>Professor John Grattan</td>
<td>Appointed by the Funding Councils (Art 46ii)</td>
<td>16.05.2016</td>
</tr>
<tr>
<td>Professor Philip Winn</td>
<td>Appointed by the Funding Councils (Art 46ii)</td>
<td>09.10.2016</td>
</tr>
<tr>
<td>Ms Sorana Vieru</td>
<td>Nominated by NUS and appointed by the Board (Art 46v)</td>
<td>12.10.2016</td>
</tr>
</tbody>
</table>

We look forward to welcoming you to QAA’s AGM.

Yours sincerely

Christopher Banks
Chair of the QAA Board

Encl
- QAA’s AGM minutes (14.12.2015)
- Annual Report and Consolidated Financial Statements for the year ended 31 July 2016
NOTICE OF 2016 ANNUAL GENERAL MEETING OF THE QUALITY ASSURANCE AGENCY FOR HIGHER EDUCATION

Notice is hereby given that the nineteenth Annual General Meeting (AGM) of the Quality Assurance Agency for Higher Education (QAA) will be held on 14 December 2016 in meeting rooms Nevis and Snowdon at QAA Head Office, Southgate House, Southgate Street, Gloucester, GL1 1UB, at 12:20, following the open business meeting of the QAA Board of Directors for the purpose of transacting the following business:

Ordinary business

1. To confirm the minutes of the Annual General Meeting held on 14 December 2015 (enclosed).

2. To receive and consider the Annual Report and Consolidated Financial Statements for the year ended 31 July 2016 together with the auditors’ report thereon (enclosed), subject to any amendments that may be made by the QAA Board of Directors at its meeting on 14 December 2016.

3. To re-appoint Crowe Clark Whitehill as auditors of QAA, in accordance with section 485 of the Companies Act 2006, to hold office until the conclusion of the next AGM of QAA.

4. To authorise the directors to determine the remuneration of the auditors.

A Member is entitled to attend and vote at the meeting and is entitled to appoint a proxy to attend and vote in her/his stead. A proxy need not be a Member of the company.

The duly appointed representatives of the Company’s Members:

- Authorised representative of Universities UK (William Hammonds)
- Authorised representative of Guild HE (Alex Bols)
- Authorised representative of Universities Wales (Maria Hinfelaar)
- Authorised representative of Universities Scotland (William Hammonds)

The offices of the Members of the Company:

- Nicola Dandridge (Universities UK)
- Gordon McKenzie (Guild HE)
- Amanda Wilkinson (Universities Wales)
- Alastair Sim (Universities Scotland)

By order of the Board

Lavinia Blackett
Company Secretary
21 November 2016
Quality Assurance Agency for Higher Education

Eighteenth Annual General Meeting of the QAA

Minutes of the meeting on 14 December 2015, Southgate House, Southgate Street, Gloucester, GL1 1UB, 12:00-12:15

Present

Authorised company members' representatives:

Professor Joy Carter (GuildHE; Board member)
Professor Antony Chapman (UWales; Board member)
Mr William Hammonds (UUK)
Professor Petra Wend (UScotland; Board member)

Board members: Mr Christopher Banks (Chair) Mr Jon Prichard
Professor John Grattan Ms Sue Reece
Ms Jane Hern Ms Sorana Vieru
Mr Chris Jelley Mr Gary Warke
Professor Denise McAlister Professor Andrew Wathey
Professor Tim McIntyre-Bhatta Professor Phil Winn
Mr Alex Pool

Officers: Mr Douglas Blackstock (CEO) Ms Maureen Mclaughlin
Mrs Caroline Blackburn Mr Will Naylor
Miss Lavinia Blackett Mrs Stephanie Stephenson
Mr Ian Kimber Mrs Liz Rosser
Dr Anett Loescher (Clerk)

1. The Chairman welcomed Company Members and guests to the meeting, announced that a quorum was present and declared the meeting open.

2. Resolutions

Resolution 1 – Minutes of the Annual General Meeting, 11 December 2014
The minutes of the Annual General Meeting held on 11 December 2014 were confirmed as a correct record.

The Annual Report and Consolidated Financial Statements for year ended 31 July 2015 were received and approved.
Resolution 3 - Re-appointment of Auditors

It was resolved to re-appoint Crowe Clarke Whitehill as auditors of the Company to hold office until the conclusion of the next Annual General Meeting of the Company.

Resolution 4 – Auditors’ Remuneration

It was agreed that the Board of Directors be authorised to determine the remuneration of the Auditors of the Company.

3. Appointment of Directors

The following Board retirements, appointments and re-appointments were approved and noted by the Board of Directors in accordance with the Company’s Articles of Association and subsequent to the last Annual General Meeting.

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<thead>
<tr>
<th>Retirements</th>
<th>Capacity</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Professor Nick Foskett</td>
<td>Appointed by the Representative Bodies (Article 46ii)</td>
<td>31.08.15</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Appointments</th>
<th>Capacity</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ms Sorana Vieru</td>
<td>Nominated by NUS and appointed by the Board (Article 46v)</td>
<td>02.10.15</td>
</tr>
<tr>
<td>Professor Andrew Wathey</td>
<td>Appointed by the Representative Bodies (Article 46ii)</td>
<td>01.09.15</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Re-appointments</th>
<th>Capacity</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professor Tim McIntyre-Bhatty</td>
<td>Appointed by the Funding Councils (Article 46ii)</td>
<td>10.08.15</td>
</tr>
<tr>
<td>Mr Alex Pool</td>
<td>Independent student member - appointed by the Board</td>
<td>03.03.15</td>
</tr>
<tr>
<td></td>
<td>(Article 46iv)</td>
<td></td>
</tr>
<tr>
<td>Mr Jon Prichard</td>
<td>Independent member - appointed by the Board (Article 46iii)</td>
<td>23.01.15</td>
</tr>
</tbody>
</table>

It was noted that Ms Lavinia Blackett had been appointed Company Secretary with effect from 14 December 2015 following agreement of the Board of Directors.

There being no further business, the meeting was closed.