



**The Quality Assurance Agency
for Higher Education**

**Annual Report and
Financial Statements
2016-2017**

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Foreword from our Chief Executive and Chair

Good progress in a changing higher education landscape

We have travelled a long way in the last 12 months, with major regulatory and policy developments across the UK including the passing of the *Higher Education and Research Act 2017* in England, the conclusion of the Quality Enhancement Review in Scotland, and the development of the Quality Assessment Framework for Wales.

As the *Higher Education and Research Act 2017* passed through parliament, we were particularly pleased that QAA and the UK's quality assurance system received over 80 positive mentions during debates, including from Minister Jo Johnson:

'Our HE system is internationally renowned, as Members have commented today. Underpinning this reputation is our internationally recognised system of quality assurance and assessment, which we are updating to meet future needs in an increasingly diverse HE system. The UK Quality Code is central to this quality system and has been for many years.'

Jo Johnson, Minister for Universities,
Science, Research and Innovation,
Higher Education and Research Bill,
House of Commons Public Bill Committee,
13 Sept 2016

This year also marked the 20th anniversary of our founding. It is a pleasure to see our work continuing to strengthen our sector and the academic experiences of students, as providers respond and improve as a result of critical judgments, or when we find examples of great practice that we can share and celebrate.

I would like to thank our Board for their support and strategic challenge during the year. Thank you also to all those who have supported us and contributed to our work. We look forward to the future.

Douglas Blackstock
Chief Executive

Well positioned for the future

In a changing UK regulatory environment, we need to deliver an innovative system that works for the whole of our diverse sector - universities, colleges and alternative providers. It is vital that we also continue to empower students to shape their own learning experiences.

As we look to the future for the sector, we are ready to play our part. The new QAA strategy, *Building on World-Class Quality*, sets out how, as the UK's expert independent quality body, we will deliver our vision of world-leading and independently assured UK higher education, ensuring the best possible academic experiences and outcomes for our students.

During the year, we completed an organisational transformation programme to ensure we are lean, responsive and ready to meet the future needs of the sector. We have also continued a review of our governance structure and supporting processes, to ensure the future efficiency, effectiveness and sustainability of our decision making.

I would like to pay tribute to all our staff, led by Douglas Blackstock and his Executive team, for their hard work including the successful delivery of our strategy this year, and their continued dedication and commitment to our organisation.

Christopher Banks CBE
Chair of the Board of Directors

Strategic Report

Our mission

QAA is the independent body entrusted with monitoring and advising on standards and quality in UK higher education. Our mission is to safeguard standards and improve the quality of UK higher education, wherever it is delivered around the world.

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 valuable events to enhance practice and support providers.

We are innovatively reviewing our internal systems and processes to 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 regulators, sector agencies and professional bodies, collaborating for the benefit of the sector.

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

20th anniversary of QAA's founding
Launch of our new strategy, *Building on World-Class Quality*
30 Quality Review Visits
156 reviews and annual monitoring visits of alternative providers
3 updated handbooks published for degree awarding powers applicants in England, Scotland and Wales
8 Quality Enhancement Network events attended by over **300** delegates
5 Unsatisfactory Quality and **3** full Concerns Scheme investigations
Over **500** prospective students attended our Access to HE Admissions Fair
299 providers assessed for Year 2 of the Teaching Excellence Framework
80 positive mentions of QAA and UK quality assurance in parliamentary debates on the Higher Education and Research Bill
500 delegates from **17** countries attend the third International Enhancement Conference in Glasgow

August 2016

Publication of our report, *Plagiarism in Higher Education*.

September

Implementation of new QAA organisational structure.
QAA's Chief Executive gives evidence to the House of Commons Public Bill Committee, on the 2016-17 Higher Education and Research Bill.

October

Sixth QAA International Quality Assurance Programme in London.
We host delegates from 45 countries at the seventh General Assembly of the European Association for Quality Assurance in Higher Education (ENQA) in Gloucester.

November

We attend the first meeting of the UK-wide Standing Committee for Quality Assessment.
QAA PSRB Forum takes place at London South Bank University.

December

Publication of the first handbook for Quality Review Visits.
Relocation of QAA's London base to the premises of Jisc.
QAA Quality Matters student engagement conference in Birmingham.

January 2017

Publication of the final report of the Universities UK review of sector agencies.
We host a bespoke study tour for Saudi Arabian quality assurance professionals.

February

Minister Jo Johnson asks QAA to work with sector partners to tackle plagiarism and essay mills in UK higher education.
Publication of the handbook for the revised method of Transnational Education Review (TNE) and a three-year TNE review programme covering Ireland, Hong Kong and Malaysia.

March

20th anniversary of our incorporation.
Publication of the outcomes of the final year of Higher Education Review (2015-16).

April

The *Higher Education and Research Act 2017*, on which we provided advice and guidance, receives Royal Assent.
Publication of the handbook for the fourth cycle of Enhancement-led Institutional Review.

May

Launch of new QAA strategy, *Building on World-Class Quality*, at our annual conference at Nottingham University.
QAA Evolving Student Engagement conference in Birmingham.
Launch of QAA's first online training course, *Concepts of Quality*.
Universities Wales commissions QAA as the quality review provider for all Welsh universities.
We attend the first meeting of the Quality Alliance of the Institute for Apprenticeships and publish *Quality Assuring Higher Education in Apprenticeships*.

June

Launch of new QAA *International Insights* series, beginning with the United Arab Emirates.
Outcomes of TEF Year 2 applications announced.
We host the third International Enhancement Conference in Glasgow.

July

Conclusion of our consultation on the new Quality Enhancement Review for Wales.
Publication of key findings of QAA reviews in Wales (2010-16).

Aims and achievements

1 As the independent body entrusted with monitoring and advising on standards and quality in UK higher education, we are dedicated to checking that the three million students working towards a UK qualification get the higher education experiences they are entitled to expect.

2 This was the final year of our 2014-17 strategy. Over that period, we have delivered and built on our mission, and increased our influence and impact.

3 The three aims of our 2014-17 strategy:

- **Aim 1** - We will enhance the quality and secure the academic standards of UK higher education, wherever delivered, in order to maintain public confidence.
- **Aim 2** - We will provide leadership, through knowledge and resources, in assuring and enhancing the quality of higher education within the UK and internationally.
- **Aim 3** - We will extend and enhance the value and reach of QAA's services within and beyond UK higher education.

4 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.

5 This section highlights our achievements against the aims and objectives we set ourselves for 2016-17.

Aim 1

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

Teaching Excellence Framework

6 The Teaching Excellence Framework (TEF) aims to recognise and reward excellence in teaching and learning, and help to inform prospective students' choices for higher education. We have made a significant contribution to the government's development of the TEF from its early stages, participating actively in government-led steering and delivery groups, providing expert advice and secondments of QAA staff. This year, we have worked closely with HEFCE to manage the assessment process for TEF Year 2, in which a total of 299 universities, colleges and alternative providers of higher education chose to participate. As part of the TEF delivery team, we undertook provider briefings around the UK, and trained around 100 assessors and panellists, including embedding students as part of peer review teams. We continue to play a key role in the future development of the TEF, including at subject level.

Quality assessment

7 Since 1 August 2016, we have delivered significant elements of the funding bodies' revised model for quality assessment in England and Northern Ireland, and transnational education review and strategic international activities for the whole of the UK sector.

Quality Review Visits

8 We reviewed **30** providers for Year 1 of the new Quality Review Visit, part of the Gateway process for higher education in England and Northern Ireland. It applies to:

- **New entrants:** providers wishing to enter the publicly funded sector
- **Recent entrants to the sector:** providers that have undergone a period of enhanced developmental monitoring and scrutiny
- **Established providers:** providers where there is evidence of a sufficiently serious problem
- **Transition providers:** providers without two or more successful reviews under previous quality assessment arrangements.

Of the **30** providers reviewed:

- **One** new entrant - judged satisfactory
- **19** transition providers - judged satisfactory
- **10** transition providers - judged unsatisfactory (with follow-up action undertaken by HEFCE).

9 In preparation for the reviews, we undertook a sector-wide consultation on the new method, developed and published the accompanying handbook and supporting materials, recruited and trained **92** reviewers (including **25** student reviewers), and completed a range of online provider briefings. The training work was completed in collaboration with sector colleagues from the Competition and Markets Authority (CMA), Office of the Independent Adjudicator (OIA), Leadership Foundation, and Higher Education Funding Council for England (HEFCE).

International engagement and transnational education reviews

10 UK transnational education is UK higher education delivered overseas. This year, on behalf of the whole UK sector, we developed a revised method for transnational education (TNE) review. This was approved by the UK-wide Standing Committee for Quality Assessment, which provides sector-led oversight of quality assessment arrangements that continue to be shared across the UK. In February 2017, we published both the TNE review handbook and a three-year programme for TNE reviews: Ireland (2017), Hong Kong (2018) and Malaysia (2019).

11 We have continued to strengthen and deepen our strategic relationships to support UK higher education internationally, renewing Memoranda of Understanding with agencies in Hong Kong and Japan, and with work underway on a further renewal with an agency in China. We have a total of **15** memoranda with partners around the world, and a number of letters of intent to develop agreements in other countries.

12 We were also pleased to launch two new international publication series - *Country Reports* and *International Insights* - which will deliver valuable insights to UK providers on the regulatory and higher education landscapes in key countries and regions for UK transnational education (TNE). The reports so far have covered the United Arab Emirates, Pakistan, Hong Kong, China and Ireland.

Unsatisfactory Quality Scheme Investigations and the Concerns Scheme

13 This area of our work is an important safeguard to address any weaknesses in the management of UK academic quality and standards. For England and Northern Ireland, we undertake investigations referred to us by HEFCE under the new Unsatisfactory Quality Scheme (UQSI). For Scotland and Wales, and for all UK alternative providers, we continue to operate our Concerns Scheme. During 2016-17, we completed:

- **Five** Unsatisfactory Quality Scheme investigations
- **Eight** Concerns Scheme initial inquiries, of which **three** progressed to full investigations
- **Five** Scottish Concerns Scheme initial inquiries, of which **none** progressed further.

Verification

14 In light of the passing of the *Higher Education and Research Act 2017*, and the work now underway to develop and consult on a new regulatory framework for higher education in England, HEFCE has agreed with QAA that it would not be helpful to the sector to run the planned verification process at this time. Therefore, it has been agreed that the process be cancelled.

For universities and further education colleges in England, 2016-17 marked the beginning of a new system of quality assessment. We made a key contribution to this system, working closely with HEFCE, to successfully develop and launch three new review processes: Quality Review Visits, Unsatisfactory Quality Investigations and Transnational Education Review. The busiest of these were Quality Review Visits (QRV), whose outcomes demonstrate that the best further education colleges continue to deliver excellent higher education. However, QRV also showed that a significant minority of colleges are not measuring up to the new baseline requirements.

The successful deployment of our expertise in quality assurance and information technology also helped ensure the Teaching Excellence Framework was delivered on time and according to the government's specification. We're pleased to continue to play an important part in the TEF's future development.

Alternative provider programmes

15 We currently review **218** alternative providers (independent providers not in receipt of direct recurrent public funding) of higher education on behalf of the Home Office and Department for Education.

16 We undertook a total of **156** reviews (including annual monitoring) during the year, under Higher Education Review (Alternative Providers) and its associated methods. There is a positive overall upwards trend in review outcomes, rising from 58 per cent positive outcomes in 2014-15, to **89 per cent** in 2016-17, as the sector matures. 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.

17 We have also continued to strengthen our engagement with alternative providers, holding two Liaison Forums during the year and an Annual Alternative Provider Conference, attended by **120** delegates. We have offered additional support for reviews through provider briefings and improved guidance on our website. Twelve new reviewers from alternative providers have also been added to our reviewer pool, ensuring that the vast majority of review teams will include a reviewer with an alternative provider background.

Scotland

18 In 2016, we were commissioned by the Scottish Funding Council to develop the new method of quality enhancement review in Scotland, in consultation with the Scottish university sector and student representative bodies. This was successfully completed during the year and the new handbook for Enhancement-led Institutional Review was published in April, with accompanying briefings and guidance for the sector. The first reviews will take place in 2017-18.

19 In summer 2017, the Enhancement Theme on Student Transitions concluded successfully, with a range of legacy resources available for future sector use, including an online student transitions map populated with hundreds of individual resources. We will deliver the new Enhancement Theme (Evidence-based Enhancement) in Scotland for 2017-20. Importantly and for the first time, we will also run a parallel programme across the rest of the UK, to ensure that good practice is disseminated elsewhere.

Wales

20 In 2016-17, we successfully delivered the final year of our service level agreement with the Higher Education Funding Council for Wales (HEFCW) and Universities Wales. In May 2017, we were delighted when Universities Wales announced that we would be the single independent external quality reviewer on behalf of all universities in Wales. This was a decisive vote of confidence in our work in Wales, as under the Welsh quality assessment framework, institutions could choose from any quality assurance agency on the European Quality Assurance Register (EQAR). It also builds on our extensive record in designing and delivering external quality assessment that meets different needs - most notably for the different nations and providers in the UK. We undertook a sector consultation on the handbook for the new Welsh review method during summer 2016. In designing the new method, we have ensured we comply with specific Welsh standards and expectations, including working with the Welsh Language Commissioner on Welsh language standards.

During 2014-17, we saw growing interest across the UK in how our work builds on quality assurance to drive quality enhancement. By securing the UK-wide quality assessment work for international activity and transnational education, this has served to strengthen recognition of our role in underpinning the UK's global reputation for providing world class higher education. The support of partners, including Universities UK International, the British Council, the Department for International Trade and staff of British embassies, has been vital in this.

In Scotland, we successfully completed the third cycle of Enhancement-led Institutional Review, and supported the review of Scotland's Quality Enhancement Framework, helping to ensure that it will effectively support higher education in Scotland in the future. In Wales, we completed six years of review activity and worked closely with the sector to develop a new method to align with the Quality Assessment Framework in Wales. Our work continues to demonstrate our capacity and expertise in responding to the individual requirements of each nation, while providing coherence and continuity across the UK sector as a whole.

Appeals and complaints

21 We have a complaints procedure for anyone wishing to complain about QAA and a separate appeals procedure for providers that want to appeal against the outcome of a QAA review. During this year:

- **26** providers were eligible to appeal across a range of review methods
- **18** chose not to appeal
- **Seven** appeals were submitted, of which **five** were rejected and **two** upheld
- **One** appeal is still pending.

22 We also consulted on, and subsequently introduced, a shortened appeal process for the new Quality Review Visit, with **35** reviewers now trained to hear those appeals with which they have no prior involvement.

Degree awarding powers and university title

23 We have provided expert advice to the governments of the UK on applications for degree awarding powers and university title since our foundation in 1997. We are committed to supporting providers in the application process for degree awarding powers and, during the year, we held more than **20** meetings with individual providers regarding their plans. We also gave presentations, and participated in a number of events and conferences to provide advice and guidance for potential applicants. During this year:

- **10** ongoing applications for degree awarding powers continued under our scrutiny from the previous year
- **Eight** new applications were considered by our Advisory Committee on Degree Awarding Powers (ACDAP), of which **six** were allowed to proceed to detailed scrutiny
- **Five** final reports on applications were considered by ACDAP following detailed scrutiny, all of which were put forward for recommendation
- **Three** updated handbooks for applicants were published for England, Scotland and Wales respectively.

Access to HE

24 We are proud to manage the scheme for the recognition and quality assurance of Access to HE courses, which prepare adult students for entry to higher education.

In 2016-17, we have focused on the implementation of a new risk-based regulatory monitoring method for Access Validating Agencies (AVAs). The process involves scrutiny of submissions received from AVAs at four points throughout the year, and has been designed to ensure that we continue to safeguard quality and standards in the awarding of Access to HE Diplomas, and the student academic experience. New Access to HE reviewers have been recruited and trained to work on this new method.

25 In October 2016, our fourth Higher Education Admissions Fair for Access to HE was held in London. Around **500** students attended, participating in a range of free workshops and talking to **30** exhibitors from the higher and further education sectors.

26 Our Access to HE Key Statistics (2015-16) report this year underlined the continued positive impact of this qualification in widening participation in higher education:

- **23,660** Access to HE Diploma students entered higher education in England and Wales, of whom:
 - **87%** were over 21 years old
 - **23%** were from low participation areas
 - **31%** were from ethnic minority backgrounds
 - **17%** had a disability or learning difficulty.

Aim 2

We will provide leadership, through knowledge and resources, in assuring and enhancing the quality of higher education within the UK and internationally

Policy developments in the devolved nations

27 In Wales, the Diamond and Hazelkorn Reviews have resulted in significant changes to Welsh student support and the post-compulsory education landscape, with the proposed creation of a single authority to oversee all tertiary and post-compulsory education. In Scotland, QAA has contributed to government reviews of the 15-24 Learner Journey, and Skills and Enterprise. In parallel with the establishment of the Institute for Apprenticeships in England and introduction of the Apprenticeship Levy, QAA has continued to work through its networks on the different approaches to apprenticeships being undertaken in Scotland, Wales and Northern Ireland.

Helping to shape the future regulatory landscape in England

28 The *Higher Education and Research Act 2017*, which received Royal Assent in April 2017, has introduced the most significant reform of higher education in England since the 1990s. As the Bill progressed through Parliament, we have worked with the Department for Education and other sector stakeholders to provide advice and, in September 2016, our Chief Executive gave oral evidence to the House of Commons Public Bill Committee. There were around **80** positive mentions of QAA and UK higher education quality assurance in debates in both Houses. In our 2017-20 strategy, we have set out our intention to become the designated independent quality body under the provisions of the Act, and are working actively to secure that role.

29 During passage of the Bill and following the Act, we have been an active, expert contributor to debates shaping the new regulatory framework for England, including degree awarding powers. We are also a member of the UK-wide Standing Committee for Quality Assessment, which is providing sector-led oversight of those aspects of quality assessment arrangements that continue to be shared across the UK, including the Quality Code.

Sector analysis and research

30 During the year, we have undertaken research and analysis to inform our operations, to provide intelligence for our partners and stakeholders, and to inform the development of higher education policy. We have published a range of thematic reports on subjects including outcomes and trends from our review findings. We have also added to our Viewpoint series of policy papers, examining issues including: the postgraduate research student experience; how providers can work with employers to improve graduate outcomes; and standards and quality in alternative providers.

31 We continue to invite case studies from providers that receive commended review judgements, in order to share good practice more widely across the sector. During the year, we published **11** new case studies, bringing our collection to **65** papers on subjects including: assessment strategies; employer engagement; and teaching and learning strategies. We continued to expand our online QAA Knowledgebase, which provides a searchable database of thousands of recommendations, affirmations and features of good practice from our reviews. There were **367** recommendations, **76** affirmations and **148** features of good practice added during the year.

UK Quality Code for Higher Education review

32 The Quality Code is the core reference point for UK quality and standards, including *The Framework for Higher Education Qualifications in England, Wales and Northern Ireland* (FHEQ). We held two well-attended events this year through our Quality Enhancement Network to consider the future role and shape of the Quality Code, which we manage and develop on behalf of the sector. A number of areas were identified for further development, with the strongest suggestions being:

- rationalising the content of the Code
- updating its terminology.

33 We are currently working with the sector and the UK-wide Standing Committee on Quality Assessment to revise the Quality Code.

One of the key focuses for the Agency this year has been work relating to the development of a new regulatory and quality framework for England. The results to date have been highly successful in helping to shape a framework that will continue to assure the quality and standards of our world-class sector.

Our work with the UK-wide Standing Committee for Quality Assessment and the Department for Education on the new framework has also resulted in a strong commitment to the importance of the Quality Code in quality assurance and regulation. There is now agreement to begin the process of reviewing the Code, and recognition that it needs to be fit for purpose for the varied approaches to quality across all nations.

Enhancement events

34 In June 2017, we hosted the third International Enhancement Conference in Glasgow. The event was attended by over **500** delegates from **17** countries, with keynotes from speakers including Shirley-Anne Somerville MSP, Minister for Further Education, Higher Education and Science, and over 100 parallel sessions.

35 **Eight** Quality Enhancement Network events were held during the year, attended by over **300** delegates. The topics were selected based on demand from our subscribers and included: development of the Quality Code; enterprise and entrepreneurship; and the value of the PhD.

2017 annual conference

36 Our annual conference took place over two days in May at the University of Nottingham's East Midlands Conference Centre. The event is designed as a forum for our subscribers to share knowledge, support their decision making and enable networking. There were **340** delegates in attendance at this year's conference, an increase of **15 per cent** from 2016. The conference featured the launch of our new strategy, *Building on World-Class Quality*, which was very positively received.

Aim 3

We will extend and enhance the value and reach of our services within and beyond higher education

Academic fraud, plagiarism and essay mills

37 Following our 2016 report on plagiarism and essay mills, and a subsequent request to continue our work from Jo Johnson, Minister for Universities, Science, Research and Innovation, we have been working closely with Universities UK and the National Union of Students on the development of new guidance for providers and an information pack for students, due for publication for the 2017-18 academic year. We have also secured European funding for the development of further materials relating to academic fraud, and are linking into other international projects on academic integrity.

Higher and degree apprenticeships

38 As part of our commitment to develop the quality framework for higher and degree apprenticeships, we are members of the Institute for Apprenticeship's Quality Alliance and its stakeholder reference groups. We have continued to work with the Institute, government and sector partners to clarify and define the respective roles and responsibilities for regulation and quality of higher and degree apprenticeships. This included contributing to the Department for Education's *Apprenticeships Accountability Statement* (published April 2017) and producing our own sector guidance in May 2017, *Quality Assuring Higher Education in Apprenticeships: Current Approaches*. We also delivered a piece of work for HEFCE during the year on how current arrangements deal with some of the key issues in the quality assurance of degree apprenticeships.

Engagement

39 In a rapidly changing higher education policy landscape, our engagement work with our stakeholders has been more important than ever this year. We conducted **171** visits to **122** providers, holding meetings with both quality practitioners and senior leadership. These meetings are important fora for the exchange of intelligence and ideas, and provide invaluable insights into what providers need from us now and in the future. Key themes of discussion have included: the *Higher Education and Research Act 2017* and the designated quality body; the revised model for quality assessment; the TEF; international activities and transnational education; and higher and degree apprenticeships.

40 We are committed to working with students to involve and empower them in shaping their learning experiences. We have embedded students into our governance arrangements for a number of years, with **two** student members of our Board and a separate Student Advisory Committee. This year, we were pleased to host **two** student conferences attended by a total of **291** delegates: Quality Matters (November 2016) and Evolving Student Engagement (May 2017), the latter run jointly with The Student Engagement Partnership.

41 We also work with professional, statutory and regulatory bodies (PSRBs) to make regulation more efficient. At the centre of this is our PSRB Forum, a joint venture with the UK Inter-Professional Group (UKIPG), which comes together to debate challenges and developments in higher education. **Two** meetings have taken place this year, with guest speakers from the sector and over **100** PSRB delegates at each.

42 Our parliamentary and government engagement work this year has included briefings, consultation responses, meetings, active membership of various government working groups, secondment of QAA staff to the Department for Education, and other

activities. We have continued to develop and maintain good working relationships with a range of politicians and their advisers, providing written and face-to-face briefings throughout the year on key issues.

International co-operation to support UK higher education

43 We are involved in a number of strategic initiatives and events to support UK higher education. These include the European-funded SHARE project to strengthen regional cooperation and enhance the quality of ASEAN higher education institutions and students, which has involved working particularly with colleagues in Vietnam, Myanmar and the Philippines over the course of the year.

44 On behalf of the sector, we are a full member of the European Association for Quality Assurance in Higher Education (ENQA), the umbrella organisation for quality assurance agencies in the European Higher Education Area. In autumn 2016, we hosted delegates from 45 countries in Gloucester for the ENQA General Assembly and attended the ENQA Members Forum in Oslo, in May 2017.

45 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 Council for Higher Education Accreditation conference (USA); the Asia-Pacific Quality Network conference (India); Quality Beyond Boundaries (Australia); Going Global (London); and the International Network for Quality Assurance Agencies in Higher Education (Bahrain). In early March 2017, the Chief Executive visited the United Arab Emirates and Bahrain, as part of a delegation led by Universities UK International. In autumn 2017, we will host a joint conference with our Irish partner agency, QQI, exploring European aspects of transnational education.

Subscriber and wider services

46 We have launched a number of significant new valued-added services this year, some exclusively for our subscribers and some available to the wider sector, including:

- subscriber workshops on using data in quality and trend spotting, and the relationship of the Quality Code to the European Standards and Guidelines
- a pilot programme for our new Good Practice Case Studies for subscribers
- a pilot programme for subscriber guidance, focused on the role of the European Standards and Guidelines in UK quality assessment
- scoping future bespoke review activities with individual institutions
- the announcement of a data conference in November 2017, in partnership with our M5 Group partners, Jisc and the Higher Education Statistics Agency (HESA)
- the launch of our first online training course, *Concepts of Quality*, for which early demand has been strong
- development of a further blended learning programme for quality professionals at different career stages (entry level, officer, manager), in association with the Quality Strategy Network.

47 This development work has been based on detailed research and analysis of what our subscribers want and need, including an independent survey of the views of senior leaders of UK institutions, a subscriber questionnaire, and feedback from the liaison visits undertaken this year. Further service development continues, with **six** pilot programmes planned for 2017-18.

48 While changes are taking place in the sector and future financing arrangements are being developed (for example, with the establishment of the new Office for Students),

we have agreed with our company members and subscribers that subscriptions to QAA will be held at 2016-17 levels for a two-year transitional period.

Support for applications for degree awarding powers

49 Building on our commitment to supporting providers in the application process for degree awarding powers, we have conducted a pilot programme this year to identify and clarify what strategic support is needed by providers. This has been developed into a two-stage approach, which we are now offering as a consultancy service for providers:

Stage 1: Gap analysis and strategic planning

Stage 2: Supporting the provider to implement its strategic plan.

International training and consultancy

50 Internationally, we have successfully undertaken the first International Quality Reviews, after they were launched in spring 2016. These reviews are designed for international institutions wishing to undergo a review by QAA against the *Standards and Guidelines for Quality Assurance in the European Higher Education Area* (ESG). We are also in discussions with a number of countries regarding future training and consultancy work.

51 Our week-long International Quality Assurance Programmes (IQAP) have continued to attract colleagues from around the world to London to undertake continuing professional development, with the sixth IQAP taking place in October 2016. We have now welcomed over **120** delegates from **40** countries around the world since the programme's launch. Building on this success, we will host our first IQAP outside the UK in November 2017 in Dubai. In January 2017, we also hosted a delegation of 20 Saudi Arabian quality assurance professionals in Gloucester for a bespoke study tour.

Organisational transformation programme

52 In June 2016, we began an organisational transformation programme to ensure the Agency is lean, responsive and meets the future needs of the sector. As part of this programme, targets of 26 per cent savings in pay and 25 per cent savings in non-pay were achieved, with a reduction of 69 FTE staff (38 per cent). A new organisational structure was implemented on 1 September 2016, with a programme to support colleagues in their new roles and new ways of working:

- ensuring our processes, new staffing structure, the space we work in, and the systems we use meet the needs of our new activities
- reviewing our processes and structure to ensure that they are effective and efficient
- changes to our committee structures, Board, planning and performance management, to ensure they are streamlined and fit for purpose.

M5 Group collaboration

53 Our M5 Group collaboration with HESA and Jisc has continued to develop and deliver benefits for the three organisations and our sector stakeholders, including:

- savings through shared premises with Jisc in London
- faster and more cost-efficient delivery of our customer relationship management system
- development of a single shared IT service desk for all three organisations, for 2017-18

- collaboration on data work, including delivery of joint training and a data conference in London, November 2017
- knowledge exchange and collaboration in finance, HR and marketing.

Our organisational transformation programme was successfully delivered this year, allowing our staff to better understand the new organisational structure and their role within it, and ensuring that key internal and external services were delivered despite significant reductions in resource in some areas. A key strand of the transformation programme was to continue to deliver benefits from our M5 Group collaboration with HESA and Jisc, allowing us to move forward more quickly and achieve savings on major projects, on behalf of the sector.

Our 2017 annual conference, Building on World-Class Quality, was held in May at East Midlands Conference Centre, Nottingham. The conference was the setting for the launch of our new strategy, and we commence its delivery having demonstrated that we can respond positively to the significant challenges and changes in the external environment.

Looking forward

54 The scale, diversity and delivery of higher education is changing, both in the UK and globally. So too is the regulatory environment, with reforms being implemented in all four nations of the UK.

55 We are ready to meet these challenges, now and in the future. Our new 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.

56 We thank those who have contributed to the development of our strategy, including our staff, company members, Board advisory committees, funders and UK governments.

Strategy: Building on World-Class Quality

57 We 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.

Our strategic aims

Aim 1: We will be the expert independent quality body supporting a diverse system of co-regulation of UK higher education.

58 We will achieve this by:

- securing and undertaking quality assurance in Wales
- ensuring that QAA Scotland's enhancement-led approach delivers for, and has greater impact beyond, Scotland
- playing a key role in the design and implementation of the regulatory and quality system in England and Northern Ireland.

59 Our success criteria will be:

- we become the designated quality body, operating an effective quality assessment system for England and Northern Ireland
- we have a leading role in higher education quality assurance in each nation of the UK, ensuring comparability and the shared benefits of UK-wide approaches
- the benefits of our enhancement-led and risk-based approaches are recognised and valued by providers.

60 Priorities for 2017-18:

- become the designated quality body in England with strong sector support
- successfully deliver all existing quality assurance activities
- design and deliver the first year of the new Enhancement Theme and successfully launch and deliver Enhancement-led Institutional Review 4 in Scotland
- secure sector-wide support for, and successfully launch and deliver, the new review method in Wales.

Aim 2: We will deliver valued services that provide assurance and drive quality enhancement.

61 We will achieve this by:

- being a trusted source of advice and guidance for UK higher education providers and UK governments
- contributing to improvements in the student learning experience
- developing and delivering innovative activities and services which meet the needs of our subscribers.

62 Our success criteria will be:

- we have a clear, supported package of products and services
- our views and advice are sought as a trusted expert
- the Quality Code and its component parts remain current in the context of changing policy across the UK
- analysis and insight from our work provides evidence that drives improvement and change.

63 Priorities for 2017-18:

- develop and deliver valued products and services for subscribers and the broader sector
- proactively influence policy development, produce valued guidance, and run successful events on key issues and themes for UK higher education
- use UK-wide analysis from review, enhancement and other activities, to design and deliver effective events and materials.

Aim 3: We will use our international reputation and partnerships to benefit UK higher education.

64 We will achieve this by:

- providing targeted intelligence that supports the UK sector internationally
- working with international partners to seek improvements in the regulatory framework for UK TNE provision
- securing demand for our International Quality Reviews and other services that endorse us as a highly respected authority.

65 Our success criteria will be:

- recognition that our work actively facilitates UK transnational education
- continued growth in demand for our paid-for services
- our reports and analysis on quality topics are valued, and maintain us as a thought leader
- we achieve a successful ENQA review in 2018 and retain our place on the European Quality Assurance Register.

66 Priorities for 2017-18:

- develop in-demand, intelligence-led materials and services to share information for subscriber benefit
- secure a successful outcome from our ENQA review

- successfully deliver our TNE review in Hong Kong, in partnership with local agencies
- make effective use of links with our international partners to reduce areas of duplication for UK TNE.

Resourcing strategies

67 Underpinning these aims are the resourcing strategies to ensure QAA remains financially sustainable and organisationally effective, able to deliver our aims and remain true to our values.

68 Priorities for 2017-18:

- build a sustainable financial model that gives clarity on the split between regulatory requirements and our subscription offerings
- deliver benefits from streamlining internal operations and cost savings from our M5 Group projects.

69 The changing regulatory environment brings challenges to ensure our financial model reflects the complexities of approaches across the UK nations. This model will be in place for the 2019-20 financial year and transitional arrangements have been agreed for 2018-19. The resourcing strategies take account of this increasingly complex and unpredictable income model, and seek to deliver long-term sustainability and value to all.

Financial review

70 The financial statements have been prepared in accordance with the requirements of the Charities SORP. Following the publication of our 2014-17 strategy with its three strategic aims (which are reported on above), resources expended on charitable activities are shown split between these aims. The **total resources expended** note (note 8, page 46) splits these categories down further and includes an allocation of support costs across the aims.

Results

71 QAA's 2016-17 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 Access Validating Agencies (AVAs), conferences and investment income.

72 QAA's net income for the year ended 31 July 2017, before recognising investment gains, was £829,979 (2016: net expenditure of £331,768). After recognising net gains on investments of £273,383 (2016: £26,602), the net movement in funds for the year was an increase of £1,103,362 (2016: decrease of £305,166) which has increased reserves. The accumulated funds at 31 July 2017 are £5,743,431 (2016: £4,640,069).

73 QAA's wholly owned trading subsidiary, QAA Enterprises Limited, has made a contribution of £4,911 to the group surplus, and a gift aid donation of £14,320 to the charity in the year. QAA continues to develop new activities and, when appropriate, these are channelled through the subsidiary.

Income

74 Total income as shown in the Statement of Financial Activities (SOFA) decreased by £3,072,113 (19.9%) to £12,388,117 between 2015-16 and 2016-17.

75 Income from charitable activities shows a net decrease of £3,016,501 (19.7%) due to decreases in:

- **contracts with higher education funding bodies** (£2,898,674; 41.3%, due primarily to the changes in the funding structures)
- **subscriptions** (£468,079; 9.4%, due primarily to a change in the subscription rates in 2016-17).

76 The decreases are offset by increases in:

- **alternative providers of higher education** (£180,876; 8.1%, due to an accelerated programme of review activity)
- **other contracts and related income** (£169,376; 15.8%, due to increased income from overseas reviews in Albania offset by decreased income from other overseas projects and degree awarding powers).

77 Income from investments has decreased by £34,418 (24.2%) to £107,678.

78 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.

79 Income from other trading activities of £10,000 relates to the trading subsidiary.

Expenditure

80 Total expenditure, as shown in the SOFA, decreased by £4,233,860 (26.8%) to £11,588,138 between 2015-16 and 2016-17.

81 Expenditure on charitable activities decreased by £4,230,548 (26.8%) to £11,535,164 to reflect the decrease in income and in order to increase reserves to within the range required by the Reserves policy. Before accounting for restructuring costs and pension provision liability movements, charitable expenditure on the three strategic aims showed a decrease of £4,185,613 (27.5%) to £11,011,871 as follows:

- **Aim 1:** a decrease of £3,241,335 (30.7%) due primarily to reduced review activity following the implementation of the revised operating model.
- **Aim 2:** a decrease of £733,159 (22.8%) due primarily to the reduction in staffing resulting from the necessary restructuring.
- **Aim 3:** a decrease of £211,119 (14.8%) also due primarily to the reduction in staffing resulting from the necessary restructuring.

82 A breakdown of charitable expenditure between the strategic aims is shown in note 7 on page 45.

83 An analysis of charitable expenditure between direct costs and support costs is provided in the **total charitable expenditure** note (note 8, page 46).

Balance sheet

84 QAA's group balance sheet remains strong with total funds of £5,743,431 (2016: £4,640,069).

85 The net book value of tangible fixed assets held by the group and charity shows a decrease to £1,358,438, with depreciation exceeding the £189,244 spent on additions (see note 13 on page 49).

86 The net book value of fixed asset investments has increased by £338,885 to £3,077,280, primarily due to the improvement in the market values.

87 Group and company debtors and deferred income have increased by similar amounts, as the accelerated programme of reviews for autumn 2017 were invoiced in advance in June 2017.

88 The provision for restructuring costs reduced by £765,942 to £37,841 as the majority of payments were made during the year.

Reserves policy

89 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. This range has been amended to take account of the resourcing changes outlined in paragraph 52 on page 15. The level of free reserves at 31 July 2017 is £3.2 million, which falls within this range.

90 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.

91 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 £712,713. During the year, £21,331 was used to cover expenditure, leaving a balance of £691,382. 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.

92 A designated fund of £667,000 for restructuring was created in 2015-16 to cover the remaining restructuring costs crystallising in 2016-17. During the year, £629,000 of this fund was utilised. Details of designated funds can be found in the funds analysis in note 23 to the financial statements.

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

94 At 31 July 2017, QAA's free reserves as defined by the Charities SORP were £3,228,626 (2016: £1,398,933).

Treasury management

95 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.

96 During 2016-17, the revised investment approach agreed by the trustees continued to be followed, with available funds being notionally split into three tranches and managed as follows:

- **short-term working capital** - held by QAA's bankers, HSBC Bank plc, and managed internally
- **medium-term cash funds** - invested with HSBC Bank plc, Barclays Bank plc and Lloyds Bank plc and managed internally in accordance with our cash flow plan to meet short-term working capital requirements

- **longer-term reserves** - over £2.5 million has been placed with Rathbones Investment Management Limited (Rathbones) for discretionary investment in listed shares and gilts.

97 Investment income in the year is attributable to interest receivable of £21,092 from short-term working capital balances and medium-term cash funds, together with interest and dividends of £86,586 received from fixed-asset investments.

98 The market value of the investments is £3.08 million (2016: £2.74 million). The net unrealised gain in the market value of funds held at 31 July 2017 was £569,183 (2016: £382,457). The overall increase in fund value is in line with the investment fund manager's target of CPI plus 4 per cent. The surplus of interest and dividend receipts after paying management charges, together with net gains or losses realised, continues to be re-invested.

99 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 considers the returns on its cash and investments to be acceptable.

Directors' Report

Structure, governance and management

100 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 2017:

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

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

102 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 reform

103 Over the past year, we have continued the review of our governance structure and supporting processes, to ensure the future efficiency, effectiveness and sustainability of our decision making. Changes have included:

- amendment of our Articles of Association (adopted in April 2017 and available on our website), to ensure they are current and in line with best practice
- the appointment of an Honorary Treasurer for an initial term of three years, to provide support to the Board in fulfilling its obligations to provide oversight of QAA
- the appointment of an additional independent Board member who is engaged in the management or governance of an alternative provider, ensuring the Board is representative of the wider higher education sector.

104 During the year, the terms of reference and remit of each Board committee has been reviewed and updated, to ensure our committees continue to be fit for purpose, and operate effectively to support the Board in discharging its statutory duties. This review led to the redefinition of three Board committees to Strategic Advisory Groups to reflect more appropriately their advisory nature, and the cessation of the Finance and Strategy Committee in July 2017 with the reallocation of responsibilities from this Committee to the Honorary Treasurer, Audit and Risk Committee and Board.

Recruitment and appointment to the Board

105 Our directors of the Agency are also our trustees, for the purposes of charity law. Under our Articles of Association, they are known as the Board. Under the requirements of the Articles, **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, 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.

106 All of our Board members are non-executive directors. They give their time to us voluntarily and do not receive any benefits from the charity. Expenses claimed by our Board members during the 2016-17 financial year are covered in note 11 of our financial statements.

107 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.

Board responsibilities

108 Our Board's principal responsibilities include:

- approving the mission and strategic vision of QAA, strategic plans, annual plans and budgets, and key performance indicators
- ensuring the establishment and monitoring of systems of control and accountability
- ensuring processes are in place to monitor and evaluate our performance and effectiveness
- appointing the Chief Executive and putting in place suitable arrangements for monitoring their performance
- acting as the principal financial and business authority of the Agency
- ensuring we keep proper books of accounts
- approving our annual report and financial statements
- overall responsibility for our assets, property and estate.

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

Board member induction

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

- Charity Commission publications: The Essential Trustee and The Hallmarks of an Effective Charity
- Office of the Scottish Charity Regulator publication: Guidance and Good Practice for Charity Trustees
- QAA publication: Code of Best Practice for Members of the QAA Board (including guidance on ethical conduct, statutory duties and responsibilities, and good governance).

111 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

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

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

113 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.

114 During the year, the average Board meeting attendance was 86 per cent, with specified quorum, as detailed in our Articles of Association, reached at all meetings.

Board committees

115 There were eight Board committees during 2016-17. All committees have individual terms of reference published in our Code of Best Practice:

Governance matters:

- Audit and Risk Committee
- Nomination and Remuneration Committee
- Finance and Strategy Committee (to July 2017).

Advisory:

- QAA Wales
- QAA Scotland
- Students.

Operations:

- Access to HE
- Advisory Committee on Degree Awarding Powers.

QAA Board of Directors

116 From 1 August 2016 to 31 July 2017, the following served as directors and trustees on the QAA Board:

Independent members

Mr Christopher Banks CBE (Chair)	Independent Chair Former Deputy Pro-Chancellor, University of Birmingham (appointed November 2014)
Ms Linda Duncan (Honorary Treasurer)	Chief Executive, Blue Star Consortium (appointed March 2017)
Ms Jane Hern	Former Registrar (Chief Executive), Royal College of Veterinary Surgeons (December 2010 to December 2016)
Ms Janet Hull OBE	Director of Marketing and Reputation Management, Institute of Practitioners in Advertising (November 2011 to November 2017)
Mr Chris Jelley	Chair, Open College of the Arts (December 2010 to December 2016)
Mr Oliver Johnson	Former Chief Executive of Durrell Wildlife Conservation Trust conservation charity (appointed December 2016)
Mr Jon Prichard	Chief Executive, Institute of Chemical Engineers (appointed January 2012)
Ms Sue Reece	Executive Director and Chief Executive, International Education Operations (December 2015 to March 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 (appointed June 2016)
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Appointed jointly by GuildHE Limited, Universities Scotland, Universities UK and Universities Wales

Professor Joy Carter	Vice-Chancellor, University of Winchester (appointed April 2013)
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)

Appointed jointly by the Department for the Economy (Northern Ireland), Higher Education Funding Council for England, Higher Education Funding Council for Wales and the Scottish Funding Council

Professor John Grattan	Pro Vice-Chancellor, Aberystwyth University (appointed June 2013)
Professor Denise McAlister	Pro Vice-Chancellor, University of Ulster (appointed October 2014)
Professor Tim McIntyre-Bhatty	Deputy Vice-Chancellor, Bournemouth University (appointed September 2012)
Professor Philip Winn	Research Professor of Neuroscience, Strathclyde Institute of Pharmacy and Biomedical Sciences (appointed October 2013)

Nominated by the UK Council of Colleges

Mr Gary Warke	Chief Executive, Hull College Group (December 2012 to March 2017)
Mr Stephen Criddle	Principal, South Devon College (appointed June 2017)

Nominated by the National Union of Students

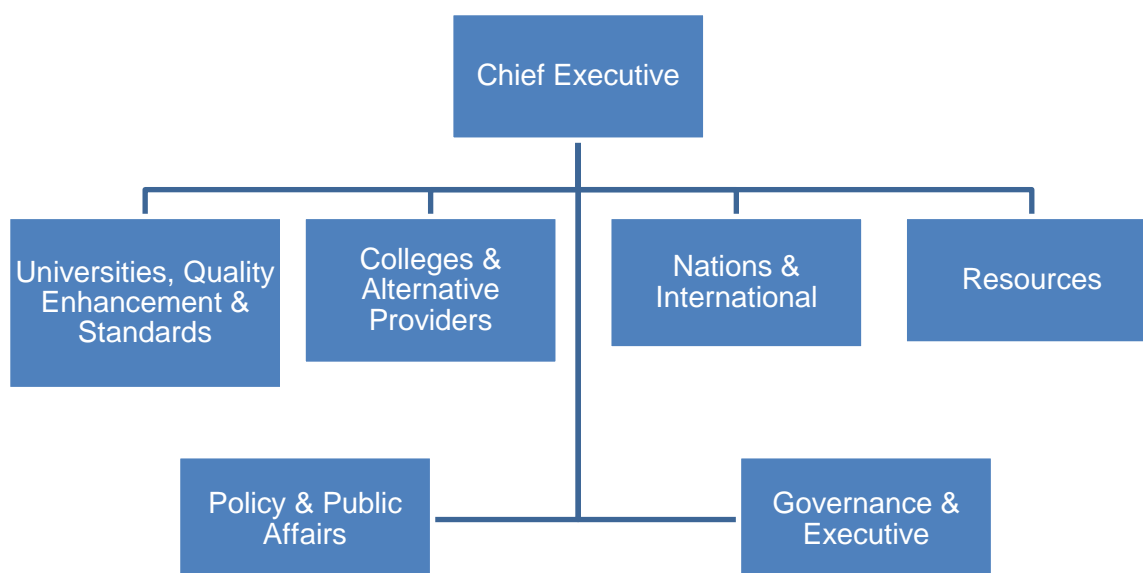
Ms Sorana Vieru	Vice President (Higher Education), NUS (October 2015 to June 2017)
Mr Amatey Doku	Vice President (Higher Education), NUS (appointed June 2017)

Organisational structure

117 Douglas Blackstock was confirmed in post as QAA's Chief Executive in November 2016, after holding the post of Interim Chief Executive from October 2015. Previously, he was QAA's Chief Operating Officer and Director of Resources. Our senior executive staff during 2016-17 were:

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

118 The chart below sets out our structure from 1 September 2016, following our organisational change programme:



Pay and remuneration

119 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.

Equality statement

120 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 a quality assurance agency, as equality is an integral part of our approach to quality assurance and enhancement. Equality is a key element of our view of a high quality educational experience and the expectations students can rightly have of the providers of UK higher education.

Delivering public benefit

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

Relationships with related parties

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

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

Principal risks and uncertainties

123 QAA's approach to risk management 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 plans. The strategic risk register is reviewed by our Audit and Risk Committee at each of its meetings (normally three times a year), and a paper on risk management (including the strategic risk register) is sent to every Board meeting. A review of our risk management processes took place during the year, to ensure risk identification and management continues to be fully integrated into regular operations.

124 The principal risks and uncertainties arising during 2016-17 are set out below, along with our actions to mitigate and manage them:

- i Uncertainties and changes to the UK higher education quality assurance, regulatory and policy landscape, which could adversely affect QAA's future role. We managed this risk through:
 - sustained senior-level engagement with UK governments, sector bodies, subscribers and other stakeholders
 - active participation in consultations, parliamentary inquiries, government working groups and public debates
 - dedicated internal resources to respond (including public affairs, tenders/contract bids, governance review, finance, legal)
 - an organisational transformation programme.
- ii Potential changes to income levels. We managed this risk through:
 - detailed financial modelling and planning
 - organisational transformation programme
 - dedicated business development resources and activities
 - development and testing of new services for the sector
 - international development and activities
 - proactively seeking service-sharing opportunities with other sector agencies, including establishment of the M5 Group.

125 The Board is satisfied that risks and uncertainties are being appropriately 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, Glasgow City, G2 6NL Brettenham House, 5 Lancaster Place, London, WC2E 7EN 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 Clark Whitehill Financial Planning Limited, Carrick House, Lypiatt Road, Cheltenham, Gloucestershire, GL50 2QJ
Solicitors	Shakespeare Martineau, No 1 Colmore Square, Birmingham, B4 6AA
Independent auditor	Crowe Clark Whitehill LLP, Carrick House, Lypiatt Road, Cheltenham, Gloucestershire, GL50 2QJ

Responsibilities of the trustees and directors

126 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).

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

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

128 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

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

- in so far as each of the directors of the company at the date of approval of this report is aware, there is no relevant audit information (information needed by the company's auditor in connection with preparing the audit report) of which the company's auditor is unaware
- each director has taken all of the steps that 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

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

131 The Strategic Report, Directors' Report and financial statements were approved by the Board on 13 December 2017 and were signed on its behalf by:

Christopher Banks CBE
Chair of the Board of Directors

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

Opinion

132 We have audited the financial statements of The Quality Assurance Agency for Higher Education for the year ended 31 July 2017, which comprise Group Statement of Financial Activities, the Group and Company Balance Sheets, the Group Cash Flow Statement and the 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 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

133 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.

134 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 2017 and of the group's incoming resources and application of resources for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- 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

135 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

136 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

137 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.

138 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.

139 We have nothing to report in this regard.

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

140 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; and
- 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

141 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.

142 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

143 As explained more fully in the trustees' responsibilities statement set out on page 32, 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.

144 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

145 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.

146 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.

147 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.

Guy Biggin
Senior Statutory Auditor
For and on behalf of
Crowe Clark Whitehill LLP
Statutory Auditor

Carrick House
Lypiatt Road
Cheltenham
Gloucestershire
GL50 2QJ

Financial Statements

Consolidated statement of financial activities (including consolidated income and expenditure account) for the year ended 31 July 2017

	Notes	2017 £ Unrestricted funds	2016 £ Unrestricted funds
Income from:			
Charitable activities	6	12,270,439	15,286,940
Other trading activities	4	10,000	17,590
Investments	5	107,678	142,096
Other		-	13,604
Total income		12,388,117	15,460,230
Expenditure on:			
Fundraising trading costs		3,889	859
Investment management costs		19,085	25,427
Raising funds		22,974	26,286
Charitable activities	7, 8	11,535,164	15,765,712
Total expenditure		11,558,138	15,791,998
Net gains on investments	15	273,383	26,602
Net income/(expenditure) and net movement in funds for the year	9	1,103,362	(305,166)
Reconciliation of funds			
Total funds brought forward		4,640,069	4,945,235
Total funds carried forward	23	5,743,431	4,640,069

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 39 to 60 form part of these financial statements.

Balance sheet as at 31 July 2017

(Company number: 03344784)

	Notes	Group		Charity	
		2017	2016	2017	2016
		£	£	£	£
Fixed assets:					
Tangible assets	13	1,358,438	1,646,423	1,358,438	1,646,423
Investments	15	3,077,280	2,738,395	3,077,281	2,738,396
Total fixed assets		<u>4,435,718</u>	<u>4,384,818</u>	<u>4,435,719</u>	<u>4,384,819</u>
Current assets:					
Debtors	16	1,146,809	781,721	1,172,890	803,473
Cash at bank and in hand		4,248,932	3,817,449	4,216,340	3,779,777
Total current assets		5,395,741	4,599,170	5,389,230	4,583,250
Liabilities:					
Creditors - amounts falling due within one year	17	(2,883,616)	(2,266,136)	(2,882,016)	(2,264,536)
Net current assets		<u>2,512,125</u>	<u>2,333,034</u>	<u>2,507,214</u>	<u>2,318,714</u>
Total assets less current liabilities		6,947,843	6,717,852	6,942,933	6,703,533
Provision for liabilities	21	(182,412)	(1,043,783)	(182,412)	(1,043,783)
Pension provision liability	22	(1,022,000)	(1,034,000)	(1,022,000)	(1,034,000)
Total net assets		<u>5,743,431</u>	<u>4,640,069</u>	<u>5,738,521</u>	<u>4,625,750</u>
The funds of the group and charity:					
Designated funds	23	1,144,382	1,594,713	1,144,382	1,594,713
General funds	23	4,599,049	3,045,356	4,594,139	3,031,037
Total funds as at 31 July 2017		<u>5,743,431</u>	<u>4,640,069</u>	<u>5,738,521</u>	<u>4,625,750</u>

The surplus for the financial year dealt with in the financial statement of the parent charity was £1,112,771 (2016: Deficit £320,697).

The notes on pages 39 to 60 form part of these financial statements.

The financial statements were approved and authorised by the Board on 13 December 2017 and were signed on its behalf by:

Christopher Banks CBE, Chair

Statement of cash flows for the year ended 31 July 2017

	Notes	Group		Charity	
		2017	2016	2017	2016
		£	£	£	£
Cash flows from operating activities:					
Net cash provided by operating activities	26	578,550	581,604	583,630	564,733
Cash flows from investing activities:					
Investment income		107,678	142,096	107,678	142,096
Proceeds from sale of investments		784,933	1,763,367	784,933	1,763,367
Purchase of investments		(800,065)	(471,793)	(800,065)	(471,793)
Purchase of tangible fixed assets		(189,243)	(256,343)	(189,243)	(256,343)
Proceeds from sale of tangible fixed assets		-	2,038	-	2,038
Net cash (used in)/provided by investing activities		(96,697)	1,179,365	(96,697)	1,179,365
Change in cash and cash equivalents in the year					
		481,853	1,760,969	486,933	1,744,098
Cash and cash equivalents at the beginning of the year		3,842,572	2,081,603	3,804,900	2,060,802
Cash and cash equivalents at the end of the year	27	4,324,425	3,842,572	4,291,833	3,804,900

The notes on pages 39 to 60 form part of these financial statements.

Notes to the financial statements for the year ended 31 July 2017

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 program started in 2015-16, this has reduced the base costs of the charity and returned it to an overall net income position. 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. See note 3 for a summary of the financial performance of the charity.

2 Accounting policies (continued)

d Judgements and key sources of estimation uncertainty

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

e Fund accounting

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

f Income

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

g Expenditure and the basis of allocation of costs

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

Staff numbers and costs were allocated either:

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

Non-pay costs were allocated either:

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

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

h Operating leases

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

2 Accounting policies (continued)

i Restructuring and redundancy costs

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

j Tangible fixed assets and depreciation

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

The depreciation rates are as follows:

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

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

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

Judgements and estimation uncertainty

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

k Investments

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

l Debtors

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

m Cash and cash equivalents

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

n Foreign currencies

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

2 Accounting policies (continued)

o Creditors and provisions

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

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

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

p Basic financial provisions

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

q Pensions

Defined benefit schemes

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

Critical accounting judgements

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

Key source of estimation uncertainty

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

2 Accounting policies (continued)

q Pensions (continued)

Defined contribution scheme

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

3 Financial performance of the charity

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

The summary financial performance of the charity alone is:

	2017	2016
	£	£
Income	12,393,637	15,443,840
Expenditure on:		
Raising funds	(19,084)	(25,427)
Charitable activities	(11,535,165)	(15,765,712)
Net income/(expenditure) before investment gains/(losses)	839,388	(347,299)
Net gains on investments	273,383	26,602
Net movement in funds for the year	1,112,771	(320,697)
Total funds brought forward	4,625,750	4,946,447
Total funds carried forward	5,738,521	4,625,750

4 Income from other trading activities

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

	2017 £	2016 £
Turnover	10,000	17,590
Cost of sales and administrative costs	(5,090)	(2,059)
Charitable Donation to Parent	(14,319)	-
Net (loss)/profit for the year	(9,409)	15,531

The assets and liabilities of the subsidiary were:

Current assets	32,592	37,672
Current liabilities	(27,681)	(23,352)
Total net assets	4,911	14,320

5 Income from investments

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

	2017 £	2016 £
Dividend and interest income from quoted investments	86,586	122,585
Interest from cash held in interest bearing bank accounts	21,092	19,511
Total investment income for the year	107,678	142,096

6 Income from charitable activities

	Note	2017 £	2016 £
Subscriptions		4,488,997	4,957,076
Contracts with higher education funding bodies		4,124,664	7,023,338
Alternative providers of higher education		2,418,356	2,237,480
Other contracts and related income		1,238,422	1,069,046
Total income from charitable activities		12,270,439	15,286,940

Analysis by source:

UK Governments		0	124,026
UK higher education funding councils		4,124,664	6,797,873
UK higher education institutions		4,378,727	4,652,576
UK further education institutions		655,770	553,500
UK alternative providers of higher education		2,668,762	2,562,335
Other		934,415	870,459
		12,762,338	15,560,769
Release income deferred in prior years	17	1,328,262	1,038,387
Defer income received in current year	17	(1,820,161)	(1,312,216)
Total income from charitable activities		12,270,439	15,286,940

7 Expenditure on charitable activities

	Note	2017 £	2016 £
Enhance the quality and secure the standards of UK higher education		7,303,544	10,544,879
Provide leadership in assuring and enhancing the quality of higher education		2,489,326	3,222,485
Extend and enhance the value and reach of QAA's services		1,219,001	1,430,120
Total expenditure on charitable activities before restructuring cost and pension provision		11,011,871	15,197,484
Restructuring costs		535,293	903,228
Pension provision – deficit contributions	22	(50,000)	(384,000)
Pension provision – unwinding of discount	22	38,000	49,000
Total expenditure on charitable activities		11,535,164	15,765,712

8 Analysis of expenditure on charitable activities

	Charitable activities				Total expenditure on charitable activities	
	Enhance the quality and secure the standards of UK HE	Provide leadership in assuring and enhancing the quality of HE	Extend and enhance the value and reach of QAA's services	Governance	2017	2016
	£	£	£	£	£	£
Direct costs						
Staffing costs	2,905,667	931,841	407,722	-	4,245,230	6,141,038
Other review costs	1,349,249	307,011	-	-	1,656,260	3,147,335
Other direct costs	164,425	81,369	339,270	-	585,064	626,695
Total direct costs	4,419,341	1,320,221	746,992	-	6,486,554	9,915,068
Support costs						
Staffing costs	1,000,702	414,017	147,348	426,698	1,988,765	2,502,424
Other staff costs	159,987	56,850	24,656	19,293	260,786	196,696
Premises	427,775	197,816	60,538	47,371	733,500	728,747
Office costs	7,267	8,461	429	336	16,493	98,541
Information systems	326,209	114,692	50,191	39,274	530,366	385,252
Professional fees	34,001	9,119	3,990	3,124	50,234	167,843
Other support costs	173,927	102,003	68,387	6,634	350,951	509,091
Depreciation	293,130	103,423	45,260	35,416	477,229	587,175
Governance **	-	-	-	116,993	116,993	106,647
Total support costs	2,422,998	1,006,381	400,799	695,139	4,525,317	5,282,416
Reallocate governance	461,205	162,724	71,210	(695,139)	-	-
Total support costs by aim	2,884,203	1,169,105	472,009	-	4,525,317	5,282,416
Expenditure on charitable activities before restructuring and pension provision	7,303,544	2,489,326	1,219,001	-	11,011,871	15,197,484
Restructure - Staffing costs	342,270	153,890	39,133	-	535,293	872,061
Restructure - Other costs	-	-	-	-	-	31,167
Pension provision - net deficit contributions	(33,633)	(11,588)	(4,779)	-	(50,000)	(384,000)
Pension provision - unwinding of discount	25,561	8,807	3,632	-	38,000	49,000
Total charitable expenditure	7,637,742	2,640,435	1,256,987	-	11,535,164	15,765,712

** includes the cost of Board meetings and audit fees

9 Net expenditure for the financial year

	2017 £	2016 £
Net expenditure is stated after charging/(crediting):		
External auditors: audit services	21,840	16,800
: non audit services	1,200	-
Internal auditors: audit services	16,200	18,060
Professional indemnity insurance	40,165	27,900
Tangible fixed assets		
Depreciation	477,228	587,176
Surplus on disposal	-	(2,038)
Operating leases		
Land and buildings	312,456	299,000
Other	43,093	43,100
Foreign exchange gains	(19,970)	(21,935)
Employer pension contributions	<u>903,135</u>	<u>1,000,381</u>

10 Analysis of staff costs

	2017 £	2016 £
Total staff costs were:		
Salaries	4,831,253	6,927,425
Employers' National Insurance contributions	549,385	641,464
Pension contributions payable	835,499	1,000,381
	<u>6,216,137</u>	<u>8,569,270</u>
Employment agency staff	17,858	74,192
Total staff costs before restructuring and pension provision liability adjustments	<u>6,233,995</u>	<u>8,643,462</u>
Restructuring costs	535,293	872,061
Total staff costs after restructuring	<u>6,769,288</u>	<u>9,515,523</u>
Deficit contributions payable in the year	(128,000)	(78,000)
Increase/(decrease) in expected future deficit contributions	78,000	(306,000)
Total staff costs charged to the SOFA	<u>6,719,288</u>	<u>9,131,523</u>

10 Analysis of staff costs (continued)

	2017	2016
	Number	Number
The average number of employees, calculated on a full-time equivalent basis was as follows:		
Enhance the quality and secure the standards of UK higher education	80	117
Provide leadership in assuring and enhancing the quality of higher education	27	41
Extend and enhance the value and reach of QAA's services	15	16
Total average number of employees on a full-time equivalent basis	122	174
Total average number of employees on a headcount basis	125	200

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

	2017	2016
	Number	Number
£150,000 - £159,999	1	-
£140,000 - £149,999	-	1
£100,000 - £109,999	-	1
£90,000 - £99,999	1	-
£80,000 - £89,999	3	2
£70,000 - £79,999	-	1
£60,000 - £69,999	12	9

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

	2017	2016
	£	£
Employer contributions	232,964	174,246

11 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. Twelve trustees were reimbursed expenses to the value of £6,765 during the year (2016: 13 directors, £8,533). The expenses paid related solely to travel and incidentals.

The total employee benefits (including employer pension contributions) received by the senior executive staff of the charity and the group were £589,728 (2016: £699,413).

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

12 Taxation

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

13 Tangible fixed assets

Group and charity

	Leasehold improvements	Computer equipment	Furniture and other equipment	Total
	£	£	£	£
Cost				
At 1 August 2016	1,280,210	3,660,084	546,547	5,486,841
Additions	-	189,244	-	189,244
Disposals	-	(35,399)	-	(35,399)
At 31 July 2017	1,280,210	3,813,929	546,547	5,640,686
Depreciation				
At 1 August 2016	368,553	3,153,281	318,584	3,840,418
Charge for the year	129,460	261,159	86,610	477,229
Eliminated on disposals	-	(35,399)	-	(35,399)
At 31 July 2017	498,013	3,379,041	405,194	4,282,248
Net book value at 31 July 2017	782,197	434,888	141,353	1,358,438
Net book value at 31 July 2016	911,657	506,803	227,963	1,646,423

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

14 Analysis of capital commitments

	Group and charity	
	2017	2016
	£	£
Contracted for but not provided	49,847	7,000
Authorised but not yet contracted for	-	-
	<u>49,847</u>	<u>7,000</u>

15 Fixed asset investments

	Quoted investments	Unquoted investments	Total
	£	£	£
Held by the group			
At 1 August 2016	2,738,395	-	2,738,395
Additions at cost	800,065	-	800,065
Disposals at opening market value or cost if bought in year	(765,204)	-	(765,204)
Net decrease in cash held and settlements outstanding	50,370	-	50,370
Net gains on revaluation to year end market value	253,654	-	253,654
At 31 July 2017	<u>3,077,280</u>	<u>-</u>	<u>3,077,280</u>
Held by the charity			
At 1 August 2016	2,738,395	1	2,738,396
Additions at cost	800,065	-	800,065
Disposals at opening market value or cost if bought in year	(765,204)	-	(765,204)
Net decrease in cash held and settlements outstanding	50,370	-	50,370
Net gains on revaluation to year end market value	253,654	-	253,654
At 31 July 2017	<u>3,077,280</u>	<u>1</u>	<u>3,077,281</u>

Quoted investments are revalued and stated at market value as at 31 July 2017.

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

15 Fixed asset investments (continued)

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

	Group and charity At 31 July 2017		Group and charity At 31 July 2016	
	Cost	Market Value	Cost	Market Value
	£	£	£	£
Listed on a recognised stock exchange				
- in the UK	1,172,711	1,393,470	723,126	834,536
- outside the UK	1,259,893	1,608,317	1,607,689	1,878,736
Cash and settlements pending held as part of the investment portfolio	75,493	75,493	25,123	25,123
	2,508,097	3,077,280	2,355,938	2,738,395
Holdings representing more than 5% of the investment portfolio by carrying value:				
DB X-Trackers (FTSE All-Share)		199,611		602,828
Vanguard Investments (FTSE All Share)		474,432		-

16 Debtors

	Group		Charity	
	2017	2016	2017	2016
	£	£	£	£
Trade debtors	656,090	412,186	656,090	412,186
Sundry debtors	4,920	7,710	4,920	7,710
Prepayments	292,518	266,844	292,518	266,844
Accrued income	193,281	94,981	193,281	94,981
Subsidiary undertaking	-	-	26,081	21,752
	1,146,809	781,721	1,172,890	803,473

Trade debtors are stated after provision for doubtful debts of £5,591 (2016: £22,322).

17 Creditors: amounts falling due within one year

	Group		Charity	
	2017	2016	2017	2016
	£	£	£	£
Trade creditors	215,610	134,678	215,610	134,678
Taxation and social security	196,133	226,344	196,133	226,344
Pension contributions	108,535	131,114	108,535	131,114
Other creditors	7,309	269	7,309	269
Accruals	447,869	357,470	446,269	355,870
Deferred income	1,908,160	1,416,261	1,908,160	1,416,261
	<u>2,883,616</u>	<u>2,266,136</u>	<u>2,882,016</u>	<u>2,264,536</u>

The movement in deferred income was as follows:

At start of year	1,416,261	1,142,432	1,416,261	1,142,432
Release income deferred in prior years	(1,328,262)	(1,038,387)	(1,328,262)	(1,038,387)
Defer income received in current year	1,820,161	1,312,216	1,820,161	1,312,216
At end of year	<u>1,908,160</u>	<u>1,416,261</u>	<u>1,908,160</u>	<u>1,416,261</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.

18 Operating lease arrangements

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

	Group and charity	
	2017	2016
	£	£
Land and buildings		
Within one year	273,693	293,700
Between two and five years	1,068,772	333,300
After 5 years	337,665	-
Other		
Within one year	21,426	40,300
Between two and five years	33,870	600
	<u>1,735,426</u>	<u>667,900</u>

19 Financial instruments

	Group		Charity	
	2017	2016	2017	2016
	£	£	£	£
Financial assets measured at amortised cost	854,289	514,877	880,370	536,629
Financial liabilities measured at amortised cost	(779,323)	(623,531)	(777,723)	(621,931)

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

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

20 Related party transactions

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

The balance due to the charity from the wholly owned subsidiary undertaking QAA Enterprises Limited is £26,081 (2016: £21,752) as shown in the debtors note, note 16.

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

21 Provision for liabilities

Provisions have been made for the following:

Holiday pay

FRS 102 requires short term employee benefits to be charged to the profit and loss account as the employee service is received. 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 reflects the remaining redundancy and other related costs which will be incurred in the year ended 31 July 2018.

The movement in the provisions during the year is:

	Group and Charity		Total
	Holiday pay £	Restructure £	
At 1 August 2016	240,000	803,783	1,043,783
Provided during the year	-	644,576	644,576
Utilised in the year	-	(1,307,267)	(1,307,267)
Released in the year	(95,429)	(103,251)	(198,950)
At 31 July 2017	144,571	37,841	182,412

22 Pension liability provision

The total pension cost charged to the SOFA is:

	Group and Charity	
	2017 £	2016 £
Employer contributions payable in the year	903,135	1,000,381
Deficit contributions payable in the year (included in employer contributions above)	(128,000)	(78,000)
Change in expected future deficit contributions	78,000	(306,000)
Total pension cost charged to the SOFA	853,135	616,381

The movement in the provision is:

	Group and charity	
	2017 £	2016 £
At 1 August	1,034,000	1,369,000
Charged to SOFA – deficit contributions payable in the year	(128,000)	(78,000)
(Credited)/charged to the SOFA – change in expected future deficit contributions	78,000	(306,000)
Unwinding of discount	38,000	49,000
At the year end	1,022,000	1,034,000

23 Analysis of charitable funds

Analysis of movements in unrestricted funds

	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

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 dilapidations review of the Gloucester premises was undertaken during the year and this has resulted in an increase in the fund.

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 2016-17 and beyond.

23 Analysis of charitable funds (continued)

Analysis of group net assets between funds

	General Fund £	Designated Funds £	Total £
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	4,599,049	1,144,382	5,743,431

24 Pensions (defined benefit schemes)

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

	Group and charity	
	2017 £	2016 £
Universities Superannuation Scheme (USS)	727,033	743,935
Superannuation Arrangements for the University of London (SAUL)	176,102	256,446
	903,135	1,000,381
Employer contributions outstanding at the balance sheet date (included above)	74,285	89,529

In addition to the Final Salary section within USS for current members, employees joining the Scheme after 30 September 2011 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 join the Career Average Revalued Earnings (CARE) section of that scheme (subject to some transitional rules). On 1 April 2016 all Final Salary members were moved to the CARE section.

24 Pensions (defined benefit schemes) (continued)

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

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

a Universities Superannuation Scheme

The latest available full actuarial valuation of the scheme was at 31 March 2014 (“the valuation date”), which was carried out using the projected unit method. The valuation as at 31 March 2017 is underway.

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

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

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

		2017	2016
Discount rate		2.57%	3.6%
Pensionable salary growth	First year	n/a	n/a
	Subsequent years		
Price inflation (CPI)		2.41%	2.2%

24 Pensions (defined benefit schemes) (continued)

a Universities Superannuation Scheme (continued)

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

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

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

The current life expectancies on retirement at age 65 are:

	2017	2016
Males currently aged 65	24.4	24.3
Females currently aged 65	26.6	26.5
Males currently aged 45	26.5	26.4
Females currently aged 45	29.0	28.8

The financial position of the scheme is:

	2017	2016
Scheme assets	£60.0bn	£49.8bn
Total scheme liabilities	£77.5bn	£59.8bn
FRS 102 total scheme deficit	£17.5bn	£10.0bn
FRS 102 total funding level	77%	83%

b Superannuation Arrangements for the University of London

QAA participates in SAUL which is a centralised defined benefit scheme within the United Kingdom.

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 event of any participating employer within SAUL, an amount of any pension shortfall (which cannot otherwise be recovered) in respect of that employer, may be spread across the remaining participating employers and reflected in the next actuarial valuation.

24 Pensions (defined benefit schemes) (continued)

b Superannuation arrangements for the University of London (continued)

Funding policy

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

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

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

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

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

25 Pensions (defined contribution scheme)

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

	Group and charity	
	2017	2016
	£	£
The People's Pension	<u>5,192</u>	<u>7,792</u>
Employer contributions outstanding at the balance sheet date	<u>218</u>	<u>477</u>

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

	Group		Charity	
	2017	2016	2017	2016
	£	£	£	£
Net income/(expenditure) for the year	1,103,362	(305,166)	1,112,771	(320,697)
Adjustments for:				
Depreciation charge	477,229	587,176	477,229	587,176
Gains on investments	(273,383)	(26,602)	(273,383)	(26,602)
Investment income	(107,678)	(142,096)	(107,678)	(142,096)
Surplus on the sale of tangible fixed assets	-	(2,038)	-	(2,038)
Increase in debtors	(365,088)	(58,153)	(369,417)	(59,353)
Increase in creditors	617,480	39,700	617,480	39,560
Increase in provisions	(873,372)	488,783	(873,372)	488,783
Net cash provided by operating activities	578,550	581,604	583,630	564,733

27 Analysis of cash and cash equivalents

	Group		Charity	
	2017	2016	2017	2016
	£	£	£	£
Cash at bank and in hand - liquid assets	4,248,932	3,817,449	4,216,340	3,779,777
Cash at bank - fixed asset investments	75,493	25,123	75,493	25,123
Cash at bank and in hand at the end of the year	4,324,425	3,842,572	4,291,833	3,804,900

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

This document is available in both English and Welsh.

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