



# **Directors' report and financial statements for the year ended 31 July 2006**

**The Quality Assurance Agency for Higher Education**

Company registration number: 3344784

Charity registration number: 1062746

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## **Annual report of the directors**

- 1 The directors present their report and the audited financial statements for the year 1 August 2005 to 31 July 2006 for The Quality Assurance Agency for Higher Education (QAA). This report has been prepared in accordance with the company's Memorandum and Articles of Association, applicable law and the requirements of *Accounting and Reporting by Charities: Statement of Recommended Practice* (the Charities SORP), as revised by the Charities Commission in 2005.
- 2 The directors of the company are also its trustees under the terms of the *Charities Act 1993*.

## **Reference and administrative details**

### **Registration numbers**

Company registration number: 3344784

Charity registration number: 1062746

### **Registered office and other offices**

QAA's registered office is Southgate House, Southgate Street, Gloucester GL1 1UB.

QAA has offices at:

Southgate House, Southgate Street, Gloucester GL1 1UB  
183 St Vincent Street, Glasgow G2 5QD

### **Bankers**

QAA's bankers are:

Co-operative Bank plc  
Gloucester Branch, 23A St Aldate Street, Gloucester GL1 1RU

and

Abbey plc  
Business Banking Centre, 301 St Vincent Street, Glasgow G2 5HN

### **Solicitors**

QAA's solicitors are:

Mills and Reeve,  
Francis House, 112 Hills Road, Cambridge CB2 1PH

### **Auditors**

QAA's auditors are:

Mazars LLP  
Clifton Down House, Beaufort Buildings, Clifton, Bristol BS8 4AN

## **QAA Board of Directors**

### **Appointed by the Board**

Mr Sam Younger (Chairman)	Chairman, The Electoral Commission (appointed January 2004)
Dr Susan Atkins	Former Chief Executive, Independent Police Complaints Commission (appointed December 2004)
Mrs Beverley Hunt	Consultant/Senior Associate, BG Hunt Associates (appointed March 2006)
Mr Mike Killingley	Former Senior Manager, Group Development Programmes, HSBC Bank plc (retired December 2005)
Mr Andrew Ramsay	Executive Director, Engineering Council UK (appointed December 2004)
Mrs Elizabeth Reid	Chief Executive, Specialist Schools Trust (retired December 2005)
Mr Andrew Summers CMG	Chairman, Brandsmiths Ltd (appointed December 2005)
Mr Robin Vaughan	Director of Professional Standards, Chartered Institute of Management Accountants (appointed January 2004)

### **Appointed by Higher Education Wales, GuildHE Limited, Universities Scotland and Universities UK**

Professor Antony Chapman	Vice-Chancellor and Principal, University of Wales Institute, Cardiff (retired December 2005)
Professor Paul Curran	Vice-Chancellor, Bournemouth University (appointed August 2006)
Professor David Eastwood	Vice-Chancellor, University of East Anglia (retired July 2006)
Professor Noel Lloyd	Vice-Chancellor, University of Wales Aberystwyth (appointed December 2005)
Professor Joan Stringer CBE	Principal and Vice-Chancellor, Napier University (appointed August 2002)
Professor Elaine Thomas	Rector, University College for the Creative Arts at Canterbury, Epsom, Farnham, Maidstone and Rochester (appointed January 2005)

**Appointed by the Department for Employment and Learning (Northern Ireland), the Higher Education Funding Council for England, the Higher Education Funding Council for Wales and the Scottish Funding Council**

Professor Susan Bassnett	Pro Vice-Chancellor, University of Warwick (appointed March 2004)
Professor Arthur Lucas AO CBE	Former Principal, King's College London (appointed January 2002)
Professor Charles Munn OBE	Chief Executive, Chartered Institute of Bankers in Scotland (appointed January 2003)
Professor Stephen Tomlinson	Provost, Wales College of Medicine (appointed November 2003)

No director had a beneficial interest in any contract with QAA. The directors are the trustees of the charity.

**Chief Executive**

QAA's Chief Executive is Mr Peter Williams.

## Structure, governance and management

### Status

- 3 QAA is a private company limited by guarantee and a registered charity. The liability of the members in the event of winding up is limited to an amount not exceeding £1 per member. The company's objects and constitution are set out in its Memorandum and Articles of Association.
- 4 The company's members as at 31 July 2006 are:
  - Universities Scotland
  - Universities UK (UUK)
  - Higher Education Wales (HEW)
  - GuildHE Limited.

### The QAA Board of Directors

- 5 The QAA Board of Directors has 14 members. Four members are appointed by the representative bodies of the heads of higher education institutions (HEIs) - HEW, GuildHE Limited, UUK and Universities Scotland. Four members are appointed by the higher education (HE) funding councils for England, Scotland and Wales and the Department for Employment and Learning in Northern Ireland. The Board appoints six independent members itself. The Chairman of the Board is drawn from the independent members. All directors are non-executive and receive no remuneration from QAA. The only payments they receive are reimbursements of travel expenses incurred on QAA business. Directors retire from membership of the Board by rotation based on length of service. They are eligible to be reappointed on one occasion.
- 6 All new Board members are required to attend an induction session at QAA's offices in Gloucester. The induction session has four main purposes: understanding the nature of the organisation and its business; understanding the nature of the Board member's role; understanding QAA's main external relationships; and getting to know some of QAA's senior staff. New Board members are asked to evaluate the effectiveness of the induction arrangements. The arrangements are reviewed periodically by the Board's Nominations Committee.
- 7 The Board held five meetings between August 2005 and July 2006.

### Board responsibilities

- 8 The Board has adopted the following statement of its primary responsibilities and has included this statement in its *Code of best practice for members of the QAA Board (Code of best practice)*:
  - a to approve the mission and strategic vision of QAA, strategic plans, annual operating plans and key performance indicators, and to ensure that these meet the interests of stakeholders
  - b to delegate authority to the Chief Executive for the corporate, financial, estate and personnel management of the organisation, and to establish and keep under regular review the strategies, policies, procedures and limits for such management functions
  - c to ensure the establishment and monitoring of systems of control and accountability, including financial and operational controls and risk management, and procedures for handling internal grievances, conflicts of interest and whistle-blowing

- d to ensure processes are in place to monitor and evaluate the performance and effectiveness of QAA against the plans and approved key performance indicators, which should be, where possible and appropriate, benchmarked against other comparable organisations
- e to establish processes to monitor and evaluate the performance and effectiveness of the Board itself
- f to conduct its business in accordance with best practice in corporate governance and with the principles of public life drawn up by the Committee on Standards in Public Life; and in accordance with the duties and responsibilities of company directors and charity trustees
- g to safeguard the good name and values of QAA
- h to appoint the Chief Executive, and to put in place suitable arrangements for monitoring his/her performance
- i to appoint the Company Secretary and to ensure that, if the person appointed has managerial responsibilities in the organisation, there is an appropriate separation in the lines of accountability
- j to be the employing authority for all staff in QAA and to be responsible for establishing a human resources strategy
- k to be the principal financial and business authority of the company, to ensure that proper books of account are kept, to approve the annual budget and financial statements, and to have overall responsibility for the company's assets, property and estate
- l to be the company's legal authority and, as such, to ensure that systems are in place for meeting all its legal obligations, including those arising from contracts and other legal commitments made in the company's name and
- m to ensure that the company's constitution is followed at all times and that appropriate advice is available to enable this to happen.

## **Board effectiveness**

- 9 The Board conducts an annual review of its own effectiveness. A two-stage process was followed in 2005: first, the Board reviewed its governance arrangements, as expressed in its own *Code of best practice*, against recent governance guidance, in particular the new *Committee of University Chairmen Guide*, revised Charity Commission guidance, and the *Good Governance Standard for Public Services*, and revised its *Code of best practice* as necessary; second, the Board then gauged its own effectiveness against the standards and expectations expressed in the revised *Code of best practice*.
- 10 The first stage was completed in summer 2005 and the revised *Code of best practice* is available on the QAA website. In the second stage, Board members completed questionnaires asking them to assess the Board's collective effectiveness against the standards and expectations set out in its *Code of best practice*. The questionnaire responses showed that there were no major issues, but did point to one or two areas where procedures could be improved.
- 11 The effectiveness review process continues to evolve. The 2006 review will include external stakeholder opinion on Board and QAA effectiveness.

## **QAA strategic plan**

- 12 Our new strategic plan, covering the period 2006-11, was published in March 2006, together with a companion volume, setting out the strategic directions for our work in Scotland, and a review of achievements against the *Strategic plan 2003-05*.

## **Register of Board members' interests**

- 13 The Register of Board members' interests is updated periodically. The Register includes the Chief Executive, the heads of QAA's operational groups, and the three observers (representing government departments, the Higher Education Academy and students) who attend Board meetings, as well as the Board members themselves. It includes details of current employment, and connections with HEIs and other bodies, is reviewed annually and whenever there are changes in the Board's membership, and is available to the public on request.

## **Board committees**

- 14 The Board has seven committees. They advise on governance matters (Audit Committee, Remuneration Committee and Nominations Committee), QAA business in Scotland (the QAA Scotland Committee) and Wales (the Advisory Committee for Wales), applications for the grant of degree-awarding powers (DAP) and university title (UT) (Advisory Committee on Degree Awarding Powers), and the management of the Access to HE scheme in England, Wales and Northern Ireland (Access Recognition and Licensing Committee). The minutes of each committee are received by the Board. All committees operate under terms of reference and with membership determined by the Board.
- 15 Membership of the committees is updated in the light of retirements from, and appointments to, the Board. The membership and terms of reference of all Board committees are set out in the Board's *Code of best practice*.

## **Eighth Annual General Meeting of the members of the company**

- 16 The eighth Annual General Meeting was held in December 2005. It received and adopted the *Directors' report and financial statements for the year ended 31 July 2005*, with the auditors' reports thereon. It resolved to reappoint Mazars LLP as QAA's external auditors for a further year. It resolved, with the consent of the Charity Commission, to amend the company's Memorandum and Articles to provide express authority for the company to purchase Trustee Indemnity Insurance.

## **Annual reception**

- 17 The QAA Annual reception was held on 1 March 2006 at Painters' Hall, London. Bill Rammell MP, Minister of State for Lifelong Learning, Further and Higher Education, was the main speaker.

## **Subscribers' meeting**

- 18 We held our sixth annual Subscribers' meeting in June 2006 in Glasgow. The annual meeting provides a good opportunity to update the universities and colleges on aspects of our work. This year's meeting included particularly stimulating contributions from the Scottish Minister for Enterprise and Lifelong Learning, and the President-elect of National Union of Students (NUS) Scotland.

## **Registration as a charity in Scotland**

- 19 During the year we were notified that QAA would be required to register as a charity with the Office of the Scottish Charity Regulator. This will be done in 2006-07.

## **Risk management**

- 20 QAA takes an active approach to the management of risk so that we have the best chance of achieving our goals. Our approach is based on distinguishing between operational risks and strategic risks, and having clear lines of responsibility for identifying, managing and monitoring each type of risk.
- 21 Strategic risks relate to the nature and purposes of QAA, our ability to achieve our mission, the environment we work in, competitors, satisfying our stakeholders' needs, our response to opportunities and threats, our vulnerability to political shifts, and the solidity of our reputation and standing. The QAA Executive and Board are responsible for identifying and managing strategic risks. The main areas of strategic risk are summarised in our strategic plan.
- 22 Our key approaches to managing strategic risk include adaptability and responsiveness, working in partnership with stakeholders to understand and meet their needs, developing our own expertise, analysing and disseminating the enhancement value in our work, demonstrating the benefits of what we do, and changing what we do and how we do it as circumstances alter.
- 23 Operational risks are primarily to do with the day-to-day conduct of our business (reviews, Academic Infrastructure, DAP and UT, publication and dissemination, liaison and support) or the management of the organisation (governance, staffing, resourcing, office systems). Operational risks are managed at local level by each of QAA's five operational groups, with quarterly report to the Executive. The main areas of operational risk are set out in each year's Annual Operating Plan.

## **Chief Executive**

- 24 The Chief Executive is responsible for the leadership, executive management and day-to-day direction of QAA's work, within the overall strategic direction that is set by the Board. He is accountable to the Board for the overall organisation, management and staffing of QAA and for our procedures in financial and other matters, including conduct and discipline. This includes promoting by leadership and example the values embodied in the Nolan Committee's seven principles of public life. The Chief Executive is accountable to the Board for the propriety and regularity of QAA's finances, for keeping proper accounts, for prudent and economical administration, for avoiding waste and extravagance, and for the efficient and effective use of resources. He has a responsibility to see that appropriate advice is tendered to the Board on all these matters.

## Organisational structure

25 QAA is organised into five operational groups. The Chief Executive leads the Chief Executive's Group which includes the corporate affairs, liaison with Wales and international affairs functions. The other four Groups are each headed by an executive director:

- Reviews Group – all of our review and audit activity in England, Wales and Northern Ireland, and includes liaison with Northern Ireland
- Development and Enhancement Group – institutional liaison scheme; work with professional, statutory and regulatory bodies (PSRBs), students and employers; intelligence, good practice and enhancement; maintenance and development of the Academic Infrastructure; and some international work
- QAA Scotland – all aspects of our work in Scotland (from the Glasgow office) and some international work
- Administration Group – all aspects of central services and organisational infrastructure, including finance, communications, human resources, premises, business development, office services and information services.

## Objectives and activities

### Objects

- 26 QAA's objects, as set out in its Memorandum and Articles of Association, are:
- the promotion and maintenance of quality and standards in higher education provided by, or in collaboration with, UK universities and colleges
  - 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 provided by, or in collaboration with, UK universities and colleges
  - the provision of advice to governments, as requested, on access course recognition and in relation to all or any of the above objects.

### Mission and purposes

- 27 QAA's mission is to safeguard the public interest in sound standards of higher education qualifications and to inform and encourage continuous improvement in the management of the quality of higher education.
- 28 To achieve our mission, we work in partnership with the providers and funders of higher education, the staff and students in higher education, employers and other stakeholders, to:
- safeguard the student and wider public interest in the maintenance of standards of academic awards and the quality of higher education
  - communicate information on academic standards and quality to inform student choice and employer understanding, and to underpin public policy making
  - enhance the assurance and management of standards and quality in higher education and promote a wider understanding of the value of well-assured standards and quality
  - promote a wider understanding of the nature of standards and quality in higher education, including maintenance of common reference points, drawing on UK, other European, and international practice.

### Strategies

- 29 QAA is a UK-wide body and we have a wide range of partners, stakeholders and users of our services – universities and colleges, students, professional and statutory bodies, other public bodies, employers, funding bodies, government departments and the general public. We have a correspondingly wide range of strategies and approaches to satisfy that diversity:
- a reviews and audits of the standards and quality of HE across the UK, including HE provision offered collaboratively between UK HEIs and partners, whether in the UK or overseas
  - b publication of reports arising from those reviews and audits
  - c commentary on the accuracy of the public information that institutions make available about the standards and quality of their provision
  - d development, maintenance and promotion of the Academic Infrastructure – qualifications frameworks, subject benchmark statements, the *Code of practice for the assurance of academic quality and standards in higher education* (the *Code of practice*), programme specifications

- e enhancement activities designed to assist institutions in managing their responsibilities for the standards and quality of the education they provide: briefings, publications, meetings, events, collaborative work with stakeholders and partners, analysis and dissemination of the outcomes of reviews and audits and their evaluations
- f further development, implementation and embedding of the Quality Enhancement Framework in Scotland
- g liaison, collaborative work, information-sharing and briefing with a wide range of key partners and stakeholders, including NUS, NUS Scotland, NUS Wales, National Postgraduate Committee and Association of Managers in Students' Unions; employers; funding bodies; subject bodies; and PSRBs
- h participation in European and other international activities - Bologna process, European Association for Quality Assurance in Higher Education (ENQA), International Network for Quality Assurance Agencies in Higher Education (INQAAHE), conferences, seminars, overseas visitors, projects, briefings - and support for the UK HE sector in relation to international developments
- i consideration, report and recommendations (to governments) on applications for the grant of DAP, UT or designation as an HEI and
- j management of the Access to HE scheme in England and Wales.

### **The objectives in 2005-06**

- 30 Each year we prepare and publish an annual operating plan setting out the objectives, tasks, performance measures and desired outcomes from the year's work. In summary, the objectives in 2005-06 included the following:
- a conduct of contracted review and audit programmes across the UK
  - b development and implementation of revised review and audit methods
  - c advice to governments on applications for the grant of DAP and UT
  - d review, renewal and management of the Access to HE scheme
  - e maintenance and updating of the Academic Infrastructure
  - f production of a wide range of reports, and other publications, with a stronger focus on the collective intelligence and good practice that can be derived from our audit and review work
  - g strengthening QAA's position as a source of expertise
  - h implementation of a revised Communications strategy
  - i consolidation of the working relationships with the Higher Education Academy and
  - j contribution to a wide range of European and other international activities.

## Achievements and performance

31 The *Annual operating plan 2005-06* and budget were determined in the light of the mission, purposes and objectives set out in the *Strategic plan 2003-05* published in March 2003, and in the light of the emerging strategy and vision for the period up to 2011, published in the *Strategic plan 2006-11* in March 2006. The objectives in the *Strategic plan 2006-11* are set out under five strategic themes - safeguarding standards; supporting and enhancing quality; offering expertise; rationalising regulation; and working worldwide. This section of the report follows that five-part structure and summarises our main achievements in 2005-06. This structure has been chosen to provide details of activities to comply with the requirements of the new Charities SORP, and is also used in the financial statements. The final part of this section comments on our organisational development objectives in the year.

## Safeguarding standards

### Objectives

- Maintenance and updating of the Academic Infrastructure.
- Conduct of review and audit programmes and publication of reports.
- Development of new audit and review methods.
- Advice to governments on applications for DAP and UT.
- Renewal of the Access to HE scheme in England, Wales and Northern Ireland.

### Achievements

- 32 The Academic Infrastructure sets the framework within which academic standards and quality can be expressed and understood. It has a number of elements - the *Code of practice*; the frameworks for higher education qualifications; subject benchmark statements; and programme specifications. It provides a structure of reference points that inform our reviews and audits of academic standards and quality.
- 33 In England, we carried out and reported on 11 institutional audits and 21 audits of collaborative provision in HEIs, and 34 academic reviews of HE provision in further education colleges (FECs). We consulted on a revised institutional audit method, in the light of the Quality Assurance Framework Review Group report in 2005, and planning and scheduling for its introduction in 2006-07 has been completed.
- 34 In Scotland, five enhancement-led institutional reviews and one re-review were completed, as well as an annual discussion with each Scottish HEI. We also carried out seven academic reviews of subjects in Scotland.
- 35 In Wales, two combined institutional review/DAP scrutinies were completed. The reports will be published once the DAP process has been completed.
- 36 An audit of UK collaborative links with the People's Republic of China was completed in 2005-06; the reports will be published in winter 2006.
- 37 In England and Northern Ireland a special review of research degree programmes (RDPs) was completed, as a precursor to incorporating RDPs into the institutional audit method. In Wales, a separate but similar review of RDPs was carried out.

- 38 Thirty-one applications for the grant of DAP or UT were under consideration during the year. Recommendations in respect of 10 applications - including the first example of a successful non-publicly funded applicant - were put to government departments. In each case, our advice was accepted. We also reflected back to the Department for Education and Skills (DfES) some of the issues that had arisen in the light of two years' experience of operating the revised (2004) DAP and UT criteria in England and Wales.
- 39 In Access to HE, four new licence applications for recognition as an Authorised Validating Agency (AVA) and two AVA reviews were completed, and we published *Key Statistics 2006*. The overall framework for the Access to HE scheme has been renewed, including a new method for reviewing AVAs and for licensing new AVA regional structures. The Access to HE trademark now enjoys legal protection.
- 40 A programme of transnational review work involving chemistry departments in the UK and Denmark was developed in 2004-05, with the involvement of the Royal Society of Chemistry. The reviews were successfully completed in 2005-06 and a report will be published in autumn 2006.

## Supporting and enhancing quality

### Objectives

- Maintenance and updating of the Academic Infrastructure.
- Development and dissemination of themes, messages and good practice from review and audit reports, institutional liaison, collaborative work with the sector and stakeholders.
- Production of reports on time and to standard.
- Management of the Enhancement Themes programme in Scotland.

### Achievements

- 41 The QAA enhancement strategy has a number of components: to support academic standards and their quality assurance through maintenance, updating and enhanced application of the Academic Infrastructure; to support continuous improvement in institutions' quality assurance systems and in external audit and review activities; and to contribute to, stimulate and sometimes lead on national and international developments and projects. Under this umbrella there is a broad portfolio of work including development of the frameworks for higher education qualifications, the subject benchmarking scheme, updating of the *Code of practice*, development of the *Outcomes from institutional audit* series, the institutional liaison scheme and an extensive range of collaborative and project work with institutions, students and stakeholders. This has become an increasingly important and influential part of our overall portfolio of work.
- 42 The frameworks for higher education qualifications evolve in the light of experience of their use, the development of new qualifications, the development of systems of academic credit, and their relationship with other qualifications frameworks including European developments. QAA is fully engaged in the maintenance and updating of *The framework for qualifications of higher education institutions in Scotland* and *The framework for higher education qualifications in England, Wales and Northern Ireland*.
- 43 The use of programme specifications, both as a tool for internal quality assurance and as a tool for public information, is becoming increasingly embedded. The development and use of programme specifications was evaluated in 2005-06 and revised guidelines were published in July 2006.
- 44 The process of reviewing the sections of the *Code of practice* in the light of developments since they were first published is continuing. The revision of three sections was completed in 2005-06 (to be published in September 2006). Work has started on reviewing and revising further sections.
- 45 Over 70 subject benchmark statements are published on our website. The *Recognition scheme for subject benchmark statements* provides the means to support subject communities that wish to take a benchmarking initiative in subjects or at levels not benchmarked so far, or wish to update current subject benchmark statements. Three subject benchmark statements were published in 2005-06 and a further 20 prepared for consultation in August/September 2006.
- 46 Over 200 reports (institutional audit, academic review, enhancement-led institutional review, Foundation Degree review, Major Review, overseas audit and collaborative provision audit) were published in 2005-06. There were also overview reports arising from completed review programmes of HE in FECs and Foundation Degrees. Twelve

reports in the *Outcomes from institutional audit* series were published in the year and a further 10 are in preparation. These are based on thematic analysis of the findings in institutional audit reports, to identify the sector-wide emphases and messages, and provide prompt and focused feedback and intelligence to the universities and colleges. All publications are published on the website and most are also available in hard copy. Work is continuing to ensure that all our publications are in a form and language that meets the needs of a range of audiences.

- 47 In Scotland, work on the Enhancement Themes programme is proceeding under the aegis of the Scottish Higher Education Enhancement Committee which was established by the sector in Scotland to manage the development of the Themes and to support institutional management of enhancement. Information on the outcomes of the first three Themes and progress on current work (four Themes) is published on the Enhancement Themes website which was launched in 2005. The second annual Enhancement Themes conference was held in January 2006.

## Offering expertise

### Objectives

- Review and renewal of the Communications strategy.
- Strengthening of our position as a source of knowledge and expertise.
- Strengthening of our work with students and student organisations.
- Provision of services to HE stakeholders, including the PSRBs.
- Dissemination of intelligence and good practice.

### Achievements

- 48 The Communications strategy has been reviewed in line with the priorities and ambitions in the *Strategic plan 2006-11*, and the Board has agreed an action plan covering the first two years. Demonstrating and promoting the benefits of our work and the expertise that we can offer are major themes in the strategy.
- 49 All institutions that wish to be part of the institutional liaison schemes receive at least one interaction each year. Liaison provides a two-way channel for intelligence on good practice or emerging issues that can inform QAA's quality enhancement agenda. The second liaison conference was held in May 2006. An annual report is published on the website.
- 50 We are actively engaged in a variety of training and briefing events with the NUS, NUS Scotland, NUS Wales, individual students' unions and the National Postgraduate Committee. Our institutional audit and review processes provide greater and more explicit student involvement than previous audit/review processes, and in Scotland there is a student member of the review team. There has also been dialogue with Information, Advice and Guidance workers to help focus on the needs of potential students, and there are proposals to set up student focus groups to inform future publications in the *Learning from...* series. We work with the student participation in quality scotland (sparqs) initiative in Scotland.
- 51 All students' unions receive *higher quality*, and students have been involved in working groups, for example those on the *Code of practice* on complaints and the development of progress files. There have also been informal meetings with NUS officials on specific issues, a member of staff has specific responsibility for student liaison, and there is significant student involvement in the institutional audit/review methods. QAA has strengthened its work with NUS in each part of the UK and with other student bodies to ensure that students are able to maximise their opportunities to participate in the institutional audit method, and that they are able to get the maximum benefit from it. We have participated in training for students' union sabbatical officers and have prepared materials to help provide clear information for potential students and careers services. The QAA Board of Directors and the QAA Scotland Committee benefit from having a student presence at their meetings.
- 52 We have continued to strengthen employer links, whether through liaison with the UK Inter-Professional Group, Confederation of British Industry, Institute of Directors, Engineering Council, the regional development agencies and the sector skills councils, or through employer involvement in working groups, round table meetings, and on the Board itself through the Board's independent membership. We have also worked closely with the Council for Industry and Higher Education and other business/education interests, including Foundation Degree Forward and Manchester Enterprise.

- 53 We work closely with the HEIs and their representative bodies, and other public bodies, in a series of 'round table' events designed to provide opportunities for HE staff and institutions to discuss and consider a wide range of topics: the diversity of institutional practices concerning external examining; the implications of credit accumulation and transfer systems for the management of quality and standards; the implications of credit-based funding; implications of the Teaching Quality Information requirements; the maintenance and updating of the *Code of practice* and the other elements of the Academic Infrastructure; the preparation of programme specifications for public information, and their use in internal review and external audit, and the range of approaches and level of data used or required. QAA has also provided considerable support to the work of the Burgess Steering Group in developing an academic credit scheme for HE in England.
- 54 We have a successful track record of developing review methods to meet the needs of external stakeholders and partners and conducting review programmes under contract with those stakeholders. The programme of Major Review and subject benchmarking under contract with the Department of Health in England - in partnership with Skills for Health, the strategic health authorities, the Health Professions Council, the Nursing and Midwifery Council and the Workforce Development Confederations - started in 2003-04. In 2005-06, 42 Major Reviews were completed. That contract will be completed in December 2006. Under the terms of a contract with the General Osteopathic Council (GOsC) we carried out one initial recognition review, four renewal reviews and three monitoring reviews in schools of osteopathy in England in 2005-06. The GOsC contract was due for renewal in 2006.
- 55 We have strengthened our capacity to manage a wider range of contract business, with an initial focus on developing relationships with the PSRBs where there is considerable scope for rationalising the different 'regulatory' bodies' demands on institutions, using QAA's expertise as the 'hub'. We have appointed a Business Development Manager to develop the necessary systems and processes to support the identification, costing, tendering and management of new business opportunities, consistent with our charitable purposes.

## Rationalising regulation

### Objectives

- Implementation of the Higher Education Regulation Review Group Concordat.
- Development of programmes of collaborative work with PSRBs.
- Implementation of a new organisational structure for the Scottish Credit and Qualifications Framework (SCQF) in Scotland.
- Consolidation of our working relationship with the Higher Education Academy.
- Maintenance and promotion of the Academic Infrastructure.

### Achievements

- 56 QAA is a signatory to the Concordat prepared by the Higher Education Regulation Review Group (May 2006). The Concordat brings together a significant number of funding, data collection, auditing, and professional bodies, including QAA, that each make 'regulatory' demands on HEIs. The Concordat is a means to ensure that regulation is better coordinated and managed, to the benefit of all involved. Each of the signatory bodies, including QAA, has added its own 'Annex' to the Concordat setting out its intentions and targets for better regulation over the next couple of years.
- 57 One of the ways in which QAA can contribute to better regulation will be through collaborative work with the PSRBs, drawing on the expertise that we can offer and our successful track record. The more that PSRBs' needs can be met through our work, and vice-versa, the more effective and proportionate the overall regulatory framework for higher education will be. We have signed memorandums of understanding with two PSRBs to establish a framework for collaborative work. We are also working closely with Ofsted and ALI (Adult Learning Inspectorate) in England to ensure that demands on FECs are proportionate and necessary. We have consulted on a revised method for review of HE in FECs, and piloting will take place in 2006-07.
- 58 The SCQF is currently managed on a partnership basis by five bodies in Scotland including QAA. All the partners are now agreed that it would be sensible to put the SCQF on a more formal and firm constitutional footing. Advice is being taken on how this can be achieved: it is likely that an SCQF company will be formed in 2006-07.
- 59 QAA and the Higher Education Academy have established productive working relations and a programme of joint projects. It is in the interests of both bodies that there should be a clear public and sector understanding of their different and complementary functions. Each Chief Executive attends the meeting of the other body's Board as an observer.
- 60 The Academic Infrastructure is not a regulatory mechanism, but, rather, it is a framework within which academic standards and quality in higher education that can be expressed and understood. Development and maintenance of the Academic Infrastructure are key aspects of QAA's work.

## Working worldwide

### Objectives

- Contribution to European and other international developments.
- Contribution to Bologna process developments.
- Representation of UK interests in international forums.
- Development of memoranda of understanding with overseas bodies.

### Achievements

- 61 QAA is active in the European Association for Quality Assurance in Higher Education (ENQA) and the International Network for Quality Assurance Agencies in Higher Education (INQAAHE). We are closely involved in the ENQA programme of Transnational European Evaluation Projects (TEEP). We have good relations with a number of other European agencies and maintain close contact with DfES, as the lead government department on the Bologna process. We are represented on the Steering Committee organising the next Bologna Ministerial meeting, in London in 2007, and have taken part in the UK Steering Committee for the Organisation for Economic Co-operation and Development thematic review of tertiary education. We also work closely with the international teams of other partner bodies, such as the Europe Unit. We hosted a discussion about quality assurance in HE with delegates to the European Union Presidency conference in Manchester in October 2005. The Chief Executive was elected President of ENQA in September 2005 and represents ENQA on the Bologna Follow-up Group. He was re-elected President of ENQA in September 2006.
- 62 The Board has endorsed the growing importance of our international work for UK HE. We have strengthened our capacity to report, advise and brief the sector and partner bodies on European and other international developments. The Chief Executive played an active part in the development of the European standards and guidelines for quality assurance in higher education. During the year we were granted observer status at meetings of the Asia-Pacific Quality Network.
- 63 Wherever possible, we meet requests to brief international visitors, either in Gloucester or Glasgow or at external venues, for example, in London. We received 60 parties of international visitors between August 2005 and July 2006 (55 in the same period in 2004-05). These were mainly overseas government officials or senior university staff. The visitors have come from Australia (x 5), Canada, the People's Republic of China (x 8), Colombia, Egypt, Estonia, Ethiopia (x 3), Georgia, Germany (x 4), Hong Kong (x 2), Hungary, Indonesia (x 2), Japan (x 6), Kosovo, Latvia, Malaysia (x 2), the Netherlands, Pakistan, Romania, Saudi Arabia, South Africa (x 5), Spain, Sri Lanka, Sweden, Taiwan, Thailand (x 2), Turkey (x 2), the United Arab Emirates (Dubai), the United States of America and Vietnam.
- 64 Presentations have been given at international conferences in the following countries: Australia, Austria, Belgium, Chile, Croatia, Egypt, Finland, France, Germany, the Republic of Ghana, Greece, Hong Kong, India, Japan, the Netherlands, Norway, Serbia, Saudi Arabia, United Kingdom and the United Arab Emirates (Abu Dhabi).
- 65 We hosted two workshops for ENQA 'The improvement and development of evaluation methodologies' in December 2005 and 'The language of quality assurance' in June 2006. ENQA related projects have included TEEP II. We held a conference for the sector on quality assurance and joint degrees in March 2006.

- 66 A member of QAA staff took part in the external review of the Australian Universities Quality Agency in February 2006.
- 67 The Chief Executive signed a new Memorandum of Understanding with the Republic of Ireland Higher Education & Training Awards Council in June 2006. We have an existing Memorandum of Understanding with the Quality Committee of the Council for Higher Education, QAA's counterpart body in South Africa; with Lembaga Akreditasi Negara (National Accreditation Board) in Malaysia; and with the Hussein Fund for Excellence in Jordan.

## Organisational development

68 We take an active approach to maintaining and improving our organisational infrastructure and capacity. In this way we can improve our services to HE providers and stakeholders, improve our support for review and audit teams, deliver our services in the most efficient and cost-effective way, and develop our strategies, policies and management capacity to meet legal requirements and stakeholder needs.

## Objectives

69 The priorities in 2005-06 included:

- updating of resource strategies – communications, human resources, information
- the development of our approach to Freedom of Information
- the redevelopment of communication and information systems.

## Achievements

70 A revised QAA Information strategy has been adopted by the Board. The strategy takes account of the *Freedom of Information Act*; although not a designated body, QAA has taken a decision to work within the spirit of the *Act* and has published an *Information Publication Scheme*.

71 Under the terms of our responsibilities under the *Race Relations (Amendment) Act 2000*, we collect and publish data on the composition of our workforce. We have taken advice and guidance on the development of equalities legislation and the implications for QAA, and are reviewing our policies and practices accordingly.

72 We continued to meet our responsibilities under the QAA Welsh Language Scheme. The Scheme will be reviewed in 2006-07.

73 The Board adopted an updated Human Resources strategy and forward plan in June 2006. We place great weight on staff development and training, were accredited as an Investor in People (IiP) in 2003, and are working towards accreditation under the revised IiP criteria by July 2007.

74 Following a public tender through the *Official Journal of the European Union*, we have put a major project in place, working with external partners, to redevelop our communications and information systems, to support the continuing evolution of audit and review activity, remote working and central infrastructure functions.

## Financial review

- 75 The financial statements have been drafted in accordance with the requirements of the Charities SORP. In particular, this has resulted in a restructuring of the categories on the *Statement of financial activities* (SOFA). Resources expended on charitable activities are now shown split between the five strategic themes: safeguarding standards, supporting and enhancing quality, offering expertise, rationalising regulation, and working worldwide. This therefore mirrors the categories of the Directors' report to aid understanding by readers of the financial statements. The *Total resources expended* note (note 3 to the financial statements) splits these categories down further and includes an allocation of support costs across the themes. Comparatives have been restated in accordance with these themes.
- 76 QAA's 2005-06 activities were funded primarily through contracts with the HE funding bodies, the Department of Health in England - in partnership with Skills for Health - and through subscriptions from HEIs. Additional income was generated through DAP and UT applications, conferences and investment income.
- 77 QAA's surplus for the year ended 31 July 2006 was £373,643 (2005: £43,332), bringing the accumulated funds at 31 July 2006 to £3,377,349.
- 78 The variances in both incoming resources and resources expended reflect a shift in the balance of QAA's work, with a decreased volume of review activities and a move towards a mixed portfolio of assurance support, information and enhancement services.

## Incoming resources

- 79 Total incoming resources as shown in the SOFA fell slightly by £73,823 (0.6%) to £11,464,416 between 2004-05 and 2005-06. This variance is predominantly due to a decrease in the category *contracts with HE funding bodies* (£927,257; 17.2%), offset by an increase in *other contracts* (£624,434; 31.5%) and an increase in *other related income* (£190,275; 71.0%).
- 80 The decrease in income from *contracts with HE funding bodies* is primarily due to a reduction in the volume of review activities under the Higher Education Funding Council for England contract, arising from the move from a three year to a six year schedule of institutional audit and the completion of the programme of Foundation Degree reviews. The variance on *other contracts* reflects an increase in activity for both the Department of Health and the GOsC between 2004-05 and 2005-06, together with an increase in the SCQF staffing. *Other related income* has increased due to a greater number of applications for DAP scrutiny. Subscription rates for HEI subscribers remained unchanged and this is reflected in the similar income levels in 2004-05 and 2005-06.

## Resources expended

- 81 Total resources expended as shown in the SOFA decreased by £404,134 (3.5%) to £11,090,773 between 2004-05 and 2005-06, which is primarily due to variances in four of the five charitable activities.
- A decrease of £1,123,195 (17.6%) under *safeguarding standards* is due to a reduction in review activity - the completion of the programme of Foundation Degree reviews in 2004-05 and a reduction in the number of institutional audits, partially offset by an increase in collaborative provision audits, increase in DAP applications and more extensive overseas audit.

- *Supporting and enhancing quality* is consistent with 2004-05.
- *Offering expertise* has increased by £335,880 (13.0%) since 2004-05 due to increased activity on the Department of Health and GOsC contracts.
- *Rationalising regulation* is also showing a significant 45.9% increase (£215,906) due to an increase in the work on the SCQF in Scotland.
- Expenditure on *working worldwide* has increased by £173,806 (49.4%) since 2004-05 due to increased staffing within the international collaboration team and related activity.

- 82 A further analysis of expenditure by category is provided in the *total resources expended* note (note 3). This is split by expenditure type and between direct costs and support costs. Direct costs represent 72.8% of total expenditure (2004-05: 73.6%). The decrease in review activity is reflected in a decrease in *review fees* and *other review costs* (travel and subsistence, training etc). Other categories within direct costs have increased, however, again reflecting the shift in QAA's activities.
- 83 Support costs represent 27.2% of total expenditure (2004-05: 26.4%) and are consistent with 2004-05, showing a slight decrease of £10,934 (0.4%).
- 84 For the 2006-07 budget, evidence-based budgeting was used combined with a rigorous challenge process. This will ensure accurate and meaningful budgets against which QAA can measure its financial performance.

### **Reserves policy**

- 85 QAA's Reserves policy sets the target level of reserves equal to four to six months' fixed costs: at current levels of expenditure this sets the target level at £2.29 – £3.43 million. QAA holds reserves for three main reasons:
- to secure its long-term position
  - to deliver the medium-term objectives in the *Strategic plan 2006-11* by ensuring that reserve levels provide a cushion against medium-term business risks, and take full account of the costs of medium-term objectives and
  - to ensure that it can carry out the programme of work detailed in the next year's annual operating plan – for example, to ensure it could survive in the short-term should agreements with key funders fail to be reached by the start of the financial year.

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

- 86 The current level of reserves is £3.38 million and falls within the target range.
- 87 At 31 July 2006, QAA's free reserves as defined by the Charities SORP were £3,017,825 (2005: £2,666,993).

## Treasury management

88 The main principles underpinning QAA's Treasury policy are as follows:

- 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
- to ensure that QAA investments are secure. This is achieved by ensuring that its authorised investments reflect a risk averse and prudent attitude towards the organisations with whom funds may be deposited, and limits its investment activities to those approved
- to ensure that QAA achieves the maximum return on its investments taking into account the other key principles
- to ensure that 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.

89 During 2005-06, QAA achieved an average rate of return of 4.54% which is a slight decrease from 4.82% achieved in 2004-05. The average Bank of England base rate during the year was 4.50% (2005: 4.75%). Investment income in the year has been derived by managing cash balances held with Co-operative Bank plc and Abbey plc.

90 Given QAA's current strategy of seeking to achieve a maximum return on its investments while maintaining a risk averse and prudent attitude, and given base rate changes and current market conditions, the investment rate of return was favourable.

## Plans for future periods: looking forward to 2006-07

- 91 Our objectives and main tasks in 2006-07 are set out in detail in the *Annual operating plan 2006-07*. There is a good measure of continuity of core business from previous years, for example in the conduct of reviews and audits, publication of reports, support for institutions and stakeholders, and maintenance of the Academic Infrastructure.
- 92 The *Annual operating plan 2006-07* also shows important areas of development and emphasis in the light of changes in the external environment and so we can better meet the needs of our stakeholders. These include an extensive programme of work with student bodies across the UK; a further strengthening of our international work; a further strengthening of our work in Wales through the establishment of 'Team Wales' and the re-establishment of the Board's Advisory Committee for Wales; the consolidation of our contracting and business development capacity; strengthening our contribution to institutions' enhancement work through our review methods, through the analysis of review outcomes, and through dissemination, publication and promotion; piloting and implementation of new and revised review methods; development of stronger relations with employer bodies and PSRBs; and implementation of the Higher Education Regulation Review Group Concordat.

### Safeguarding standards

- 93 Our objectives in 2006-07 are as follows:
- to carry out agreed and contracted audit and review programmes
  - to implement the revised audit method in England and Northern Ireland
  - to advise governments on applications for DAP, UT and HEI designation
  - to develop new arrangements on HE in FE and FE in HE in England
  - to develop the revised enhancement-led institutional review method in Scotland
  - to develop a method for the review of directly funded HE in FE in Wales, and to review the institutional review method in Wales
  - to implement the developments and recommendations of the 2004 Access to HE development project in England and Wales.

### Supporting and enhancing quality

- 94 Our objectives in 2006-07 are as follows:
- to maintain and promote the Academic Infrastructure
  - to disseminate intelligence arising from QAA's work
  - to renew and manage the rolling five-year Enhancement Themes programme in Scotland
  - to establish clearer links between enhancement-led institutional review and Enhancement Themes in Scotland, and a strategy for dissemination and embedding
  - to produce reports on time and to the required standard.

## **Offering expertise**

95 Our objectives in 2006-07 are as follows:

- to maintain and strengthen our work with students and student organisations
- to carry out a greater range of work with stakeholders from outside HE
- to make our reports more relevant and informative for potential students and employers
- to complete our work with our partners in healthcare and healthcare education.

## **Rationalising regulation**

96 Our objectives in 2006-07 are as follows:

- to implement the Higher Education Regulation Review Group Concordat in England and to review with our partners how best to take forward the better regulation agenda in Wales
- to carry out programmes of collaborative work with and to provide services to PSRBs and other regulatory bodies
- to review and implement a revised organisational structure for SCQF in Scotland
- to consolidate working relationships with the Higher Education Academy.

## **Working worldwide**

97 Our objectives in 2006-07 are as follows:

- to achieve self-certification of the Scottish HE qualifications framework within the Bologna process framework
- to report, advise and brief the sector on European and other international developments
- to contribute to European and other international developments.

## **Organisational development**

98 QAA will reach its 10-year anniversary during 2007 and we will want to take stock of our achievements since 1997. More importantly, we will work with our partners and stakeholders, and advisers from outside the HE sector, to promote a debate about the next 10 years: what might a good quality, high standard higher education look like in 2017?

## Statement of directors' responsibilities

- 99 Law applicable to incorporated charities in England and Wales requires the directors (who are also trustees of the charity), for the purposes of company law, to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company at the end of the year, and of its financial activities for that period. All members of the Board are directors of the company.
- 100 In preparing the financial statements, the directors should follow best practice and:
- select suitable accounting policies and then apply them consistently
  - make judgements and estimates that are reasonable and prudent
  - state whether applicable accounting standards and statements of recommended practice have been followed, subject to any material departures disclosed and explained in the financial statements and
  - prepare the financial statements on the going concern basis unless it is inappropriate to presume the company will continue in operation.
- 101 The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure the financial statements comply with the *Companies Act 1985* and *Charities Act 1993*. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## Information to auditors

- 102 In the case of each of the persons who are directors of the company at the date when this report was approved:
- so far as each of the directors is aware, there is no relevant audit information (as defined in the *Companies Act 1985*) of which the company's auditors are unaware; and
  - each of the directors has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information (as defined) and to establish that the company's auditors are aware of that information.

## Auditors

- 103 A resolution to reappoint Mazars LLP as auditors to the company will be proposed at the Annual General Meeting.

The financial statements were approved by the Board on 30 November 2006 and were signed on its behalf by:

Sam Younger

Chairman

8 January 2007

Date

## **Independent auditors' report to the members of The Quality Assurance Agency for Higher Education**

We have audited the financial statements of The Quality Assurance Agency for Higher Education for the year ended 31 July 2006 which comprise the Statement of financial activities, the Balance sheet, the Cash flow statement and related notes. These financial statements have been prepared under accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the *Companies Act 1985*. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditors**

As described in the Statement of directors' responsibilities, the directors, who also act as trustees for the charitable activities of The Quality Assurance Agency for Higher Education, are responsible for the preparation of financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, whether the financial statements are properly prepared in accordance with the *Companies Act 1985* and whether the information given in the Directors' report is consistent with the financial statements. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the charity is not disclosed.

We read the Directors' report and consider the implications for our report if we become aware of any apparent misstatement within it.

### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the charitable company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## **Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the charitable company's affairs as at 31 July 2006 and of its incoming resources and application of resources, including its income and expenditure, in the year then ended
- the financial statements have been properly prepared in accordance with the *Companies Act 1985*
- the information given in the Directors' report is consistent with the financial statements and
- funds from the Higher Education Funding Council for England and from other funding bodies with whom the company has contracted during the year ended 31 July 2006 have been applied in accordance with the terms of their respective contracts.

### **Mazars LLP**

Chartered Accountants  
and Registered Auditors  
Clifton Down House  
Beaufort Buildings  
Clifton  
Bristol  
BS8 4AN

17 January 2007

## Statement of financial activities for the year ended 31 July 2006

	Notes	2006 £	2005 £
<b>Income and expenditure</b>			
<b>Incoming resources</b>			
<b>Incoming resources from generated funds</b>			
Investment income – bank interest receivable		244,474	232,720
<b>Incoming resources from charitable activities</b>			
Subscriptions		3,622,700	3,608,400
Contracts with HE funding bodies		4,454,025	5,381,282
Other contracts		2,685,095	2,042,661
Other related income		458,122	267,847
<b>Total incoming resources from charitable activities</b>	2	<b>11,219,942</b>	<b>11,300,190</b>
<b>Other incoming resources</b>		-	5,329
<b>Total incoming resources</b>		<b>11,464,416</b>	<b>11,538,239</b>
<b>Resources expended</b>			
<b>Charitable activities</b>			
Safeguarding standards		5,251,730	6,374,925
Supporting and enhancing quality		1,489,321	1,499,858
Offering expertise		2,922,171	2,586,291
Rationalising regulation		686,221	470,315
Working worldwide		525,531	351,725
<b>Total expenditure on charitable activities</b>		<b>10,874,974</b>	<b>11,283,114</b>
<b>Governance costs</b>		<b>215,799</b>	211,793
<b>Total resources expended</b>	3	<b>11,090,773</b>	<b>11,494,907</b>
<b>Net income</b>	4	<b>373,643</b>	43,332
<b>Fund balances brought forward</b>		<b>3,003,706</b>	2,960,374
<b>Fund balances carried forward</b>		<b>3,377,349</b>	<b>3,003,706</b>

All activities are continuing. There were no gains or losses other than those disclosed in the statement of financial activities. QAA had no restricted funds.

The notes on pages 33 to 42 form part of these financial statements.

## Balance sheet as at 31 July 2006

	Notes	2006	2005
		£	£
<b>Fixed assets</b>			
Tangible assets	8	359,524	336,713
<b>Current assets</b>			
Debtors	10	1,080,991	993,068
Cash at bank and in hand		3,929,988	3,917,381
		<u>5,010,979</u>	<u>4,910,449</u>
<b>Creditors - amounts falling due within one year</b>	11	<u>(1,703,154)</u>	<u>(1,953,456)</u>
<b>Net current assets</b>		<u>3,307,825</u>	<u>2,956,993</u>
<b>Total assets less current liabilities</b>		<b>3,667,349</b>	<b>3,293,706</b>
Provisions for liabilities and charges	12	(290,000)	(290,000)
<b>Net assets</b>		<u><u>3,377,349</u></u>	<u><u>3,003,706</u></u>
<b>Represented by:</b>			
<b>Unrestricted funds as at 31 July 2006</b>		<u><u>3,377,349</u></u>	<u><u>3,003,706</u></u>

The notes on pages 33 to 42 form part of these financial statements.

The financial statements were approved and authorised by the Board on 30 November 2006 and were signed on its behalf by:

Sam Younger	Chairman
8 January 2007	Date

## Cash flow statement for the year ended 31 July 2006

	2006 £	2005 £
Net cash (outflow)/inflow from operating activities (see below)	<b>(31,774)</b>	623,528
<b>Returns on investments and servicing of finance</b>		
Investment income	<b>244,474</b>	232,720
<b>Capital expenditure</b>		
Purchase of fixed assets	<b>(200,093)</b>	(146,870)
<b>Increase in net cash</b>	<b><u>12,607</u></b>	<b><u>709,378</u></b>
<b>Reconciliation of net income to net cash (outflow)/inflow from operating activities</b>		
	2006 £	2005 £
Net income before transfers	<b>373,643</b>	43,332
Investment income	<b>(244,474)</b>	(232,720)
Depreciation	<b>177,282</b>	204,984
Increase in debtors	<b>(87,923)</b>	(379,557)
(Decrease)/increase in creditors	<b>(250,302)</b>	987,489
<b>Net cash (outflow)/inflow from operating activities</b>	<b><u>(31,774)</u></b>	<b><u>623,528</u></b>
<b>Analysis of change in net cash</b>		
	2006 £	2005 £
Cash at bank and in hand at the start of the year	<b>3,917,381</b>	3,208,003
Increase in net cash	<b><u>12,607</u></b>	<u>709,378</u>
<b>Cash at bank and in hand at the end of the year</b>	<b><u>3,929,988</u></b>	<b><u>3,917,381</u></b>

The notes on pages 33 to 42 form part of these financial statements.

## Notes to the financial statements for the year ended 31 July 2006

### 1 Accounting policies

#### a Application of accounting policies

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

#### b Accounting conventions

The financial statements have been prepared under the historical cost convention in accordance with applicable Accounting Standards. The financial statements follow the *Companies Act 1985* and the recommendations in *Accounting and Reporting by Charities: Statement of Recommended Practice* (the Charities SORP), as revised by the Charities Commission in 2005.

#### c Reporting requirements

The *Companies Act 1985* requires charities to produce an income and expenditure account where the disclosure requirements of FRS 3 cannot be met by the Statement of financial activities (SOFA). As QAA has no restricted funds and no recognised or unrecognised gains or losses, all disclosure requirements are met by the SOFA and therefore no separate income and expenditure account has been produced.

#### d Fund accounting

Unrestricted funds are incoming resources received or generated for expenditure on the general objectives of QAA. All QAA's funds in 2005-06 were unrestricted.

#### e Incoming resources

QAA's activities are funded primarily through contracts with the HE funding bodies and the Department of Health, and through subscriptions from HEIs: it does not raise income through fundraising. All income has been accounted for on an accruals basis.

#### f Resources expended and basis of allocation of costs

All expenditure has been accounted for on an accruals basis and has been recorded as attributable to one of six categories, the five 'charitable activities' and 'governance' as shown in the SOFA. Within each category, the expenditure is classified as 'direct costs' or 'support costs' as shown in the 'total resources expended' note.

Staff numbers and costs were allocated either:

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

Governance costs include direct costs of meeting constitutional and statutory requirements such as audit, trustees' meetings and expenses, and legal fees. The staff and office costs associated with the direct costs are included in support costs.

## 1 Accounting policies (continued)

### g 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.

### h 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 which 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 £1,000 are not capitalised unless they form part of a larger capital project.

### i Provision for reinstatement of premises

It is QAA's policy to provide for the full cost of reinstating the premises in Gloucester and Glasgow to their condition when the leases commenced, as required by the leases which expire in 2013 and 2015 respectively. Such a provision is in accordance with Financial Reporting Standard 12 (FRS 12).

### j Pension costs

QAA participates in two defined benefit pension schemes that are externally funded and contracted out of the State Second Pension (S2P). The assets of the schemes are held in separate trustee administered funds. QAA is unable to identify its share of the underlying assets and liabilities of each scheme on a consistent and reasonable basis and therefore, as required by *FRS 17 Retirement benefits*, accounts for the schemes as if they were defined contribution schemes. As a result, the amount charged to the income and expenditure account represents the contributions payable to the schemes in respect of the accounting period.

## 2 Incoming resources from charitable activities

	2006	2005
	£	£
UK Governments	2,500,094	2,281,856
UK higher education funding councils	4,475,438	5,370,146
UK higher education institutions	3,887,904	4,237,400
Other	60,097	30,752
	<b>10,923,533</b>	11,920,154
Release income deferred in prior years	646,823	26,859
Defer income received in current year	(350,414)	(646,823)
	<b>11,219,942</b>	11,300,190

### 3 Total resources expended

Resources expended:	Charitable activities					Governance		2006	2005
	Safeguarding standards	Supporting and enhancing quality	Offering expertise	Rationalising regulation	Working worldwide	Sub total	Governance costs	Total	Total
	£	£	£	£	£	£	£	£	£
<b>Direct costs</b>									
Staffing costs	1,795,376	577,915	754,080	277,160	268,764	3,673,295	-	3,673,295	3,417,368
Review fees	1,326,524	216,887	740,716	20,404	11,709	2,316,240	-	2,316,240	2,731,232
Other review costs	728,637	32,460	594,582	47,548	-	1,403,227	-	1,403,227	1,688,133
Publications	46,965	94,279	97,872	47	13,199	252,362	-	252,362	230,869
Other direct costs	160,810	85,936	75,806	13,451	34,898	370,901	52,761	423,662	394,384
<b>Total direct costs</b>	<b>4,058,312</b>	<b>1,007,477</b>	<b>2,263,056</b>	<b>358,610</b>	<b>328,570</b>	<b>8,016,025</b>	<b>52,761</b>	<b>8,068,786</b>	<b>8,461,986</b>
<b>Support costs</b>									
Staffing costs	497,238	208,390	261,914	148,480	58,642	1,174,664	130,958	1,305,622	1,287,344
Other staff costs	61,178	20,735	32,837	10,844	7,519	133,113	2,938	136,051	158,246
Premises	290,703	120,998	153,232	85,543	34,336	684,812	13,132	697,944	662,029
Office costs	83,482	35,586	43,897	25,839	9,809	198,613	3,740	202,353	209,404
Information systems	88,394	30,247	47,495	15,069	10,888	192,093	4,260	196,353	221,907
Professional fees	52,991	17,724	28,473	9,033	6,528	114,749	2,554	117,303	112,161
Depreciation	80,087	26,787	43,032	13,653	9,865	173,424	3,860	177,284	204,982
Other support costs	39,345	21,377	48,235	19,150	59,374	187,481	1,596	189,077	176,848
<b>Total support costs</b>	<b>1,193,418</b>	<b>481,844</b>	<b>659,115</b>	<b>327,611</b>	<b>196,961</b>	<b>2,858,949</b>	<b>163,038</b>	<b>3,021,987</b>	<b>3,032,921</b>
<b>Total resources expended</b>	<b>5,251,730</b>	<b>1,489,321</b>	<b>2,922,171</b>	<b>686,221</b>	<b>525,531</b>	<b>10,874,974</b>	<b>215,799</b>	<b>11,090,773</b>	<b>11,494,907</b>

#### 4 Net income

	2006	2005
	£	£
This is stated after charging:		
External auditors: audit services	<b>16,000</b>	16,000
Internal auditors: audit services	<b>10,000</b>	18,000
Professional Indemnity Insurance	<b>9,398</b>	9,712
Operating leases		
Land and buildings	<b>340,243</b>	340,243
Other	<b>58,509</b>	58,509
	<b><u>58,509</u></b>	<b><u>58,509</u></b>

#### 5 Analysis of staff costs

	2006	2005
	£	£
Total staff costs were:		
Salaries	<b>3,956,287</b>	3,754,278
Employers' National Insurance contributions	<b>339,877</b>	318,467
Pensions (note 15)	<b>486,022</b>	454,859
	<b><u>4,782,186</u></b>	<b><u>4,527,604</u></b>
Staff seconded to QAA	<b>113,932</b>	161,025
Employment agency staff	<b>82,799</b>	16,083
	<b><u>4,978,917</u></b>	<b><u>4,704,712</u></b>

The average number of employees, calculated on a full time equivalent basis was as follows:

	2006	2005
	Number	Number
Safeguarding standards	<b>55</b>	59
Supporting and enhancing quality	<b>19</b>	19
Offering expertise	<b>30</b>	31
Rationalising regulation	<b>9</b>	7
Working worldwide	<b>7</b>	5
Governance	<b>3</b>	3
	<b><u>123</u></b>	<b><u>124</u></b>

## 5 Analysis of staff costs (continued)

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

	<b>2006</b>	2005
	<b>Number</b>	Number
£120,000 - £129,999	<b>1</b>	-
£110,000 - £119,999	-	1
£80,000 - £89,999	<b>1</b>	-
£70,000 - £79,999	<b>3</b>	2
£60,000 - £69,999	<b>1</b>	3

All employees earning more than £60,000 participated in the Universities Superannuation Scheme (see note 15).

## 6 Directors' emoluments and reimbursed expenses

There were no emoluments paid to the directors during the year.

Seventeen directors were reimbursed expenses to the value of £12,861 during the year (2005: 16 directors, £10,356). The expenses paid related solely to travel and incidentals.

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

## 7 Taxation

QAA is an exempt charity under the *Income and Corporation Taxes Act*. As such it is not liable for any corporation tax or income tax on any of its charitable activities.

## 8 Tangible fixed assets

	Leasehold improvements	Computer equipment	Furniture and other equipment	Total
	£	£	£	£
<b>Cost</b>				
At 1 August 2005	162,535	1,251,565	503,757	1,917,857
Additions	4,465	191,547	4,081	200,093
Disposals	-	(38,086)	-	(38,086)
<b>At 31 July 2006</b>	<b>167,000</b>	<b>1,405,026</b>	<b>507,838</b>	<b>2,079,864</b>
<b>Depreciation</b>				
At 1 August 2005	67,154	1,037,808	476,182	1,581,144
Charge for the year	11,774	152,767	12,741	177,282
Eliminated on disposals	-	(38,086)	-	(38,086)
<b>At 31 July 2006</b>	<b>78,928</b>	<b>1,152,489</b>	<b>488,923</b>	<b>1,720,340</b>
<b>Net Book Value at 31 July 2006</b>	<b>88,072</b>	<b>252,537</b>	<b>18,915</b>	<b>359,524</b>
Net Book Value at 31 July 2005	95,381	213,757	27,575	336,713

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

## 9 Analysis of capital commitments

	2006 £	2005 £
Contracted for but not provided	210,000	-
Authorised but not yet contracted for	395,000	322,000
	<u>605,000</u>	<u>322,000</u>

## 10 Debtors

	<b>2006</b>	2005
	£	£
Trade debtors	<b>729,319</b>	597,681
Sundry debtors	<b>5,665</b>	6,574
Prepayments	<b>168,318</b>	162,627
Accrued income	<b>177,689</b>	226,186
	<u><b>1,080,991</b></u>	<u>993,068</u>

## 11 Creditors: amounts falling due within one year

	<b>2006</b>	2005
	£	£
Trade creditors	<b>214,964</b>	412,742
Taxation and social security	<b>199,426</b>	166,466
Pension contributions	<b>64,417</b>	57,176
Other creditors	<b>394,415</b>	30,506
Accruals	<b>479,518</b>	637,539
Deferred income	<b>350,414</b>	649,027
	<u><b>1,703,154</b></u>	<u>1,953,456</u>

## 12 Provisions for liabilities and charges

	<b>2006</b>	2005
	£	£
Provision for reinstatement of leased premises	<u><b>290,000</b></u>	<u>290,000</u>

The reinstatement provision required to return QAA's leased premises to their original condition is made on the basis of a formal review conducted in 2004 by a firm of chartered surveyors.

### 13 Financial commitments

Annual commitments under non-cancellable operating leases were as follows:

	<b>2006</b>	2005
	£	£
Leases which expire:		
<b>Land and buildings</b>		
Within one year	<b>14,100</b>	4,145
After more than five years	<b>317,443</b>	317,443
<b>Other</b>		
Within one year	<b>27,213</b>	-
Between two and five years	<b>21,321</b>	58,509
	<hr/> <b>380,077</b> <hr/>	<hr/> 380,097 <hr/>

### 14 Related party transactions

Due to the nature of QAA's operations and the composition of the QAA Board of Directors, it is unavoidable that transactions will 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 which should be disclosed under FRS 8: *Related party disclosures*.

### 15 Pensions

QAA participates in two pension schemes: the Universities Superannuation Scheme (USS) and the Superannuation Arrangements for the University of London (SAUL).

The total employer pension cost for QAA was £486,022 (2005: £454,859) of which £369,599 (£315,908) was attributable to USS and £116,423 (£138,951) was attributable to SAUL. These amounts include £40,507 (2005: £37,748) of outstanding contributions at the balance sheet date.

#### a Universities Superannuation Scheme

QAA participates in the Universities Superannuation Scheme, a defined benefit scheme which is externally funded and contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate trustee administered fund. QAA 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 *FRS 17 Retirement benefits*, accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

## 15 Pensions (continued)

The latest actuarial valuation of the scheme was at 31 March 2005. The assumptions which have the most significant effect on the result of the valuation are those relating to the rate of return on investments (ie the valuation rate of interest) and the rates of increase in salary and pensions. In relation to the past service liabilities the financial assumptions were derived from market yields prevailing at the valuation date. It was assumed that the valuation rate of interest would be 4.5% per annum, salary increases would be 3.9% per annum (plus an additional allowance for increases in salaries due to age and promotion in line with recent experience) and pensions would increase by 2.9% per annum. In relation to the future service liabilities it was assumed that the valuation rate of interest would be 6.2% per annum, including an additional investment return assumption of 1.7% per annum, salary increases would be 3.9% per annum (also plus an allowance for increases in salaries due to age and promotion) and pensions would increase by 2.9% per annum. The valuation was carried out using the projected unit method.

At the valuation date, the value of the assets of the scheme was £21,740 million and the value of the past service liabilities was £28,308 million indicating a deficit of £6,568 million. The assets therefore were sufficient to cover 77% of the benefits which had accrued to members after allowing for expected future increases in earnings.

Using the Minimum Funding Requirement prescribed assumptions introduced by the *Pensions Act 1995*, the scheme was 126% funded at the valuation date and under the Pension Protection Fund regulations introduced by the *Pensions Act 2004* it was 110% funded.

The institution contribution rate required for future service benefits alone at the date of the valuation was 14.3% of pensionable salaries but the trustee company, on the advice of the actuary, decided to maintain the institution contribution rate at 14% of pensionable salaries.

Surpluses or deficits which arise at future valuations may impact on QAA's future contribution commitment. An additional factor which could impact the funding level of the scheme is that with effect from 16 March 2006, USS positioned itself as a 'last man standing' scheme so that in the event of the insolvency of any of the participating employers in USS, the amount of any pension funding shortfall (which cannot otherwise be recovered) in respect of that employer will be spread across the remaining participant employers and reflected in the next actuarial valuation of the scheme.

The next formal triennial actuarial valuation is due as at 31 March 2008. The contribution rate will be reviewed as part of each valuation. The contribution rate payable by QAA is 14% of pensionable salaries.

## 15 Pensions (continued)

### b Superannuation Arrangements for the University of London

QAA participates in the Superannuation Arrangements for the University of London, a defined benefit scheme which is externally funded and contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate trustee administered fund. QAA 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 *FRS 17 Retirement benefits*, accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

The latest actuarial valuation of the scheme was at 31 March 2005. The assumptions which have the most significant effect on the result of the valuation are those relating to the rate of return on investments (ie the valuation rate of interest) and the rates of increase in salary and pensions. In relation to the past service liabilities the financial assumptions were derived from market yields prevailing at the valuation date. It was assumed that the valuation rate of interest would be 5.5% per annum, salary increases would be 4.15% per annum (plus an additional allowance for increases in salaries due to age and promotion in line with recent experience) and pensions would increase by 2.65% per annum. In relation to the future service liabilities it was assumed that the valuation rate of interest would be 6.5% per annum, including an additional investment return assumption of 1.0% per annum, salary increases would be 4.15% per annum (also plus an allowance for increases in salaries due to age and promotion) and pensions would increase by 2.65% per annum. The valuation was carried out using the projected unit method.

At the valuation date, the value of the assets of the scheme was £982 million and the value of the past service liabilities was £1,058 million indicating a deficit of £76 million. The assets therefore were sufficient to cover 93% of the benefits which had accrued to members after allowing for expected future increases in earnings.

Using the Minimum Funding Requirement prescribed assumptions introduced by the *Pensions Act 1995*, the scheme was 144% funded at the valuation date and under the Pension Protection Fund regulations introduced by the *Pensions Act 2004* it was 109% funded.

The institution contribution rate required for future service benefits alone at the date of the valuation was 19.7% of pensionable salaries. The trustee company, on the advice of the actuary, and following consultation with employers and members, increased the institution contribution rate to 13% of pensionable salaries with effect from 1 August 2006 (10.5% up to 31 July 2006). The member contribution rate will increase to 6% of pensionable salaries with effect from 1 August 2006 (5% up to 31 July 2006).

Surpluses or deficits which arise at future valuations may impact on QAA's future contribution commitment.

The next formal triennial actuarial valuation is due as at 31 March 2008. The contribution rate will be reviewed as part of each valuation. The contribution rate payable by QAA is the institution contribution rate referred to above.

