



**The Quality Assurance Agency
for Higher Education**

**Annual Report and
Financial Statements
2017-18**

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Foreword from Douglas Blackstock, QAA Chief Executive

2017-18 has been a significant year for QAA, marking our 21st anniversary and the achievement of a number of strategic milestones.

Thank you to colleagues across the sector who supported QAA and voiced their confidence in us this year as the quality body for Scotland and Wales, and now the designated quality body for England. We look forward to working with all our partners over the coming years.

As the UK's independent quality body, we are focused on providing tailored approaches for England, Northern Ireland, Scotland and Wales, underpinned by our UK-wide work, which provides confidence in and safeguards the quality of the whole UK higher education brand, at home and overseas.

During the year, we delivered a new quality enhancement approach in Wales and held our annual conference in Cardiff. In Northern Ireland, we were pleased to host a joint conference on transnational education, with our partner agency, Quality and Qualifications Ireland.

In Scotland, we launched the latest iteration of Enhancement-led Institutional Review and the new Enhancement Theme for 2017-20, *Evidence for Enhancement: improving the student experience*. The Chair and I attended the 2018 Enhancement Annual Conference in Glasgow and were impressed by the richness of the discussions.

In England, we delivered a large volume of review and monitoring activities for the Department for Education, the Home Office and the Higher Education Funding Council for England (HEFCE), broadened the reach of our Quality Enhancement Network, and prepared for a new regulatory framework and functions.

Protecting academic integrity has been a key focus, working not only with partners to combat essay mills, but also reflecting on our own review processes to ensure they remain fit for purpose to combat the new threats to academic standards. Degree standards have also been a subject of recent public and media interest, and we are working with Universities UK and GuildHE to investigate issues relating to degree classifications and grade achievement, with extensive sector input across the UK.

In conjunction with the UK Standing Committee for Quality Assessment, much hard work has gone into the review of the UK Quality Code this year. There have been more than 1,670 individual contributions to this process by colleagues from around the UK who have responded to consultations, attended workshops, and joined writing and reading groups, to streamline and improve the Code to ensure it remains the UK sector's shared expression of quality and standards, and meets the needs of the four nations.

We have continued to support the UK sector internationally, most recently completing our review of UK transnational education (TNE) in Hong Kong. This is increasingly complex work given the growth of UK TNE, and we will need to reflect with the sector on how we maintain international confidence and ensure high quality experiences for all students in the future.

I was pleased to join the UK delegation to the European Higher Education Area Ministerial Conference in Paris in May, where Minister Sam Gyimah MP underlined the importance of our future role in the EHEA and the Bologna Process, as Brexit comes closer on the horizon. I am looking forward to further policy debates at the 2019 UNESCO global conference on quality assurance in higher education, which will also take place in Paris.

Finally, thank you to QAA staff and reviewers for their dedication and hard work again this year, and to our Board for their support.

Foreword from Christopher Banks CBE, Chair of QAA Board

As the UK's independent quality body, we work with each of the four UK nations to ensure our approaches to quality meet their particular needs and reinforce the sector's reputation.

QAA's independence has always been key to providing the right balance between government, regulation and the sector, and this remains our focus, in the spirit of co-regulation. That is why we have made important changes to our governance with the addition of a new trustee role representing alternative providers. We have also appointed two additional members to our Advisory Committee on degree awarding powers, bringing expertise in market competition and graduate skills.

This year the Board set out its updated strategic priorities for the Agency that include: maintaining the UK-wide framework for quality in higher education; protecting quality and standards during a period of transition and change; building and strengthening relationships with our key external stakeholders; and balancing our regulatory and commercial activities (with a focus on international development).

As ever, student engagement remains a priority for the Board, and the views of our Student Strategic Advisory Committee have informed not only our own work, but have been actively sought by our partners and stakeholders. We also held two highly successful student conferences this year, Quality Matters and Evolving Student Engagement, attracting almost 300 delegates from across the UK.

Indeed, our stakeholder engagement was one of 13 commendations received during our five-yearly review by ENQA (the European Association for Quality Assurance in Higher Education), which took place in 2018 to renew our membership. The review panel said:

'QAA is commended for its wide involvement of stakeholders (primarily academics, students, administrators, business, and education sector representatives) in the governance of the agency, development of quality assurance policies and procedures, and enhancement work.'

I am proud of this very positive outcome, which demonstrates that the UK's approaches to securing academic standards and assuring quality continue to be world-leading. But, as a quality body, we must also take our own medicine: the ENQA panel made a series of recommendations, which the Board and QAA's senior management are developing into an action plan for improvement.

The theme of our annual conference this year was 'Delivering Impact through Innovation', and we are committed to developing and innovating for the future. That is why we are evolving our subscriber services into 'QAA Membership' from the 2019-20 academic year to ensure the products, services and benefits that we provide for our members support them in achieving their strategic objectives for quality and standards, delivering high quality academic experiences for their students. We will be consulting with the sector on this during 2018-19 and look forward to hearing what more we can do for you.

In doing so, the QAA Board is fully aware of the need to balance our supportive relationship with the sector, with our responsibilities under the Higher Education and Research Act 2017 to provide expert, independent advice to the Office for Students in England. In the coming year we will make appropriate organisational arrangements to ensure any potential conflicts of interest are properly managed.

I would like to thank all QAA staff, superbly led by Douglas and the Executive team, for their outstanding work, and their continued commitment to QAA and UK higher education.

Strategic Report

Our mission

As 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.

Our vision

World-leading and independently assured UK higher education.

Our values

Expertise

We provide expert advice to the governments of the UK.

We use our expertise to strengthen quality assurance internationally.

We use our knowledge and expertise to benefit providers, students and stakeholders.

Innovation

We deliver innovative new approaches, services and events to enhance practice and support providers.

We are reviewing our internal systems and processes to innovate and deliver cost-effective quality services.

Collaboration

We have a Board that embodies co-regulation, representing broad student, provider and stakeholder interests - collaborating to lead QAA.

We work with funders, regulators, sector agencies and professional bodies, collaborating for the benefit of the sector, as well as with agencies and governments overseas.

We work in collaboration with students and student organisations to engage students and enhance their learning experiences.

We collaboratively support the distinctive requirements of the UK's home nations.

Accountability

We are accountable to our stakeholders through our governance structures.

We have complaints and appeals processes in place to ensure we are held accountable for our decisions.

Integrity

We have integrity and, as a registered charity, act in the interests of the public and its beneficiaries.

We are fair and transparent in our operations, acting with integrity at all times.

Highlights of our year

At a glance

Over 1,670 individual contributions by sector colleagues in events, workshops, writing and reading groups to revise the UK Quality Code
New Enhancement Theme launched in Scotland
First reviews delivered for revised and new enhancement approaches in Scotland and Wales respectively
QAA designated as the quality body for higher education in England
Launch of revised edition of influential guidance, *Enterprise and Entrepreneurship Education*
Completion of transnational education reviews in Ireland and Hong Kong
Two student conferences attended by almost 300 delegates
Highly successful outcome of the review of QAA by the European Association for Quality Assurance in Higher Education (ENQA)
QAA Annual Conference (Cardiff) and Annual Enhancement Conference (Glasgow) attended by over 720 delegates in total
New regional networks and online community launched for subscribers
Establishment of new UK expert group on academic integrity

August 2017

Publication of *Country Report: Islamic Republic of Pakistan*

September

Formal expression of interest to the Department for Education to become the designated quality body for higher education in England
M5 Group (HESA, Jisc, QAA) sign a shared services agreement, which will lead to increased efficiencies and benefits for the sector

October

Expert written evidence to the Education Select Committee inquiry into value for money in higher education
Quality Matters student conference attended by over 130 delegates
Handbook for the new Quality Enhancement Review in Wales published
Launch of new Scottish Enhancement Theme, *Evidence for Enhancement: improving the student experience*
Publication of guidance commissioned by the Department for Education, *Contracting to Cheat in Higher Education*

November

First International Quality Assurance Programme held outside the UK, in Dubai
Keynote speech by Chief Executive at the 3rd Middle East & North Africa Higher Education Leadership Forum
QAA and Quality and Qualifications Ireland host joint conference in Belfast on transnational education
Consultation events begin around the UK on the revised Quality Code
QAA, HESA and Jisc host the first *Data Matters* conference in London, attended by around 250 delegates

December

Publication of reports from the 2017 transnational education review in the Republic of Ireland
Launch of QAA's online subscriber community for quality specialists and other interest groups
First in new series of English regional network events takes place in Manchester

January 2018

Updated *Enterprise and Entrepreneurship Education: guidance for UK higher education providers* launched in London
Chief Executive participates in roundtable discussion hosted by the Education Select Committee, as part of its inquiry into value for money in higher education
Consultation response to the Department for Education on the new regulatory framework for England

February

Four-day visit by ENQA review team, meeting with QAA staff and sector representatives
QAA confirmed by the Secretary of State for Education as the designated quality body for England

March

Expectations, Core and Common Practices of the revised UK Quality Code published
Meeting of Professional, Statutory & Regulatory Bodies (PSRB) Forum in London

April

2018 Access to HE annual conference takes place in Reading, attended by over 100 delegates
Chief Executive delivers address at the 5th annual conference of Egypt's National Authority for Quality Assurance and Accreditation of Education
2018 QAA Annual Conference is held in Cardiff, attended by 338 delegates

May

Expert evidence provided for the Department for Education's review of post-18 education and funding
Evolving Student Engagement Conference, hosted with The Student Engagement Partnership (TSEP), attended by over 130 delegates
QAA delivers sessions on TNE and strategic international partnerships at the 2018 Going Global conference in Kuala Lumpur
QAA joins UK delegation at the 2018 EHEA Ministerial Conference in Paris

June

15th Annual Enhancement Conference in Glasgow, attended by over 380 delegates
QAA forms new advisory group on academic integrity
Outcomes of the Teaching Excellence Framework Year 3 applications are announced, for which QAA supports the assessment process

July

ENQA publishes report on the successful outcomes of its 2018 review of QAA
Reports on the 2018 TNE review in Hong Kong are published
Memorandum of Understanding between QAA and the Office for Students signed
Formal response to Welsh government consultation, *Public Good and a Prosperous Wales: the next steps*
2018 QAA Alternative Providers Conference, attended by over 100 delegates

Our aims, achievements and impact

1 QAA is the UK's independent quality body for higher education. We safeguard standards and improve the quality of UK higher education wherever it is delivered around the world. We check that students get the higher education they are entitled to expect and we ensure that students are involved with all aspects of our work. We work across all four nations of the UK. We also build international partnerships to enhance and promote the reputation of UK higher education worldwide.

2 In May 2017 we launched our current strategy:

Building on World-class Quality

QAA will be recognised and valued by student bodies, institutions and governments as:

The expert independent quality body supporting a diverse system of co-regulation of UK higher education

Delivering valued services that provide assurance and drive quality enhancement

Using our international reputation and partnerships to benefit UK higher education

3 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.

4 This section highlights the impact our work has had for UK higher education and what we have delivered for our stakeholders.

Enriching UK higher education: delivering services with real impact

Students at the heart of our work

5 Student engagement has been at the heart of our work since our foundation, championing the role of students within quality assurance and enhancement.

6 To support student engagement, and share information and good practice, we held two well-received student conferences, Quality Matters (October 2017) and Evolving Student Engagement (May 2018), attracting almost 300 delegates from across the UK.

7 'Responding to the Student Voice: communicating the impact' was a student-led project as part of the current Scottish Enhancement Theme. It included a 'think tank' event for students, providers and sector bodies in spring 2018, as well as a scan of national and international practice on responding to the student voice. The results of this have had significant value beyond Scotland, and have been disseminated to colleagues across the UK and internationally.

8 As part of our membership of the international Quality Beyond Boundaries Group, we also conducted a pilot project with our partner agencies in Dubai and Singapore to identify what UK transnational education students (those studying outside the UK with UK providers) most value and where they would like to see further development. The pilot project has given greater visibility to the voices of our TNE students and has provided insights for all UK TNE providers seeking to enhance their practices.

9 Students are embedded in our governance, with two student Board members. We also have a Student Strategic Advisory Committee, which is a highly regarded model of active student engagement in organisational policy development. Its members are drawn from across the UK sector, representing different modes and levels of study. Their views inform not only our own work, but are also actively sought by other organisations. This year, they have provided external advice on the development of the subject-level TEF, the post-18 review of higher education and funding, the NSS postgraduate survey and student protection plans.

'The QAA has a strong history of working collaboratively and of engaging students in key elements of its work, as well as advocating for student engagement within providers' own quality assurance and enhancement processes.'

National Union of Students, written evidence to the House of Commons Education Select Committee inquiry into value for money in higher education (Nov 2017)

Revising the UK Quality Code

10 Our review of the UK Quality Code, working with the UK Standing Committee for Quality Assessment, has been a major programme of work this year, ensuring it is fit for purpose to meet the needs of the evolving quality approaches across the UK. As the UK sector's shared expression of quality and standards, the Quality Code is the 'glue' that holds us together while simultaneously meeting the needs of each home nation, and is a key element in safeguarding our world-class reputation.

11 The review has required close partnership working with representatives from all UK nations, and we are grateful to colleagues from across the sector for the time and expertise they have committed. The Expectations, Core and Common Practices were published in March 2018, followed by the fully revised Quality Code in November 2018.

1,677 individual contributions to the process, including:

386 attendees at our Expectations and Practices consultation events (Nov-Dec 2017)

265 responses to our consultation (Oct-Dec 2017)

170 attendees at our scoping events (April 2018)

482 attendees at our Advice and Guidance workshops (May 2018)

374 colleagues from across the UK sector involved in Advice and Guidance writing and reading groups (summer 2018)

Combating academic fraud and cheating

12 We have been at the forefront of work within the sector to combat academic fraud and cheating. In October 2017 we published guidance on contract cheating and the use of essay mills. This received widespread national media coverage, and was a lead item on BBC Radio 4's Today Programme.

13 In spring 2018, we raised a complaint with the Advertising Standards Agency (ASA) about misleading advertising by essay mill company, UK Essays. The complaint was upheld and the advertising withdrawn. Pressure from QAA, the BBC and government also led to YouTube removing 'vlogger' sites promoting the use of essay mill services.

14 Cheating affects all areas of higher education and has a range of manifestations. In order to address these issues, in summer 2018 we established an expert advisory group on academic integrity with members including providers, sector agencies, politicians, government representatives and specialist organisations. We are also developing proposals for the creation of a UK Centre for Academic Integrity, with a formal remit to research, analyse and combat academic misconduct, and to coordinate work already being undertaken.

15 Internationally, we are developing guidance for academics and quality assurance agencies about combatting academic malpractice through two projects funded by the International Network of Quality Assurance Agencies for Higher Education (INQAAHE), one of which is in partnership with the Australian Tertiary Education Quality and Standards Agency (TEQSA).

A leading voice in policy debates and developments

16 We are committed to working across the UK to develop solutions to sector-wide issues, and our work on influencing policy agendas relating to quality and standards has been wide-ranging this year. We have regular interactions with politicians and policy-makers across the UK, as well as mission groups, representative and other sector bodies to help shape sector policy development.

17 We have provided evidence to consultations and inquiries, including:

- Scottish Government's 15-24 learner journey review
- Department for Education's consultation on the new regulatory framework in England
- Education Select Committee inquiries into value for money and apprenticeships
- Welsh Government consultations on reforms to post-compulsory education and training
- Review of post-18 education and funding in England.

18 Degree standards have been a subject of recent public and media interest, and we are working with Universities UK and GuildHE to investigate issues relating to degree classifications and grade achievement. The outcome of this work will be guidance and recommended further actions for the sector, published in late 2018.

19 Our policy publications and research this year included *The Wisdom of Students: monitoring quality through student reviews* - commissioned research assessing the relationship between what students say about higher education providers on a number of social media platforms, and more traditional forms of quality assessment. The second edition of our guidance, *Quality Assuring Higher Education in Apprenticeships: current approaches*, was also issued as a product of successful partnership working with our Degree Apprenticeships Advisory Group. We have also published new *QAA Viewpoint* policy papers on areas of current debate including accelerated degrees, quality and value for money, and academic integrity.

20 In January 2018, we published *Enterprise and Entrepreneurship Education Guidance for UK Higher Education Providers*, an updated edition of our respected 2012 guidance. It has had a significant international impact with organisations including the Organisation for Economic Cooperation and Development, the United Nations Conference on Trade and Development and the European Commission. The new guidance has also been identified as good practice by the United Nations.

Adding value for our subscriber members

21 We have had rich discussions with our subscribers this year through our liaison programme, on subjects ranging from national and international policy developments, to the opportunities and challenges facing individual providers. These conversations, alongside surveys and events, help us to improve the services and events we provide for our subscribers, and feed into our future organisational development.

22 At the end of last year, we launched an online subscriber community - a virtual meeting space for discussions and knowledge exchange. It offers direct access to our experts and exclusive quality assurance resources, including guidance documents, good practice case studies, webinars and event materials. To date, 580 subscribers have joined the community.

23 In April 2018, our annual subscriber conference brought 338 quality professionals together at the Royal Welsh College of Music and Drama in Cardiff. The conference theme this year was *Delivering Impact through Innovation*, with a range of keynote addresses including international speakers, UK vice-chancellors and the Welsh Minister for Welsh Language and Lifelong Learning. Numerous breakout sessions covered topics ranging from degree apprenticeships to combating academic cheating.

24 Further subscriber services delivered this year included:

- Quality Enhancement Network: held around the UK, 300 quality professionals joined us for sessions on degree apprenticeships, data literacy, contract cheating and other topics
- Regional networks: a new initiative to enable colleagues to collaborate and share practice in their local setting and context. Attendance has already been healthy, with around 200 participants from universities and colleges
- Quality Insights; we have hosted a programme of webinars and events providing access to our own and other sector experts, alongside a series of peer-reviewed case studies of good practice on a range of themes.

Supporting quality professionals in higher education

25 We actively support quality professionals and other higher education staff to assure standards, and to achieve the highest quality academic experiences for their students through enhancement. This year we have provided a range of events and services, including:

- Data Matters 2017: hosted by QAA, Jisc and HESA, this event brought together around 250 delegates to explore the evolving data-driven higher education landscape
- Preparing for degree awarding powers: events tailored specifically for alternative providers and delivered in partnership with Independent HE
- QAA Perspectives: a new bespoke quality enhancement and development service for UK providers, with a very successful pilot undertaken with the University of Exeter in 2018
- Provider Healthcheck: a new online quality tool developed by QAA, Jisc and HESA to help providers demonstrate that academic standards are being maintained, and to identify issues for further investigation.

Working in partnership with professional, statutory and regulatory bodies (PSRBs)

26 Our twice-yearly PSRB Forums enable those involved in the education of professionals to consider key issues, share good practice and keep up to date with higher education policy. This year's events were each attended by representatives from over 40 different PSRBs, with presentations from PSRBs as well as discussion sessions with government and sector-wide agencies including the Department for Education, the British Council and HESA.

Assuring higher education across the UK

27 As the UK's quality body, we provide tailored approaches for each of the four UK nations, which work in their particular context, underpinned by our UK-wide work providing confidence in and safeguarding the quality of the whole UK higher education brand.

In Scotland

28 The quality enhancement culture in Scottish higher education is well established. It is delivered through a partnership approach between students, providers and sector bodies working together. This year, we completed the first two reviews under the revised Enhancement-led Institutional Review (ELIR 4), with a range of support activity including reviewer training, student briefings and provider preparation events.

'We were pleased to participate in the first year of the new methodology, which we consider has evolved very positively since the introduction of ELIR to the Scottish sector in 2003... The areas identified for development are also very helpful as we move forward with our programme of enhancement activity in partnership with our Students' Union and the wider student population.'

Dawn Martin, Governance and Quality Enhancement, Queen Margaret University

29 In October 2017, we launched the new Enhancement Theme for 2017-20, *Evidence for Enhancement: improving the student experience*, at an event involving the Scottish government, all Scottish providers, sector agencies and student bodies.

30 Our 15th Enhancement Conference took place in June 2018, attended by 380 delegates from seven countries. The opening keynote was given by Dr Rebecca Ferguson from the Institute of Educational Technology at The Open University, and the conference featured rich discussions on innovative approaches to using evidence in evaluating and enhancing the student experience and success. We also supported three projects led by providers on the topics of outcomes metrics in creative subjects, employability and distance learning, and learning analytics.

31 Our 'Focus On' projects help higher education institutions and students' associations with work in their priority areas. During 2017-18, we ran a Focus On project on Feedback from Assessment, which included an event in March 2018 to share policy and good practice. The event attracted 100 staff and students from 15 providers, as well as the school sector. Resources from the sharing practice event as well as three short films are available on our website.

In Wales

32 Following consultation, we implemented a new Quality Enhancement Review approach for Welsh providers this year. We are delivering this under a framework agreement with Welsh providers, convened and monitored by Universities Wales, to ensure the method continues to meet the needs of Wales. New reviewers have also been recruited and trained to expand our Welsh language skills capability. The first review took place in May 2018 at Bangor University.

'Bangor is the first university to undergo a Quality Enhancement Review, and we found it to be a very detailed and thorough review. The findings reflect the high academic standards that are to be found at Bangor, and we are clearly very pleased with the outcome and the report's findings.'

Professor John G Hughes, Vice Chancellor, Bangor University

33 On behalf of the Higher Education Funding Council for Wales, we have also developed Gateway Quality Review, which tests new providers against the Welsh baseline quality regulatory requirements. The handbook for this approach was published in July 2018.

34 We have continued to engage actively with policy developments, particularly the Welsh Government's proposed reforms for post-compulsory education and training, through consultation responses and other discussions.

In England and Northern Ireland

35 In February 2018, we were confirmed by the Secretary of State for Education as the independent designated body to perform the assessment functions for quality and standards in higher education in England, as set out in the Higher Education and Research Act 2017. This followed a consultation by the Department for Education, in which an overwhelming 98 per cent of respondents from across the UK sector supported our designation. In July 2018, we published our designation agreement with the Office for Students.

'We consider that there is only one body that is suitable to perform the assessment functions. That body is the Quality Assurance Agency for Higher Education and we recommend that QAA is designated to perform those functions. QAA is well-respected and has long-standing, extensive experience of assessing and supporting quality assurance systems and standards that underpin the higher education sector. The organisation is recognised internationally as a highly capable, trustworthy and competent provider of quality assurance services.'

Letter from Chief Executive of the Office for Students to the Secretary of State for Education, February 2018

36 This year marked the conclusion of the revised quality assessment framework approach in England, as responsibilities transferred from the Higher Education Funding Council for England (HEFCE - now closed) to the Office for Students. A new regulatory framework is now being implemented in England. In Northern Ireland, the revised quality assessment framework will continue in 2018-19, and may be reformed thereafter.

37 We carried out 38 Quality Review Visits during the year (including eight in Northern Ireland) to test providers' readiness to enter the publicly funded higher education sector. Of these, 28 received satisfactory judgements and 10 received unsatisfactory judgements (all of these were English providers). As part of the Quality Review Visit process, we also investigated seven concerns triggered from HEFCE's annual provider review assessments.

'There were good and numerous opportunities for evidence to be presented...students were keen to take part in the process and give feedback at review'

'The panel were excellent in their professional approach throughout'

'The QAA team who visited the College were cordial and considered in their approach, which made it a comfortable environment for students to disclose their insights'

Provider questionnaire responses, 2017-18 Quality Review Visits

38 In October 2017, at the request of the Department for the Economy in Northern Ireland, we held a well-received briefing event to help providers prepare for their Quality Review Visits. Focus groups have also been held with providers in England and Northern Ireland, which will feed into a final evaluation report on the Quality Review Visit approach.

Our wider work across the UK

Alternative providers

39 During 2017-18, we have continued to undertake the quality assurance of alternative providers across the UK:

- 60 reviews (including 12 commendable and four requires improvement judgements)
- 121 annual monitoring engagements (including 33 commendable and eight negative judgements).

40 In November 2017, a BBC Panorama programme entitled 'Student Loan Scandal' made a number of allegations, including fraud, at two alternative provider colleges in London. Based on information received, our own investigation into several London colleges found significant weaknesses in recruitment, admissions, attendance monitoring and assessment processes. We have since broadened the scope of what, when and how we can investigate suspected academic misconduct.

41 In July 2018, we held our annual Alternative Providers Conference, attended by over 100 delegates. We also ran an additional liaison forum during autumn 2017. These events strengthen our engagement and dialogue with this group, disseminate good practice and learning from reviews, and ensure their views are reflected in our policy developments.

42 This year was the first in which an alternative provider achieved commendable judgements across all three judgement areas for Higher Education Review (Alternative Providers). This was Futureworks Training Ltd in Manchester, a specialist provider of media education.

43 Our work continues to have a significant positive effect, recognising and supporting high quality alternative provision, while safeguarding the interests of students and the reputation of the sector from those providers that do not meet UK expectations.

Teaching Excellence Framework (TEF)

44 We have worked closely with HEFCE and the Office for Students this year to support the assessment processes for the third year of the TEF and for the pilots of the TEF at subject level.

- 86 providers received a full TEF award (Year 3)
- 50 providers took part in the subject level pilots, which generated over 700 subject level ratings
- We recruited, trained and supported 141 panelists for the eight subject level panels

45 Our work helps to ensure that, as the TEF evolves, it continues to identify excellent teaching, sharpens the sector's focus on teaching and outcomes that matter to students, and helps to inform student choices.

Access to HE: widening participation and increasing social mobility

46 We are proud to manage the scheme for the recognition and quality assurance of Access to HE courses in England and Wales. The Access to HE Diploma prepares those without traditional qualifications for higher education study. It transforms lives, and delivers real impact and value. Our *Access to HE Key Statistics (2016-17)* report this year underlined the continued positive impact of this qualification on widening participation in higher education:

- 24,895 Access to HE Diploma students entered higher education in the UK, of whom
 - 22 per cent were from low participation areas (compared with 10 per cent of their peers with other qualifications)
 - 32 per cent were from ethnic minority backgrounds (compared with 24 per cent of their peers with other qualifications)
 - 87 per cent were over 21 (compared with 34 per cent of their peers with other qualifications)
 - 18 per cent had a disability or learning difficulty (compared with 11 per cent of their peers with other qualifications).

Tommy's story

Tommy Sharpe joined the Marines at 21 but had to leave after 12 years because of ill health. His life was the Marines, and he had no plans for his future. His experience in military hospitals had made him aware of the challenges faced by veterans in the care system. He had left school with few qualifications but a call to a university pointed him to an Access to HE Diploma.

'I had very low confidence, believing that I didn't belong in the education system. The Access to HE course gave me self-belief... I didn't realise it at the time, but looking back on it, some of the problem in my lack of confidence came from not being very good at reading.'

With the support of other students, he achieved his Access to HE Diploma and was able to take up the offer of a place to study social work at university.

47 In October 2017, our fifth Higher Education Admissions Fair for Access to HE was held in London, attended by over 100 visitors, with exhibitors from the higher and further education sectors. The 2018 Access to HE annual conference took place in April, attended by around 100 delegates.

48 During 2017-18, we conducted a review of our risk-based regulatory monitoring method for Access Validating Agencies, following which we made revisions to 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

49 Since our foundation in 1997, we have provided expert advice to the governments of the UK on applications for degree awarding powers.

50 This year, we worked closely with the government in England and the Office for Students on the revised approach to degree awarding powers, following the Higher Education and Research Act 2017, and to maintain coherence and equivalence across UK higher education. This work has included engagement with students, providers and UK-wide sector representatives.

51 New members have been appointed to our Advisory Committee on Degree Awarding Powers (ACDAP) this year to bring different expertise and perspectives to the group, including an employer responsible for a significant graduate recruitment programme, and a member with experience in market competition.

52 Three applications reached a conclusion during 2017-18 resulting in positive recommendations to the Privy Council, all of which were granted.

Leeds City College Group, which became the second provider in the Yorkshire region to be awarded foundation degree awarding powers

Richmond, the American International University in London, signalling further diversity in degree awarding bodies by being the first institution with the right to award degrees in both the UK and US, opening up dual accreditation opportunities for students

Cornwall College Group, enabling it to extend higher education opportunities in the south west.

Investigating concerns

53 We investigate concerns about academic standards, quality and UK higher education providers' public information. There were 18 submissions to our Concerns Scheme this year, of which:

- nine were screened out
- two resulted in initial inquiries to the provider
- seven resulted in full investigations (one of which is still underway). All six completed investigations concluded that the concerns raised were justified and resulted in recommendations for action by the providers.

54 The majority of the investigations (including the case raised by BBC Panorama) were cases of academic malpractice, including concerns about the effectiveness of recruitment processes and the ability to identify fraudulent student applications, and weak mechanisms for identifying malpractice and cheating in the assessment of student work. In one case, the focus of the investigation was on poor student progression rates and failure to support students.

Appeals and complaints

55 We have a complaints procedure for use by anyone wishing to complain about our service, and separate appeals procedures for providers that want to appeal against the outcome of a QAA review. During this year:

- 16 providers were eligible to appeal across a range of review methods
 - 12 chose not to appeal
 - four appeals were submitted, all of which were rejected by appeal panels.

Supporting UK higher education around the world

UK transnational education

56 UK transnational education (TNE) is UK higher education delivered overseas. TNE is strategically and economically important for the sector, and has been the main area of growth in student numbers of the past five years. Our work on the quality assurance of UK TNE secures the long-term international interests and reputation of our sector.

57 In November 2017, we hosted a joint conference in Belfast with our partners, Quality and Qualifications Ireland (QQI). The event focused on TNE and the regulatory framework of the European Higher Education Area, and included case studies from Austria, Germany, Ireland and Spain.

58 Our reviews of UK TNE are currently carried out on a country-by-country basis to ensure the most efficient use of resources, given its geographical spread and growing scale. The final reports on our 2017 TNE review in the Republic of Ireland were published in December 2017. We also successfully delivered our 2018 TNE review in Hong Kong, the reports for which were published in August 2018. Both reviews involved close working and co-operation with our counterpart agencies in those countries, reducing potential duplication for providers, and the overall burden of accreditation and review activity.

International strategic engagement

59 Our international strategic engagement supports the international work of UK higher education providers, safeguarding and strengthening the world-class reputation of our UK sector. We have 13 memoranda with partners around the world and, during the year, we renewed our agreements with the China Academic Degrees and Graduate Education Development Centre and the Council for Private Education in Singapore. We continue to build links in other countries, including developing relationships with our counterpart agencies in Egypt and Nigeria.

60 On behalf of the UK sector, we are also members of key international bodies, including the European Association for Quality Assurance in Higher Education (ENQA), International Network of Quality Assurance Agencies for Higher Education (INQAAHE), and the Asia-Pacific Quality Network (APQN).

61 To extend international awareness and knowledge of the UK sector, we delivered presentations and workshops at a number of high profile international events including the 2018 Going Global (Malaysia), MENA Higher Education Leadership Forum (United Arab Emirates) and the Education World Forum (London).

62 The 2018 European Higher Education Area (EHEA) Ministerial Conference took place in Paris in May 2018, attended by representatives from 78 countries. We were invited to join two delegations from the UK: our Chief Executive, Douglas Blackstock, as part of the UK delegation led by Sam Gyimah MP, Minister of State for Universities, Science, Research and Innovation; and Rowena Pelik, Director of Nations & International, as part of the UK Scotland delegation led by Shirley-Anne Somerville MSP, Minister for Further Education, Higher Education and Science.

Insight and intelligence

63 Building on our strong international expertise and partnerships, we have introduced an International Insights programme, providing intelligence and guidance for UK providers working internationally to support their partnership development and quality management.

This year, we have delivered four webinars with partners from quality agencies from around the world, and published three Country Reports on Pakistan, China and the Republic of Ireland.

2018 ENQA review of QAA

64 ENQA is the umbrella body for quality agencies in the European Higher Education Area. We are a member of ENQA on behalf of the UK higher education sector, and one of the conditions of membership is a five-yearly review to check our compliance against the European Standards and Guidelines.

65 We were reviewed in 2018 and ENQA's independent panel found us to be fully or substantially compliant in all areas, an outcome only ever matched by one other European agency. In the panel's report, we received 13 commendations including: the wide involvement of stakeholders in our work and governance; our valuable contribution to protecting the student interest; our use of social media and broad public engagement; and our work on risk-based and enhancement-led approaches to quality assurance.

66 This positive review outcome and strong endorsement of QAA demonstrates that our approaches to securing academic standards and assuring quality continue to meet rigorous European expectations. It also means that students, regulators and governments internationally can be reassured that the UK higher education system remains world class.

67 The ENQA panel also made a series of recommendations, which the Board and QAA's senior management are developing into an action plan to refine and improve our practices. The review process provided valuable opportunities for holistic reflective self-evaluation, engagement with international peers and the feedback contained throughout the detailed review report.

'Internationally, QAA is among the leading quality assurance agencies. Such a status recognises QAA's consistently high organisational performance and valuable contribution towards shaping and implementation of common agendas in quality assurance of higher education.'

ENQA review report on QAA (page 67)

Capacity building and training

68 We undertake additional activities internationally that benefit the UK higher education sector and align with our strategic aims. The intelligence generated from this work gives us a greater understanding of the international market which we share with the sector, and gives us the opportunity to promote UK higher education. Through working with overseas systems and providers to improve their quality, we can also open up partnership and collaboration opportunities for UK higher education providers.

69 This year, we have undertaken a number of projects in countries including Albania, Hong Kong, Lebanon, Tunisia and the United Arab Emirates, as well as contributing to the SHARE project in South East Asia (European Union Support to Higher Education in the ASEAN Region).

70 Our International Quality Assurance Programmes (IQAP) are designed for international quality professionals seeking to learn about the UK model of higher education quality assurance and to develop their international networks. In November 2017, we held an IQAP in Dubai, the first time we have hosted one outside the UK. The programme was run in

association with the Knowledge & Human Development Authority of the Government of Dubai and was attended by over 20 delegates.

Management and governance

Resourcing strategies

71 Our resourcing strategies ensure we remain financially sustainable and organisationally effective. This includes: recruiting, retaining and developing committed, professional staff and reviewers; ensuring our communications and technology support us to deliver our objectives; and maintaining secure financial resources. We work as efficiently and effectively as possible to ensure best value for the sector.

72 We continue to monitor the efficiency of our support services, including lean process reviews this year in our human resources and finance teams. Through our M5 Group collaboration (HESA, Jisc, QAA), we also introduced a shared service desk for all three organisations, which will lead to considerable savings as it becomes embedded.

73 Our websites are primary communication channels for reaching our key audiences across the UK and internationally. In June 2018, we launched our new main QAA website, along with new sites for QAA Scotland and the Enhancement Themes (on behalf of the Scottish Higher Education Enhancement Committee). The new functionality also makes it easier to meet our commitments to the Welsh language.

Governance

74 QAA is a private company limited by guarantee, and a registered charity in England, Wales and Scotland. Our 18 Board members represent the diversity of UK higher education, including students, with a rich mix of skills and experience:

- six independent members with experience in industrial, commercial or financial matters, or professional practice
- two student members
- four higher education representative body members
- four higher education funding body members
- one independent member engaged in management or governance of an alternative provider
- one member from the UK Council of Colleges.

75 As part of our ongoing commitment to good governance and leadership, this year we:

- undertook a comprehensive self-evaluation against the new Charity Governance Code and implemented a number of actions in response
- implemented a readiness programme to ensure our ability to comply with the requirements of the EU General Data Protection Regulation 2016/679 (GDPR)
- published a Gender Pay Gap Report
- managed our principal risks and uncertainties to the satisfaction of the Board.

Financial review

76 The financial statements have been prepared in accordance with the requirements of the Charities SORP. Following the publication of our 2018-20 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 7, page 53) splits these categories down further and includes an allocation of support costs across the aims.

Results

77 QAA's 2017-18 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.

78 QAA's net income for the year ended 31 July 2018, before recognising investment gains, was £130,300, (2017: net income of £829,979). After recognising net gains on investments of £183,059 (2017: £273,383), the net movement in funds for the year was an increase of £313,359 (2017: increase of £1,103,362) which has increased reserves. The accumulated funds at 31 July 2018 are £6,056,790 (2017: £5,743,431).

79 QAA's wholly owned trading subsidiary, QAA Enterprises Limited, has made a contribution of £26,314 to the group surplus, and a gift aid donation of £4,910 to the charity in the year. QAA continues to develop new activities and, when appropriate, these are channelled through the subsidiary.

Income

80 Total income as shown in the Statement of Financial Activities (SOFA) decreased by £41,602 (0.3%) to £12,346,515 between 2016-17 and 2017-18.

81 Income from charitable activities shows a net decrease of £117,223 (1.0%) due to decreases in:

- **contracts with higher education funding bodies** (£240,574; 5.8%, due primarily to the changes in the funding structures in England)
- **alternative providers of higher education** (£221,628; 9.2%, due primarily to a reduction in the level of review activity in 2017-18).

82 The decreases are offset by increases in:

- **subscriptions** (£85,113; 1.9%)
- **other contracts and related income** (£259,866; 21.0%, due to increased income from degree awarding power assessments).

83 Income from investments has increased by £23,071 (21.4%) to £130,749.

84 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.

85 Income from other trading activities of £62,550 relates to the trading subsidiary.

Expenditure

86 Total expenditure, as shown in the SOFA, increased by £658,077 (5.7%) to £12,216,215 between 2016-17 and 2017-18.

87 Expenditure on charitable activities increased by £637,028 (5.5%) to £12,172,192, due primarily to an increase in staffing costs, as the new structure that took time to embed and fully staff in 2016-17 was fully operational throughout 2017-18.

88 A breakdown of charitable expenditure between the strategic aims is shown in note 6 on page 52.

89 An analysis of charitable expenditure between direct costs and support costs is provided in the **total charitable expenditure** (note 7, page 53).

Balance sheet

90 QAA's group balance sheet remains strong with total funds of £6,056,790 (2017: £5,743,431).

91 The net book value of tangible fixed assets held by the group and charity shows a decrease to £1,180,573 with depreciation exceeding the £252,486 spent on additions (see note 12 on page 58).

92 The net book value of fixed asset investments has increased by £1,276,550 to £4,353,830, primarily due to the investment of a further £1 million during the year.

93 Group and company creditors and deferred income have reduced by £694,163 to £2,189,453 primarily due to a reduction in deferred income as the level of review activity in autumn term 2018 is lower than 2017.

94 As a result of both these movements, the cash at bank and in hand has reduced by £1,689,198 to £2,559,734.

Reserves policy

95 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 £2.5-£4.0 million. Following the annual review, this range remains unchanged. The level of free reserves at 31 July 2018 is £3.9 million, which falls within this range.

96 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 that are not fully funded.

97 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. The opening balance on the fund was £691,382. During the year, £390,258 was used to cover expenditure, for which funding of £326,876 was received. 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.

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

99 At 31 July 2018, QAA's free reserves as defined by the Charities SORP were £3,889,217 (2017: £3,228,626).

Treasury management

100 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.

101 During 2017-18, 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 £3.5 million has been placed with Rathbones Investment Management Limited (Rathbones) for discretionary investment in listed shares, bonds and gilts.

102 The market value of the investments is £4.35 million (2017: £3.08 million) primarily as funds were added to this category during the year. The underlying investment performance of these longer term reserves is in line with the investment fund manager's target of CPI plus 4 per cent.

103 Investment income in the year is attributable to interest receivable of £12,668 from short-term working capital balances and medium-term cash funds, together with interest and dividends of £118,081 received from fixed-asset investments.

104 The net unrealised gain in the market value of funds held at 31 July 2018 was £728,795 (2017: £569,183). During the year a further £1 million was invested. The surplus of

interest and dividend receipts after paying management charges, together with net gains or losses realised, continues to be re-invested.

105 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 low base rate and current market conditions, QAA and its advisers consider the returns on its reserves to be an acceptable balance between risk and reward.

Looking ahead: strategic priorities

106 Our current strategy, 'Building on World-Class Quality', supports our mission and work to deliver our vision of world-leading and independently assured higher education. It is underpinned by our core values of collaboration, innovation, expertise, accountability and integrity, and sets out clearly what we will deliver for UK higher education.

107 Our Board has given thorough consideration to the dynamic developments in UK higher education, in the context of quality assurance and the changing role of QAA, and identified its priorities as:

- maintaining the UK-wide framework for quality in higher education
- protecting quality during a period of transition and change
- relationships with key external stakeholders
- balancing QAA's regulatory and commercial activities (with a focus on international development).

108 In addition, our Board identified two enabling priorities:

- continuing to build an organisation capable of delivering key roles
- ensuring clarity of internal and external messaging of QAA's role.

A learning organisation

109 We are committed to being a learning organisation, where reflection, self-evaluation and constructive external criticism provide a strong platform on which we will continue to build and enhance our work in future years.

110 Our review by ENQA in 2018 provided a valuable opportunity for the Agency as a whole to reflect on our work and processes. The recommendations of the ENQA panel have been developed into an action plan for improvement, in areas including governance, stakeholder representation on review teams, and communications.

111 In November 2017, a BBC Panorama programme entitled 'Student Loan Scandal' made a number of allegations, including fraud, at two alternative provider colleges in London. Based on information received, our own investigation into several London colleges found significant weaknesses in recruitment, admissions, attendance monitoring and assessment processes.

112 One investigation in particular was a complex and challenging case involving allegations of academic and financial fraud. Through close working with other organisations to undertake this investigation, we have made a number of positive changes to our management of concerns and other processes:

- our Concerns Scheme has been revised and updated to enable better handling of whistleblowing allegations, to make the process simpler and more efficient, and to provide greater clarity in the way outcomes are reported
- improvements have been made to the way in which investigation visits are conducted to ensure findings are valid and reliable. For example, it is now standard practice for the concerns team to select students to meet with, to audit randomly selected student admissions files and review attendance records
- there is now greater coordination between the organisations that have an interest in alternative providers. This has resulted in greater intelligence-sharing and a more coordinated approach to the management of individual investigations

- we have broadened the scope of what, when and how we can investigate suspected academic misconduct.

113 Our involvement with BBC's Panorama also led us to look beyond our work on essay mills and to consider the issue of academic integrity more broadly. During summer 2018, we set up an Academic Integrity Advisory Group, which allowed us to bring in experts on academic fraud and cheating from across the UK, and to provide leadership in the sector's response. Through work with the BBC and other media outlets, we have also developed media partnerships to raise public awareness of threats to academic integrity.

114 There has been recent public concern about degree standards and grade outcomes, which has received media attention. We have been working with Universities UK and GuildHE on a joint project on degree standards, in coordination with the UK Standing Committee for Quality Assessment. Significant consultation and engagement have taken place across the UK with students, employers, providers and other stakeholders. We have developed UK-wide criteria for degree classifications, to provide transparency and confidence in the robustness of the classification system. Two reports were published in November 2018, followed by a sector consultation on the recommendations made.

115 We continue to adapt to the challenges posed to the UK higher education 'brand' by increasingly divergent approaches across the four UK nations. Some of these tensions were apparent during the revision of the UK Quality Code this year. As the UK-wide independent quality body for higher education, we need to continue to work closely with each nation to understand their evolving needs and provide tailored quality approaches, supported by our UK-wide work. In England, for example, we are working with the Office for Students to develop new approaches as we move to a more risk-based and outcomes-focused quality assurance system.

116 While external quality assurance has never been solely focused on process, it must increasingly focus on student success and harness the potential of data to predict the future performance of providers. This will allow risk to be identified and tackled early, and enable more effective enhancement of education to mitigate risk and develop better provision.

117 We also recognise that we need to continue to develop external communications to ensure that recent policy changes in the UK are understood, both within the UK and internationally. Maintaining international confidence in the quality and standards of UK higher education is crucial, including transnational education. In our conversations with embassies in the UK, and with regulators and quality bodies in other countries, we have heard significant confusion about the recent changes. In response, we're investing considerable time - working with the British Council and UUK International - to provide information and consistent messaging about the quality of UK higher education and its assurance.

118 We operate in a time of great change and, if quality assurance remains static, it will not serve students well. Our review methods will need to be more responsive to change while maintaining comparability of outcomes, as systems move away from rigid cycles towards risk-informed or rolling programmes of review, together with innovative approaches to enhancement that enable high quality to be demonstrated more effectively.

Our operational priorities for 2018-19

- Develop and continuously improve quality assurance and enhancement activities in Wales, Scotland and Northern Ireland
- Design and implement quality assessment systems in England
- Consult on and launch a new membership model for provider services, underpinned by value propositions, that ensures maximum benefit for, and take-up by, the sector

- Further development and implementation of the revised UK Quality Code as a definitive reference point that helps providers achieve successful outcomes for students
- Deliver international services and develop international relationships, to secure increased recognised value for UK higher education
- Continue to develop an organisation capable of delivering its commitments to the sector, regulators and funders in a sustainable way.

Refining our business model

119 Given recent changes to regulatory frameworks around the UK and different ways of working, we are developing a new financing model that will take effect from 1 August 2019. This model ensures a clear separation of fees and charges for the statutory and non-statutory areas of our work. It is transparent and proportionate, as we strive to deliver value for money for all our stakeholders.

120 The model, approved by our Board in October 2018, reflects the needs of all four UK nations, and informal discussions and consultations have already taken place with key stakeholders and critical friends across the sector. Further consultation is taking place across the sector prior to finalisation and launch in time for the 2019-20 academic year.

121 The changed arrangements across the UK will also affect how we work. QAA will be operating in an increasingly competitive and commercial environment, requiring agility, customer focus and resilience. As the independent quality body in each nation, we have the opportunity to draw from the strengths of the different approaches to quality assurance for the benefit of all UK students.

QAA Membership

122 We are also evolving our subscriber services into 'QAA Membership' from the 2019-20 academic year. This will better describe the leadership and support we provide to members, enabling them to assure standards and achieve the highest quality academic experience for their students.

123 We give confidence to our members from working in partnership with the UK's independent higher education quality assurance agency; a global leader in quality assurance and enhancement.

124 QAA membership provides:

- support for co-regulation through the collective UK-wide academic architecture
- a collective voice in international strategic engagement, shaping the views of overseas agencies and governments on the quality of UK higher education providers
- facilitated sharing of effective practice, quality-related knowledge and insight, with access to global and UK-wide quality expertise
- solutions to sector-wide quality-related issues
- additional differentiated member services to suit their needs.

Directors' Report

Structure, governance and management

125 QAA is a private company limited by guarantee, and a registered charity in England, Wales and Scotland. Our four company members were, as at 31 July 2018:

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

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

127 We were established under a Memorandum of Association and are governed under our Articles of Association, which set out our constitution and objects. 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.

Governance

128 As part of our ongoing commitment to good governance and leadership, this year we have undertaken a comprehensive self-evaluation against the new Charity Governance Code. This exercise provided our Board with a valuable opportunity to re-evaluate our position in relation to good governance practices in the charity sector. The outcomes indicated that the majority of our practices align with the good governance principles and we are already implementing most of the recommended practices. In line with recommended good practice, a triannual governance review will take place from autumn 2018 onwards.

129 The Board has subsequently taken action to:

- set diversity objectives for the Board, reporting annually on their achievement
- include diversity questions as part of the annual skills audit of Board members
- review and codify Board and committee recruitment practices, including the make-up of interview panels
- ensure all Board members have undertaken, or have access to, appropriate diversity training
- give detailed consideration to, and appoint, a Board Vice-Chair.

130 During the year, the Board has also reviewed and agreed:

- a revised scheme of delegated authority
- a revised code of best practice
- a revised schedule of matters reserved to the Board.

Recruitment and appointment to the Board

131 Our directors 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, 18 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,¹ 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
 - one independent member appointed by the Board who, at the time of appointment, is engaged wholly or mainly in the governance or management of an alternative provider of higher education.
- 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.

132 Our Board membership represents the diversity of UK 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 and Remuneration Committee advises the Board to ensure our selection and recruitment process is transparent and fair.

133 All Board members are non-executive directors. They give their time voluntarily and do not receive any benefits from the charity. Expenses claimed by Board members during 2017-18 are covered in note 10 of our financial statements.

¹ Following the closure of HEFCE on 31 March 2018, its appointment provisions are under review.

Board responsibilities

134 Our Board's principal responsibilities include:

- approving our mission and strategic vision, 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
- appointing the Chief Executive and putting in place suitable arrangements for monitoring their performance
- acting as our principal financial and business authority
- ensuring we keep proper books of accounts
- approving our annual report and financial statements
- overall responsibility for our assets, property and estate.

135 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, as listed below.

Board member induction

136 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 Charity Governance Code
- 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 (including guidance on ethical conduct, statutory duties and responsibilities, and good governance).

137 All 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.

Board member activities

138 A typical year for one of our Board members is likely to include:

- attendance at four Board meetings (one day per meeting including a strategic away day)
- attendance at the QAA annual conference (two days)
- attendance at committee meetings and working groups convened for specific purposes (as required).

139 In addition, our Board members may have responsibility for a particular area, and work with staff to provide advice and support, which in turn enhances Board understanding and scrutiny.

140 During the year, the average Board meeting attendance was 76.5 per cent. It is our intention to publish individual Board member attendance from 2018-19 onwards. Specified

quorum, as detailed in our Articles of Association, was reached at all meetings apart from one Nomination and Remuneration Committee due to adverse weather.

Board committees

141 There were seven Board committees in operation during 2017-18. All committees have individual terms of reference published in our Code of Best Practice:

Governance matters:

- Audit and Risk Committee
- Nomination and Remuneration Committee

Advisory:

- QAA Wales Strategic Advisory Committee
- QAA Scotland Strategic Advisory Committee
- Student Strategic Advisory Committee

Operations:

- Access Recognition and Licensing Committee
- Advisory Committee on Degree Awarding Powers.

QAA Board of Directors

142 From 1 August 2017 to 31 July 2018, 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)
Dr Vanessa Davies	Director General, Bar Standards Board (appointed December 2017)
Ms Sara Drake	Chief Executive, Association for Project Management (appointed January 2018)
Ms Linda Duncan (Honorary Treasurer)	Chief Executive, Blue Star Consortium (appointed March 2017)
Mr Oliver Johnson	Former Chief Executive of Durrell Wildlife Conservation Trust (appointed December 2016)
Mr Jon Prichard	Chief Executive, Institute of Chemical Engineers (January 2012 to January 2018)
Mr Craig Watkins	Business Development Director, Government and Public Sector Practice, Ernst & Young (appointed December 2017)

Independent member: alternative provider

Mr Philip Wilson	Chair, Independent HE (appointed June 2017)
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Independent member: student

Mr Robert Cashman	Former elected student officer, University of Cambridge (June 2016 to June 2018)
Mr Matt Adie	Student, University of Stirling (appointed June 2018)

Appointed jointly by GuildHE Limited, Universities Scotland, Universities UK and Universities Wales

Professor Joy Carter	Vice-Chancellor, University of Winchester (April 2013 to July 2018)
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 Helen Langton Vice-Chancellor, University of Suffolk, Professor in Children's Cancer Nursing Education (appointed October 2018)

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 (June 2013 to June 2018)

Professor Denise McAlister Emeritus Professor, University of Ulster (appointed October 2014)

Professor Tim McIntyre-Bhatty Deputy Vice-Chancellor, Bournemouth University (September 2012 to September 2018)

Professor Philip Winn Research Professor of Neuroscience, Strathclyde Institute of Pharmacy and Biomedical Sciences (appointed October 2013)

Professor Oliver Turnbull Pro Vice-Chancellor (Teaching and Learning) Professor of Neuropsychology, Bangor University (appointed September 2018)

Nominated by the UK Council of Colleges

Mr Stephen Criddle OBE Principal, South Devon College (appointed June 2017)

Nominated by the National Union of Students

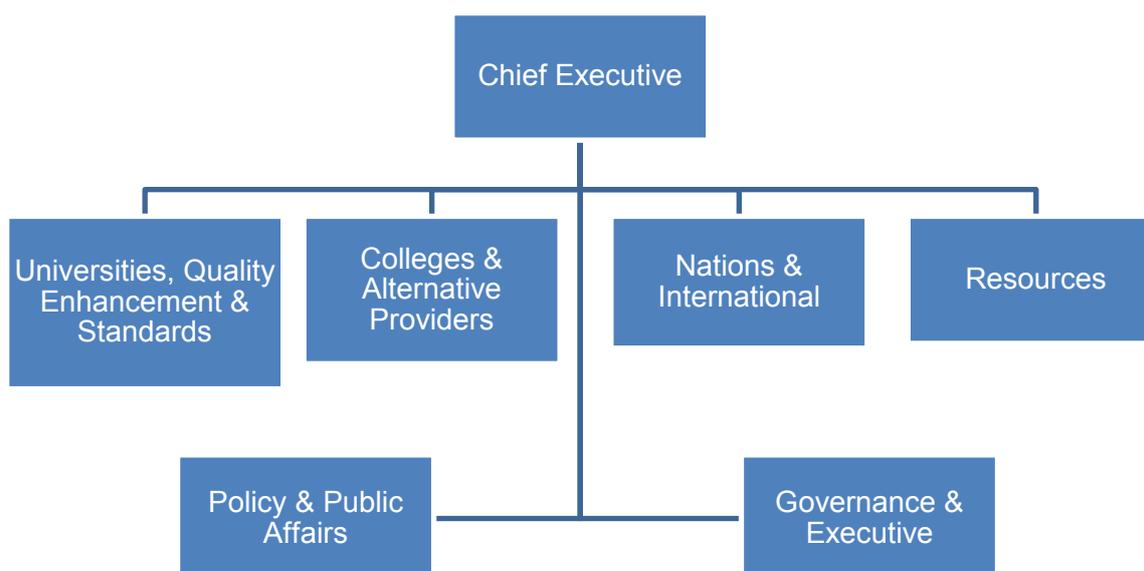
Mr Amatey Doku Vice President (Higher Education), NUS (appointed June 2017)

Organisational structure

143 Our senior executive staff in 2017-18 were:

- Douglas Blackstock, Chief Executive
- Ian Kimber, Director of Universities, Quality Enhancement & Standards
- Will Naylor, Director of Colleges & Alternative Providers
- Rowena Pelik, Director of Nations & International
- Liz Rosser, Director of Resources.

144 The chart below sets out our structure:



Pay and remuneration

145 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 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. In addition, our Nomination and Remuneration Committee has commissioned an external review of Executive remuneration, which will be reported to the Board in early 2019.

146 During the year, we published a Gender Pay Gap Report, in accordance with the Equality Act 2010 (Gender Pay Gap Information) Regulations 2017. This data covered 160 employees on the snapshot date, together with reviewers and self-employed consultants who count towards the number of eligible employees. Our data gives a median gender pay gap of 10.93 per cent and a mean gender pay gap of 16.95 per cent. The bonus pay gap is the average difference between men and women's bonus pay. Results indicate that women's mean bonus pay is 54.8% lower than men's and their median bonus pay is 25.1% lower than men's.

147 The report has been discussed by our Nomination and Remuneration Committee and Board. The challenge in our organisation and across the country is to eliminate any gender pay gap. Actions have been agreed to aim to reduce the gap, recognising that these will not impact until our 2020 Gender Pay Gap Report, due to a time lapse in reporting periods.

Corporate social responsibility (CSR)

148 QAA is committed to working in an ethically and socially responsible manner across all areas of our business. Our work safeguards standards and improves the quality of UK higher education, wherever it is delivered around the world. Our business approach considers the impact of our work on the environment, our staff, suppliers, local communities, the higher education sector, and wider society. Our current CSR policy (2017-20) sets out our aims and the activities we engage in to support them across the UK:

- to uphold an ethical, transparent approach to our work
- to reduce our impact on the environment
- to contribute to the development of our local communities
- to respect our staff and encourage their development.

149 Our CSR performance and impact is monitored by both our Executive team and the Board's Audit and Risk Committee.

General Data Protection Regulation (GDPR) compliance

150 A comprehensive readiness programme, overseen by senior management, was implemented this year to ensure our ability to comply with the requirements of the EU General Data Protection Regulation (GDPR). Further to this, we have adopted a 'Privacy by Design' approach, which requires the impact on individuals' rights to be considered before the implementation of any new activity involving personal data processing.

Fundraising activities

151 The charity had no fundraising activities requiring disclosure under S162A of the Charities Act 2011.

Equality statement

152 We are strongly committed to the principles of equality, 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 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.

Delivering public benefit

153 Our trustees have regard to the Charity Commission's guidance on public benefit, a summary of which is issued to our Board members on appointment.

Relationships with related parties

154 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 Enterprises 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.

Principal risks and uncertainties

155 Our Board is ultimately responsible for our approach to risk management, which is set out in our risk management policy. We record strategic risks in our strategic risk register, and operational risks against the activity to which they relate in our annual plan. The strategic risk register is reviewed by our Audit and Risk Committee at each of its meetings, and a paper on risk management is sent to every Board meeting.

156 The principal risks and uncertainties arising during 2017-18 are set out below, with our actions to mitigate and manage them.

i) Uncertainties and changes in the UK higher education, quality assurance, regulatory and policy landscape, which could adversely affect QAA's UK-wide role. We managed this risk through:

- development and publication of the revised UK Quality Code, which supports the changing regulatory framework
- active promotion of the importance of preserving of a co-regulatory system for UK-wide quality assurance
- commitment to a strong, collaborative working relationship with the Office for Students
- membership of the UK Standing Committee for Quality Assessment
- active engagement in the planning for, and transition to, the new regulatory framework for higher education in England, and the post-compulsory education and training policy consultation in Wales
- changes to our governance structures to ensure that we are able to respond to the developing needs of the higher education sector
- sustained senior-level engagement with UK governments, sector bodies, QAA subscribers and other stakeholders
- sector consultation on the development of approaches to assurance, and maintenance of standards
- dedicating resource to issues highlighted by the sector as priority areas, including academic integrity.

ii) Uncertainties and changes in QAA's funding streams, managed through:

- detailed financial modelling and planning
- negotiating longer term service agreements with funding partners to provide a degree of certainty
- implementation of QAA's innovation and enterprise strategy
- development, testing and launch of new services for the sector
- international development and activities
- seeking service-sharing opportunities with other sector agencies
- management of reserves in accordance with the range set by the Board.

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

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, G2 6NL 15 Fetter Lane, London, EC4A 1BW Cambrian Buildings, Mount Stuart Square, Cardiff Bay, CF10 5FL
Company Secretary	Lavinia Blackett, Head of Governance and Executive Office
Senior management (with delegated authority)	Douglas Blackstock, Chief Executive
Bankers	HSBC Bank plc, The Cross, Gloucester, GL1 2AP and Lloyds Bank plc, 10 Gresham Street, London, EC2V 7AE
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 Financial Planning UK Limited, Carrick House, Lypiatt Road, Cheltenham, GL50 2QJ
Solicitors	Shakespeare Martineau, No 1 Colmore Square, Birmingham, B4 6AA
Independent auditor	Crowe U.K. LLP, Carrick House, Lypiatt Road, Cheltenham, GL50 2QJ

Responsibilities of the trustees and directors

158 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).

159 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 judgements 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.

160 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

161 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 the steps that they should 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.

Auditor

162 On 25 June 2018, Crowe Clark Whitehill LLP changed its name to Crowe U.K. LLP. A resolution to reappoint Crowe U.K. LLP as auditor to the company will be proposed at the Annual General Meeting.

163 The Strategic Report, Directors' Report and financial statements were approved by the Board on 12 December 2018 and were signed on its behalf by:

Christopher Banks CBE
Chair of the Board of Directors

Independent Auditor's Report to the Members of The Quality Assurance Agency for Higher Education

Opinion

We have audited the financial statements of The Quality Assurance Agency for Higher Education for the year ended 31 July 2018 which comprise Group Statement of Financial Activities, the Group and Company Balance Sheets, the Group Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard (FRS) 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

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 2018 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* (amended).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the trustees' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate, or
- the trustees have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the charitable company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The trustees are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other

information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the *Companies Act 2006*

In our opinion, based on the work undertaken in the course of our audit:

- the information given in the trustees' report, which includes the directors' report and the strategic report prepared for the purposes of company law, for the financial year for which the financial statements are prepared is consistent with the financial statements
- the strategic report and the directors' report included within the trustees' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the group and the charitable company and their environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report included within the trustees' report.

We have nothing to report in respect of the following matters in relation to which the *Companies Act 2006* and the *Charities Accounts (Scotland) Regulations 2006* require us to report to you if, in our opinion:

- adequate and proper accounting records have not been kept, or
- the 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.

Responsibilities of trustees

As explained more fully in the trustees' responsibilities statement set out on page 39, 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, and for such internal control as the trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the trustees are responsible for assessing the group's or the charitable company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the

trustees either intend to liquidate the charitable company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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 Regulation 10 of the *Charities Accounts (Scotland) Regulations 2006*. Our audit work has been undertaken so that we might state to the charitable company's members and trustees 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, the charitable company's members as a body and the charitable company's trustees as a body, for our audit work, for this report, or for the opinions we have formed.

Guy Biggin Senior Statutory Auditor

For and on behalf of
Crowe U.K. LLP
Statutory Auditor
Carrick House
Lypiatt Road
Cheltenham
Gloucestershire GL50 2QJ

21 December 2018

Consolidated statement of financial activities (including consolidated income and expenditure account) for the year ended 31 July 2018

	Notes	2018 £ Unrestricted funds	2017 £ Unrestricted funds
Income from:			
Charitable activities	5	12,153,216	12,270,439
Other trading activities	3	62,550	10,000
Investments	4	130,749	107,678
Other		-	-
Total income		12,346,515	12,388,117
Expenditure on:			
Fundraising trading costs		19,434	3,889
Investment management costs		24,589	19,085
Raising funds		44,023	22,974
Charitable activities	6, 7	12,172,192	11,535,164
Total expenditure		12,216,215	11,558,138
Net gains on investments	14	183,059	273,383
Net income and net movement in funds for the year	8	313,359	1,103,362
Reconciliation of funds			
Total funds brought forward		5,743,431	4,640,069
Total funds carried forward	22	6,056,790	5,743,431

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 45 to 71 form part of these financial statements.

Balance sheets as at 31 July 2018
(Company number: 03344784)

	Notes	Group		Charity	
		2018	2017	2018	2017
		£	£	£	£
Fixed assets:					
Tangible assets	12	1,180,573	1,358,438	1,180,573	1,358,438
Investments	14	4,353,830	3,077,280	4,353,831	3,077,281
Total fixed assets		5,534,403	4,435,718	5,534,404	4,435,719
Current assets:					
Debtors	15	1,328,370	1,146,809	1,342,977	1,172,890
Cash at bank and in hand		2,559,734	4,248,932	2,502,630	4,216,340
Total current assets		3,888,104	5,395,741	3,845,607	5,389,230
Liabilities:					
Creditors - amounts falling due within one year	16	(2,189,453)	(2,883,616)	(2,173,271)	(2,882,016)
Net current assets		1,698,651	2,512,125	1,672,336	2,507,214
Total assets less current liabilities		7,233,054	6,947,843	7,206,740	6,942,933
Provision for liabilities	20	(143,264)	(182,412)	(143,264)	(182,412)
Pension provision liability	21	(1,033,000)	(1,022,000)	(1,033,000)	(1,022,000)
Total net assets		6,056,790	5,743,431	6,030,476	5,738,521
The funds of the group and charity:					
Designated funds	22	987,000	1,144,382	987,000	1,144,382
General funds	22	5,069,790	4,599,049	5,043,476	4,594,139
Total funds as at 31 July 2018		6,056,790	5,743,431	6,030,476	5,738,521

The surplus for the financial year dealt with in the financial statement of the parent charity was £291,955 (2017: £1,112,771).

The notes on pages 45 to 71 form part of these financial statements.

The financial statements were approved and authorised by the Board on 12 December 2018 and were signed on its behalf by:

Christopher Banks CBE
Chair of the Board of Directors

Statement of cash flows for the year ended 31 July 2018

	Notes	Group		Charity	
		2018	2017	2018	2017
		£	£	£	£
Cash flows from operating activities:					
Net cash provided by operating activities	25	<u>(473,971)</u>	<u>578,550</u>	<u>(498,483)</u>	<u>583,630</u>
Cash flows from investing activities:					
Investment income		119,066	107,678	119,066	107,678
Proceeds from sale of investments		335,047	784,933	335,047	784,933
Purchase of investments		(1,121,563)	(800,065)	(1,121,562)	(800,065)
Purchase of tangible fixed assets		(252,486)	(189,243)	(252,486)	(189,243)
Net cash (used in)/provided by investing activities		<u>(919,936)</u>	<u>(96,697)</u>	<u>(919,935)</u>	<u>(96,697)</u>
Change in cash and cash equivalents in the year		(1,393,907)	481,853	(1,418,418)	486,933
Cash and cash equivalents at the beginning of the year		<u>4,324,425</u>	<u>3,842,572</u>	<u>4,291,833</u>	<u>3,804,900</u>
Cash and cash equivalents at the end of the year	26	<u>2,930,518</u>	<u>4,324,425</u>	<u>2,873,415</u>	<u>4,291,833</u>

The notes on pages 45 to 71 form part of these financial statements.

Notes to the financial statements for the year ended 31 July 2018

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 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 completed the restructuring programme started in 2015-16; this has reduced the base costs of the charity going forwards but resulted in a small net expenditure result for this year.

On this basis, the financial statements have been prepared on a going concern basis, which the trustees consider to be appropriate.

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.

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 that have had the most significant effect on amounts recognised in the financial statements are included with the relevant accounting policy below.

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 reassessed 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 12 for the carrying amount of the tangible assets.

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.

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.

2 Accounting policies (continued)

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.

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 necessary and are accounted for 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.

2 Accounting policies (continued)

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

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.

o Creditors and provisions

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

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

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

p Basic financial provisions

QAA has financial assets and financial liabilities of a kind that qualify as basic financial instruments. Basic financial instruments are initially recognised at transaction value and subsequently measured at their settlement value (see note 18).

2 Accounting policies (continued)

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 have therefore recognised the discounted fair value of the contractual contributions under the funding plans in existence at the balance sheet date.

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 Income from other trading activities

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

	2018	2017
	£	£
Turnover	62,550	10,000
Cost of sales and administrative costs	<u>(41,146)</u>	<u>(19,409)</u>
Net profit/(loss) for the year	<u>21,404</u>	<u>(9,409)</u>
The assets and liabilities of the subsidiary were:		
Current assets	79,704	32,592
Current liabilities	<u>(53,389)</u>	<u>(27,681)</u>
Total net assets	<u>26,315</u>	<u>4,911</u>

4 Income from investments

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

	2018	2017
	£	£
Dividend and interest income from quoted investments	118,081	86,586
Interest from cash held in interest bearing bank accounts	<u>12,668</u>	<u>21,092</u>
Total investment income for the year	<u>130,749</u>	<u>107,678</u>

5 Income from charitable activities

	Note	2018 £	2017 £
Subscriptions		4,574,110	4,488,997
Contracts with higher education funding bodies		3,884,090	4,124,664
Alternative providers of higher education		2,196,728	2,418,356
Other contracts and related income		1,498,288	1,238,422
		<hr/>	<hr/>
Total income from charitable activities		12,153,216	12,270,439
		<hr/>	<hr/>
Analysis by source:			
UK higher education funding councils		3,884,090	4,124,664
UK higher education institutions		4,112,505	4,378,727
UK further education institutions		742,605	655,770
UK alternative providers of higher education		1,672,313	2,668,762
Other		974,322	934,415
		<hr/>	<hr/>
		11,385,835	12,762,338
Release income deferred in prior years	16	1,680,369	1,328,262
Defer income received in current year	16	(912,988)	(1,820,161)
		<hr/>	<hr/>
Total income from charitable activities		12,153,216	12,270,439
		<hr/>	<hr/>

6 Expenditure on charitable activities

	Note	2018 £	2017 £
Expert independent quality body supporting diverse system of co-regulation		9,196,291	7,303,544
Delivering valued services that provide assurance and drive quality		1,932,432	2,489,326
Using international reputation and partnerships to benefit UK higher education		996,713	1,219,001
Total expenditure on charitable activities before restructuring cost and pension provision		12,125,436	11,011,871
Restructuring costs		35,756	535,293
Pension provision - deficit contributions	21	(18,000)	(50,000)
Pension provision - unwinding of discount	21	29,000	38,000
Total expenditure on charitable activities		12,172,192	11,535,164

7 Analysis of expenditure on charitable activities

	Charitable activities			Governance	Total expenditure on charitable activities	
	Expert independent quality body supporting diverse system of co-regulation of UK higher education	Delivering valued services that provide assurance and drive quality enhancement	Using our international reputation and partnerships to benefit UK higher education		2018	2017
	£	£	£	£	£	£
Direct costs						
Staffing costs	3,307,017	700,664	192,530	-	4,200,211	4,245,230
Other review costs	1,660,354	266,538	251,303	-	2,178,195	1,656,260
Other direct costs	455,618	46,871	140,883	-	643,372	585,064
Total direct costs	5,422,989	1,014,073	584,716	-	7,021,778	6,486,554
Support costs						
Staffing costs	1,844,219	448,852	201,365	323,924	2,818,360	1,988,765
Other staff costs	184,753	44,966	20,173	40,238	290,130	260,786
Premises	435,470	105,986	47,548	-	589,004	733,500
Office costs	98,656	24,011	10,772	5,644	139,083	16,493
Information systems	169,565	41,269	18,514	-	229,348	530,366
Professional fees	208,686	50,791	22,786	106,373	388,636	50,234
Other support costs	127,274	30,977	13,897	-	172,148	350,951
Depreciation	318,173	77,438	34,740	-	430,351	477,229
Governance **	-	-	-	46,598	46,598	116,993
Total support costs	3,386,796	824,290	369,795	522,777	5,103,658	4,525,317
Reallocate governance	386,506	94,069	42,202	(522,777)	-	-
Total support costs by aim	3,773,302	918,359	411,997	-	5,103,658	4,525,317
Expenditure on charitable activities before restructuring and pension provision	9,196,291	1,932,432	996,713	-	12,125,436	11,011,871
Restructure - Staffing costs	26,436	6,434	2,886		35,756	535,293
Pension provision - net deficit contributions	(13,308)	(3,239)	(1,453)	-	(18,000)	(50,000)
Pension provision - unwinding of discount	21,441	5,218	2,341	-	29,000	38,000
Total charitable expenditure	9,230,860	1,940,845	1,000,487	-	12,172,192	11,535,164

** includes the cost of Board meetings and audit fees

In 2017-18, the new three-year strategy, 'Building on World-class Quality', was launched. Underpinning this strategy are the three new aims noted above. The expenditure against these aims is therefore not directly comparable to 2017.

8 Net expenditure for the financial year

	2018	2017
	£	£
Net expenditure is stated after charging/(receiving):		
External auditors - audit services	15,500	21,840
- non-audit services	-	1,200
Internal auditors: audit services	21,867	16,200
Professional indemnity insurance	39,058	40,165
Tangible fixed assets		
Depreciation	430,351	477,228
Operating leases		
Land and buildings	321,297	312,456
Other	26,815	43,093
Foreign exchange costs/(gains)	12,385	(19,970)
Employer pension contributions	23	903,135
	<u>909,064</u>	<u>903,135</u>

9 Analysis of staff costs

	2018	2017
	£	£
Total staff costs were:		
Salaries	5,488,334	4,831,253
Employers' National Insurance contributions	596,382	549,385
Pension contributions payable	909,064	835,499
	6,993,780	6,216,137
Employment agency staff	68,180	17,858
Total staff costs before restructuring and pension provision liability adjustments	7,061,960	6,233,995
Restructuring costs	35,756	535,293
Total staff costs after restructuring	7,097,716	6,769,288
Deficit contributions payable in the year	(85,000)	(128,000)
Increase in expected future deficit contributions	67,000	78,000
Total staff costs charged to the SOFA	7,079,716	6,719,288

9 Analysis of staff costs (continued)

	2018	2017
	Number	(Restated) Number
The average number of employees, calculated on a full-time equivalent basis was as follows:		
Enhance the quality and secure the standards of UK higher education	87	80
Provide leadership in assuring and enhancing the quality of higher education	21	27
Extend and enhance the value and reach of QAA's services	10	15
Total average number of employees on a full-time equivalent basis	118	122
Total average number of employees on a headcount basis	145	147

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

	2018	2017
	Number	Number
£160,000 - £169,999	1	1
£150,000 - £159,999	-	-
£110,000 - £119,999	1	-
£100,000 - £109,999	-	1
£90,000 - £99,999	2	1
£80,000 - £89,999	1	2
£70,000 - £79,999	4	4
£60,000 - £69,999	8	7

All employees earning more than £60,000 participated in the Universities Superannuation Scheme (see note 23). The aggregate amount paid to the scheme for these employees was:

	2018	2017
	£	£
Employer contributions	237,761	232,964

10 Remuneration of directors and key management personnel

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

There were no emoluments paid to the trustees during the year. Eleven trustees were reimbursed expenses to the value of £8,553 during the year (2017: 12 trustees, £6,765). The expenses paid related solely to travel and incidentals.

The total employee benefits (including Employer Pension contributions and Employer National Insurance contributions) received by the senior executive staff of the charity and the group was £718,291 (2017: £700,793).

The emoluments (including performance-related pay and benefits) of the Chief Executive were £168,949 (2017: £165,070) with Employer's Pension contributions into the USS scheme of £27,362 (2017: £26,756).

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

11 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.

12 Tangible fixed assets

Group and charity

	Leasehold improvements	Computer equipment	Furniture and other equipment	Total
	£	£	£	£
Cost				
At 1 August 2017	1,280,210	3,813,929	546,547	5,640,686
Additions	-	252,486	-	252,486
At 31 July 2018	1,280,210	4,066,415	546,547	5,893,172
Depreciation				
At 1 August 2017	498,013	3,379,041	405,194	4,282,248
Charge for the year	126,997	222,709	80,645	430,351
At 31 July 2018	625,010	3,601,750	485,839	4,712,599
Net book value at 31 July 2018	655,200	464,665	60,708	1,180,573
		**		
Net book value at 31 July 2017	782,197	434,888	141,353	1,358,438

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

** Computer Equipment includes Intangible Software with a net book value of £94,482

13 Analysis of capital commitments

	Group and charity	
	2018	2017
	£	£
Contracted for but not provided	-	49,847
Authorised but not yet contracted for	-	-
	<u>-</u>	<u>49,847</u>

14 Fixed asset investments

	Quoted investments £	Unquoted investments £	Total £
Held by the group			
At 1 August 2017	3,077,280	-	3,077,280
Additions at cost	1,119,529	-	1,119,529
Disposals at opening market value or cost if bought in year	(321,244)	-	(321,244)
Net decrease in cash held and settlements outstanding	295,206	-	295,206
Net gains on revaluation to year end market value	183,059	-	183,059
At 31 July 2018	4,353,830	-	4,353,830
Held by the charity			
At 1 August 2017	3,077,280	1	3,077,281
Additions at cost	1,119,529	-	1,119,529
Disposals at opening market value or cost if bought in year	(321,244)	-	(321,244)
Net decrease in cash held and settlements outstanding	295,206		295,206
Net gains on revaluation to year end market value	183,059	-	183,059
At 31 July 2018	4,353,830	1	4,353,831

Quoted investments are revalued and stated at market value as at 31 July 2018.

Unquoted investments are stated at cost. QAA holds one ordinary £1 share (100 per cent) in QAA Enterprises Limited, a wholly owned trading subsidiary company registered in England and Wales no. 07588108, with the principal office at Southgate House, Southgate Street, Gloucester, GL1 1UB.

14 Fixed asset investments (continued)

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

	Group and charity At 31 July 2018		Group and charity At 31 July 2017	
	Cost	Market Value	Cost	Market Value
	£	£	£	£
Listed on a recognised stock exchange				
- in the UK	1,317,866	1,583,316	1,172,711	1,393,470
- outside the UK	1,936,113	2,399,729	1,259,893	1,608,317
Cash and settlements pending held as part of the investment portfolio	370,785	370,785	75,493	75,493
	<u>3,624,764</u>	<u>4,353,830</u>	<u>2,508,097</u>	<u>3,077,280</u>

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

DB X-Trackers (FTSE All-Share)	435,617	199,611
Vanguard Investments (FTSE All Share)	<u>608,928</u>	<u>474,432</u>

15 Debtors

	Group		Charity	
	2018	2017	2018	2017
	£	£	£	£
Trade debtors	557,837	656,090	535,237	656,090
Sundry debtors	19,134	4,920	19,134	4,920
Prepayments	231,939	292,518	231,939	292,518
Accrued income	519,460	193,281	519,460	193,281
Subsidiary undertaking	-	-	37,207	26,081
	<u>1,328,370</u>	<u>1,146,809</u>	<u>1,342,977</u>	<u>1,172,890</u>

Trade debtors are stated after provision for doubtful debts of £32,375 (2017: £5,591).

16 Creditors: amounts falling due within one year

	Group		Charity	
	2018	2017	2018	2017
	£	£	£	£
Trade creditors	280,274	215,610	280,274	215,610
Taxation and social security	202,122	196,133	202,122	196,133
Pension contributions	110,966	108,535	110,966	108,535
Other creditors	635	7,309	635	7,309
Accruals	454,677	447,869	451,095	446,269
Deferred income	1,140,779	1,908,160	1,128,179	1,908,160
	<u>2,189,453</u>	<u>2,883,616</u>	<u>2,173,271</u>	<u>2,882,016</u>
The movement in deferred income was as follows:				
At start of year	1,908,160	1,416,261	1,908,160	1,416,261
Release income deferred in prior years	(1,680,369)	(1,328,262)	(1,680,369)	(1,328,262)
Defer income received in current year	912,988	1,820,161	900,388	1,820,161
At end of year	<u>1,140,779</u>	<u>1,908,160</u>	<u>1,128,179</u>	<u>1,908,160</u>

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.

17 Operating lease arrangements

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

	Group and charity	
	2018	2017
	£	£
Land and buildings		
Within one year	270,693	273,693
Between two and five years	1,039,172	1,068,772
After five years	88,322	337,665
Other		
Within one year	19,505	21,426
Between two and five years	15,748	33,870
	<u>1,433,440</u>	<u>1,735,426</u>

18 Financial instruments

	Group		Charity	
	2018	2017	2018	2017
	£	£	£	£
Financial assets measured at amortised cost	3,656,165	5,103,221	3,613,668	5,096,710
Financial liabilities measured at amortised cost	(846,552)	(779,323)	(842,970)	(777,723)

Financial assets measured at amortised cost comprise cash, 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.

19 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*.

The balance due to the charity from the wholly owned subsidiary undertaking QAA Enterprises Limited is £37,207 (2017: £26,081) as shown in the debtors note on page 60.

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

20 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. The provision is for the holiday pay that was earned but not taken before the year end.

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 at 31 July 2018 reflects the remaining redundancy and other related costs that will be incurred in the year ended 31 July 2019.

The movement in the provisions during the year is:

	Group and Charity		
	Holiday pay £	Restructure £	Total £
At 1 August 2017	144,571	37,841	182,412
Provided during the year	-	7,300	7,300
Utilised in the year	-	(2,931)	(2,931)
Released in the year	(43,517)	-	(43,517)
At 31 July 2018	101,054	42,210	143,264

21 Pension liability provision

The total pension cost charged to the SOFA is:

	Group and Charity	
	2018	2017
	£	£
Employer contributions payable in the year	909,064	903,135
Deficit contributions payable in the year (included in employer contributions above)	(85,000)	(128,000)
Change in expected future deficit contributions	67,000	78,000
Total pension cost charged to the SOFA	<u>891,064</u>	<u>853,135</u>

The movement in the provision is:

	Group and charity	
	2018	2017
	£	£
At 1 August	1,022,000	1,034,000
Charged to SOFA - deficit contributions payable in the year	(85,000)	(128,000)
(Credited)/charged to the SOFA - change in expected future deficit contributions	67,000	78,000
Unwinding of discount	29,000	38,000
At the year end	<u>1,033,000</u>	<u>1,022,000</u>

22 Analysis of charitable funds

Analysis of movements in unrestricted funds

	Funds at 1 August 2017	Incoming resources	Resources expended	Transfers	Gains and losses	Funds at 31 July 2018
	£	£	£	£	£	£
Designated funds:						
Innovation and Development	691,382	326,876	(390,258)	-	-	628,000
Reinstatement of premises	415,000	-	-	(56,000)	-	359,000
Restructuring	38,000	-	-	(38,000)	-	-
Total designated funds	1,144,382	326,876	(390,258)	(94,000)	-	987,000
General fund	4,599,049	12,019,639	(11,825,957)	94,000	183,059	5,069,790
Total unrestricted funds	5,743,431	12,346,515	(12,216,215)	-	183,059	6,056,790

	Funds at 1 August 2016	Incoming resources	Resources expended	Transfers	Gains and losses	Funds at 31 July 2017
	£	£	£	£	£	£
Designated funds:						
Innovation and Development	712,713	-	(21,331)	-	-	691,382
Reinstatement of premises	215,000	-	-	200,000	-	415,000
Restructuring	667,000	-	-	(629,000)	-	38,000
Total designated funds	1,594,713	-	(21,331)	(429,000)	-	1,144,382
General fund	3,045,356	12,388,117	(11,536,807)	429,000	273,383	4,599,049
Total unrestricted funds	4,640,069	12,388,117	(11,558,138)	-	273,383	5,743,431

22 Analysis of charitable funds (continued)

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. 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. A mid-term review of the Gloucester lease was undertaken during the year and the break-clause on the ground floor premises was invoked. £56k of the fund was released during the year to cover the dilapidations costs.

The purpose of the designated fund for *Restructuring* was to fund the remainder of costs that were, and will be, incurred in completing the business restructure in 2017-18 and beyond.

Analysis of group net assets between funds

	General Fund	Designated Funds	Total 2018
	£	£	£
Tangible fixed assets	1,180,573	-	1,180,573
Fixed asset investments	3,994,830	359,000	4,353,830
Cash at bank and in hand	1,931,734	628,000	2,559,734
Other net current liabilities	(861,083)	-	(861,083)
Provisions	(1,176,264)	-	(1,176,264)
Total net assets 31 July 2018	5,069,790	987,000	6,056,790

	General Fund	Designated Funds	Total 2017
	£	£	£
Tangible fixed assets	1,358,438	-	1,358,438
Fixed asset investments	2,662,280	415,000	3,077,280
Cash at bank and in hand	3,519,550	729,382	4,248,932
Other net current liabilities	(1,736,807)	-	(1,736,807)
Provisions	(1,204,412)	-	(1,204,412)
Total net assets 31 July 2017	4,599,049	1,144,382	5,743,431

23 Pensions (defined benefit schemes)

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

	Group and charity	
	2018	2017
	£	£
Universities Superannuation Scheme (USS)	728,987	727,033
Superannuation Arrangements for the University of London (SAUL)	180,077	176,102
	<u>909,064</u>	<u>903,135</u>
Employer contributions outstanding at the balance sheet date (included above)	<u>74,197</u>	<u>74,285</u>

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

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

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

		Employer	Employee
USS	Retirement Income Builder Section	18.00%	8.00%
SAUL	Career Average Revalued Earnings Section	<u>16.00%</u>	<u>6.00%</u>

a Universities Superannuation Scheme

The latest available complete actuarial valuation of the Retirement Income Builder section of the Scheme is at 31 March 2014 (the valuation date), which was carried out using the projected unit method. The valuation as at 31 March 2017 is underway but not yet completed.

Since the institution cannot identify its share of Retirement Income Builder section of the Scheme assets and liabilities, the following disclosures reflect those relevant for the section as a whole.

23 Pensions (defined benefit schemes) (continued)

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. These figures will be revised once the 2017 Scheme Valuation is complete.

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

		2018	2017
Discount rate		2.64%	2.57%
Pensionable salary growth	First year	n/a	n/a
	Subsequent years		
Price inflation (CPI)		<u>2.02%</u>	<u>2.41%</u>

The main demographic assumption used relates to the mortality assumptions. These assumptions have been updated for the 31 March 2018 accounting position, based on updated analysis of the Scheme's experience carried out as part of the 2017 actuarial valuation. The mortality assumptions used in these figures are as follows:

	2018	2017
Mortality base table	<p><u>Pre-retirement:</u> 71% of AMC00 (duration 0) for males and 112% of AFC00 (duration 0) for females.</p> <p><u>Post retirement:</u> 96.5% of SAPS S1NMA 'light' for males and 101.3% of RFV00 for females.</p>	<p>98% of SAPS S1NA 'light' YOB unadjusted for males.</p> <p>99% of SAPS S1NA 'light' YOB with a 1-year adjustment for females</p>
Future improvements to mortality	CMI_2016 with a smoothing parameter of 8.5 and a long-term improvement rate of 1.8% pa for males and 1.6% for females.	CMI_2014 with a long-term rate of 1.5% pa.

23 Pensions (defined benefit schemes) (continued)

The current life expectancies on retirement at age 65 are:

	2018	2017
Males currently aged 65	24.5	24.4
Females currently aged 65	26.0	26.6
Males currently aged 45	26.5	26.5
Females currently aged 45	27.8	29.0

The financial position of the scheme is:

	2018	2017
Scheme assets	£63.6bn	£60.0bn
Total scheme liabilities	£72.0bn	£77.5bn
FRS 102 total scheme deficit	£8.4bn	£17.5bn
FRS 102 total funding level	88%	77%

b Superannuation Arrangements for the University of London

QAA participates in the Superannuation Arrangements of the University of London (SAUL), which is a centralised defined benefit scheme within the UK and was contracted-out of the Second State Pension.

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 a Career Average Revalued Earnings (CARE) basis.

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 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.

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 that arise from Members' accrued pension rights to be met.

23 Pensions (defined benefit schemes) (continued)

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 2017. 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 June 2018 and are due to be reviewed at SAUL's next formal valuation in 2020.

At the 31 March 2017 valuation SAUL was fully funded on its Technical Provisions basis, so no deficit contributions were required. The Trustee and the Employers have agreed that the ongoing Employers' contributions will continue at a rate of 16% of CARE salaries.

Accounting policy

QAA is a Participating Employer in SAUL. The actuarial valuation applies to SAUL as a whole and does not identify surpluses or deficits applicable to individual employers. As a whole, the market value of SAUL's assets was £3,205 million representing 102% of the liabilities for benefits accrued up to 31 March 2017.

It is not possible to identify an individual Employer's share of the underlying assets and liabilities of SAUL. QAA accounts for its participation in SAUL as if it were a defined contribution scheme and pension costs are based on the amounts actually paid in accordance with paragraph 28.11 of FRS 102.

As there was a Technical Provisions surplus at 31 March 2017 there is no defined benefit liability (that is, the present value of any deficit contributions due to SAUL) to be recognised by QAA.

24 Pensions (defined contribution scheme)

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

	Group and charity	
	2018	2017
	£	£
The People's Pension	4,066	5,192
Employer contributions outstanding at the balance sheet date	904	218

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

	Group		Charity	
	2018	2017	2018	2017
	£	£	£	£
Net income for the year	313,359	1,103,362	291,954	1,112,771
Adjustments for:				
Depreciation charge	430,351	477,229	430,351	477,229
Gains on investments	(183,059)	(273,383)	(183,059)	(273,383)
Investment income	(130,749)	(107,678)	(130,749)	(107,678)
Surplus on the sale of tangible fixed assets	-	-	-	-
Decrease/(Increase) in debtors	(181,561)	(365,088)	(170,087)	(369,417)
(Decrease)/Increase in creditors	(694,164)	617,480	(708,745)	617,480
(Decrease)/Increase in provisions	(28,148)	(873,372)	(28,148)	(873,372)
Net cash provided by operating activities	<u>(473,971)</u>	<u>578,550</u>	<u>(498,483)</u>	<u>583,630</u>

26 Analysis of cash and cash equivalents

	Group		Charity	
	2018	2017	2018	2017
	£	£	£	£
Cash at bank and in hand - liquid assets	2,559,734	4,248,932	2,502,630	4,216,340
Cash at bank - fixed asset investments	370,784	75,493	370,785	75,493
Cash at bank and in hand at the end of the year	<u>2,930,518</u>	<u>4,324,425</u>	<u>2,873,415</u>	<u>4,291,833</u>

Glossary

FRS 102	The Financial Reporting Standard applicable in the UK and Republic of Ireland
S2P	State Second Pension
SAUL	Superannuation Arrangements for the University of London
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
USS	Universities Superannuation Scheme

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