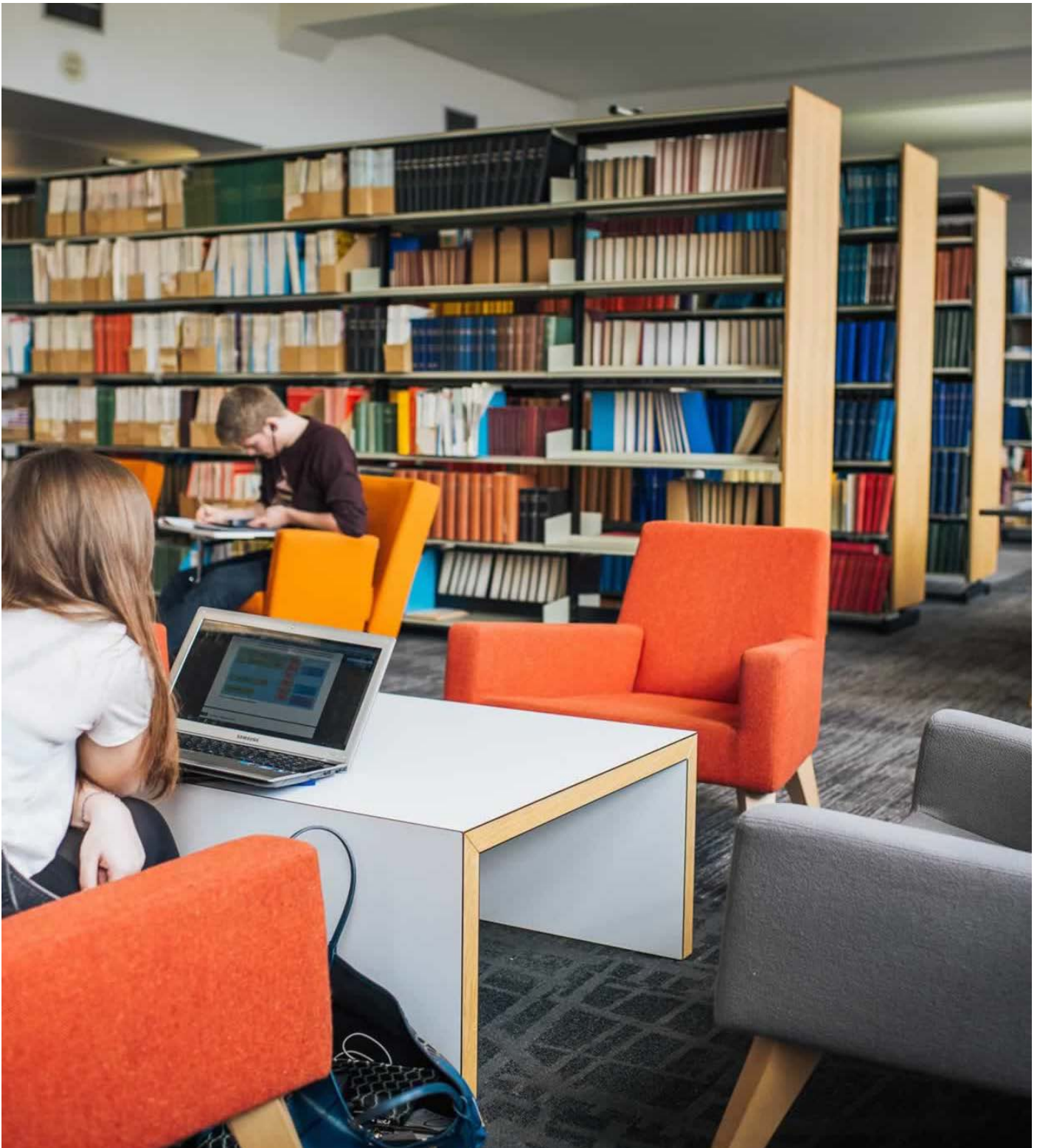


Statutory Report and Accounts
Year ended
31 July 2016



**The Higher Education Academy
Statutory Report and Accounts
Year ended 31 July 2016**

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Report of the Directors (including the strategic report)

Strategic Report

Overview

The Higher Education Academy (HEA) operates globally as a charitable body which champions teaching quality in higher education (HE).

It works to raise the quality and status of teaching in higher education to improve students' learning outcomes. This is undertaken by promoting the professionalisation of teaching, disseminating best practice, and supporting the ongoing continuous professional development of staff from across the world to improve the wider student learning experience.

The HEA works in partnership with institutions and individual educators to support and continuously improve teaching quality. HEA Fellowships, which are a benchmark for standards in HE teaching and learning support, is at the core of its work. This work supports individuals throughout their career, enabling institutions and individuals to continuously develop teaching quality. To date, over 78,000 individuals have been recognised as a Fellow of the HEA as a result of demonstrating their commitment to professionalism in teaching and learning and that their practice aligns with UK Professional Standards Framework (UKPSF).

In the last three years the HEA has changed its business model to ensure it continues to deliver its charitable objectives following the reduction in grant funding from the UK's four Funding Councils, reducing from £11m in 2014-15, to £6.5m in 2015-16, and to zero in 2016-17.

The HEA has become more streamlined and efficient, realigning its resources to continue to meet the changing needs of the sector. As part of this the HEA consulted with its existing institutional subscribers on its offer for 2016-17. It also reviewed how it delivers continuous professional development (CPD) and training, and how institutions participate in the HEA's student experience surveys. The launch of the new 2016-17 institutional subscription offer has been positively received with 98% (238) of institutional subscribers retained, in the UK and internationally, as of the end of July 2016.

Strategy and objectives

The HEA's strategy, objectives and how they will be achieved are detailed below.

Vision: The HEA is globally recognised for inspiring excellent teaching as an essential driver of student success.

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Mission: To improve learning outcomes by raising the quality and status of teaching in higher education. This will be delivered by:

- raising the quality and status of teaching through professional standards;
- promoting continuous professional development;
- developing a hub of recognised best practice;
- providing thought leadership in support of better teaching.

Values:

- Progressive – we recognise that improvement is continuous. We are curious, restless, committed pursuers of positive change.
- Agile – we are focused, intuitive and flexible in our service.
- Collaborators – we work in partnership to achieve shared goals.
- Trusted – we are relentless in our drive to generate trust through our credibility, knowledge and expertise.

The corporate objectives to deliver the strategy are:

- To be recognised as the leader in driving teaching excellence and demonstrate this value to our customers;
- To be a proud, energised and customer-focused business.
- To establish sustainable income in order to achieve our charitable purpose;

The objectives will be achieved by deploying the following strategies:

- championing the teaching agenda and being a thought-leader in this space;
- continuously improving the institutional subscription offer to reflect the needs of the sector and demonstrate our value to institutions;
- supporting staff to enhance their professional development at all stages of their careers;
- positioning the HEA as the hub for best practice and innovation in teaching and learning internationally;
- tightly managing our cost base and becoming more agile as an organisation;
- being a proud, energised and customer-focused business.

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Public benefit

The HEA is a registered charity and the Board continues to have due regard to the Charity Commission's guidance on public benefit, ensuring that the HEA's products and services continue to deliver its charitable aims. The Board also considers the potential risks and ethical issues that might arise as a result of the HEA supporting HE outside the UK and the need to mitigate the risk of international activity where appropriate. In doing this, the HEA contributes to the world-wide reputation, success and value of the United Kingdom's higher education sector.

The HEA provides public benefit, through delivering its charitable articles, by:

- providing strategic advice and co-ordination within the higher education sector, government, funding bodies and others on policies and practices that will impact upon and enhance the student experience;
- supporting and advancing curriculum and pedagogic development across the whole spectrum of higher education activity;
- facilitating the professional development and increasing the professional standing of all staff in higher education.

The HEA's public benefit is reflected in its stated aim, "Transforming teaching, Inspiring learning". This summarises the HEA's role in raising the quality and status of teaching in higher education in order to improve students' learning outcomes. Research¹ has showed that graduates make a greater contribution to society, through greater social cohesion, political stability and social mobility. Graduates are also more likely to vote, volunteer, be law-abiding, live longer and be healthier.

The HEA operates across the international higher education community and provides benefit to different stakeholders including:

- institutions – higher education providers (HEPs);
- individuals – those involved in supporting students' learning experiences;
- the higher education sector – through its policy work, working with funding bodies; higher education mission groups; professional, statutory and regulatory bodies; other sector agencies and groups representing external stakeholders.

Further detail of the activity to deliver public benefit is provided in the following section (2015-16 performance).

¹ Department for Business, Innovation and Skills, [*Things we know and don't know about the Wider Benefits of Higher Education: A review of the recent literature*](#), October 2013

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Social responsibility

The HEA is committed to being a socially responsible organisation, seeking to minimise adverse impacts on the environment wherever possible and to operate in accordance with sustainable development principles as outlined in its Corporate Social Responsibility policy. All HEA employees are supported to undertake voluntary activities in the community through flexible working arrangements and one additional day's leave each year.

2015-16 performance

The following outlines the HEA's performance throughout 2015-16 and its position at the end of the financial year.

a) Activities delivered

Institutional

Accreditation

A total of 131 institutions have a CPD scheme accredited by the HEA (2014-15, 102). This will support more individuals to gain recognition as HEA Fellows through their institution's staff development schemes. A total of 151 institutions are now accredited (both taught and CPD provision) to award HEA Fellowship.

Thematic priorities

The HEA's frameWORKS series has continued to support the sector address key priorities for learning and teaching, in the following six thematic areas:

- Assessment;
- Employability;
- Access, retention, progression, attainment;
- Engagement;
- Internationalisation;
- Flexible Learning.

The frameWORKS series, centred on student success, is fundamental for the HE sector, providing a national reference point for institutions or individuals to review and enhance their policy and practice. An overarching student success framework has also been developed to combine all six themes into one holistic approach.

Student experience surveys

29 institutions (2014-15, 24) participated in the HEA's UK Engagement Survey (UKES), and 105 (2014-15, 100) participated in the HEA's Postgraduate Taught Experience Survey (PTES). These surveys continue to give institutions a better understanding of their students' experiences.

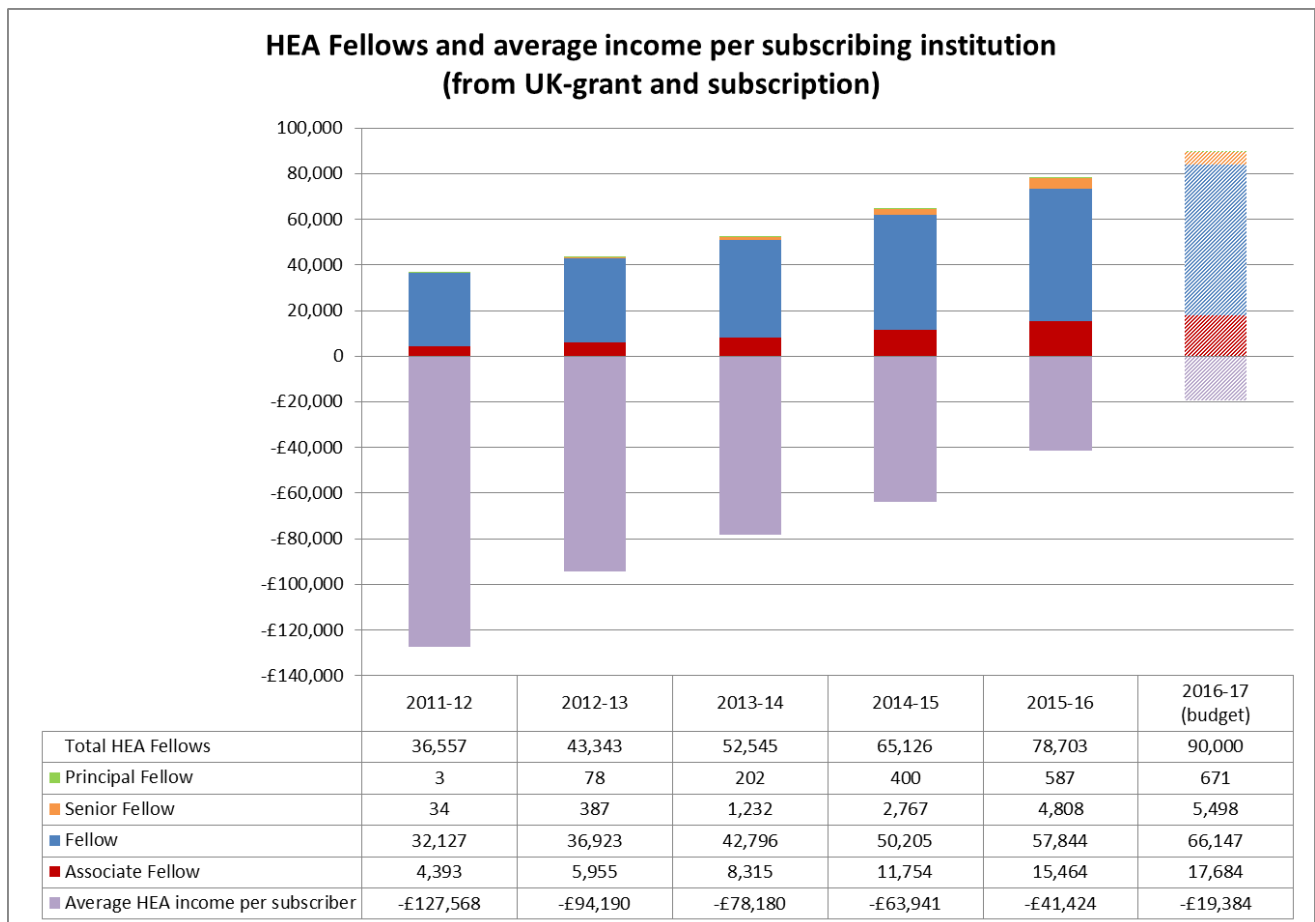
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Individual

Recognition

Over 78,000 HEA Fellows have now been recognised against all descriptors of the UKPSF. This is a 20% increase in the total number of HEA Fellows since 1 August 2015, as shown in the graph below.

The graph also highlights how the increase in number of Fellows recognised by the HEA has been achieved against a backdrop of decreasing funding per HEA institutional subscriber – showing the average income received per subscribing institution received from both UK-grant and subscription income.



The HEA awarded a further 55 National Teaching Fellowships, which received wide-spread coverage in both national and local press that helped raise the status of learning and teaching across the sector.

The HEA also launched a new collaborative national teaching award scheme, being piloted in 2016, to recognise teaching excellence by teams at higher education providers. The collaborative award is an important development which reflects the key role that teamwork has in learning and teaching innovation across the sector.

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Individual CPD support

The HEA has delivered a wide range of training and professional development opportunities during 2015-16 including its:

- Executive Development Programme (EDP) enhancing the leadership of learning and teaching of those in senior and executive roles;
- Leading Transformation in Learning and Teaching (LTLT) programme, run in partnership with the Leadership Foundation, to enhance the skills, approaches and insights needed to lead course and programme teams;
- discipline cluster conferences;
- disciplinary workshops, which have been led by National Teaching Fellows, and support practitioners to engage in a locally-held event led by individuals recognised for their learning and teaching;
- research webinars, run during lunch-time offer participants the opportunity to come together to debate critical issues in HE learning and teaching;
- Twitter chats – a regular, open forum for HEA Fellows and non-Fellows to come together and share their experiences of teaching and learning in both Higher and Further Education.

Resources to enhance learning and teaching

The HEA has continued to make available new resources to support individuals' practice through its knowledge hub. This includes the tools produced by individuals recognised through in the 'Most Innovative Teachers of the Year' (Times Higher Education Awards) and National Teaching Fellowship Scheme.

As well as practical resources, the HEA has also released over 20 research publications to inform current issues in higher education in the UK and internationally. New research by the HEA, published in March 2016, established, for the first time, a positive link between high levels of HEA Fellowship and strong UK Engagement Survey (UKES) teaching scores. Rather than reported satisfaction, UKES measures student behaviours and their engagement with their learning, with the HEA's research identifying correlation between Fellowship and both teaching and staff interaction.

Sector-wide activities

Strategic Networks

The HEA led a number of strategic network events including its PVC Network to inform sector developments on the Teaching Excellence Framework (TEF).

The HEA's deans' summits provided a forum for deans to share successful strategies for enhancing higher education teaching and learning in their discipline. The Dean's summits held

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for each of the HEA's four discipline clusters – Social Sciences, Arts and Humanities, STEM and Health and Social Care – highlighted discipline specific issues that the HEA is working in partnership with relevant Professional, Statutory and Regulatory Body (PSRBs) to address.

Vice-Chancellor Strategic Excellence Initiative (VC SEI)

The HEA's funded a total of 34 institutions through its Vice-Chancellor Strategic Excellence Initiative (VC SEI), launched in 2015, to support senior leaders to focus attention on corporate level strategies for learning and teaching; to identify and share innovative practice; and to recognise and promote the strategic leadership of excellence more broadly. The findings of the two-year initiative were shared its findings at a national conference on 26 May 2016. The findings will now be used to create tangible learning and teaching resources and case studies that will be shared across the HE sector.

National Initiatives – Scotland

In addition to its UK-wide activities the HEA undertook the Embedding Equality and Diversity in the Curriculum (EEDC) Strategic Enhancement Programme in Scotland on behalf of the Scottish Funding Council (January 2016 – December 2016). This supported Scottish HEIs to mainstream equality and diversity in their learning and teaching practices and processes.

The HEA has worked in collaboration with Student Partnerships in Quality Scotland (SPARQS) to host a series of free-to-attend, subject-specific workshops exploring successful learner transitions in Scotland. These events facilitated a dialogue on pedagogy, practice and learner experiences and expectations, and fostered new links between educators and students from local universities, colleges and schools.

Scottish higher education is underpinned by a strong and distinct collaborative, inclusive and student-centred ethos. A symposium in March 2016 supported the Scottish higher education sector to discuss how to define, recognise and support this value-based excellence in a manner which best promotes these defining characteristics.

The HEA also supported staff in Scottish HEIs to be awarded HEA Fellowship, including workshops to support those individuals working towards Senior and Principal Fellowship and consider their current practice within the context of the UKPSF.

National Initiatives – Wales

In addition to its UK-wide activities the HEA has led a Transition, Retention and Attainment Strategic Enhancement Programme in Wales, supporting 10 institutions in developing their strategies around student retention and success. The programme developed holistic approaches to student support across the student lifecycle; developed and shared best use of learning analytics, and designed approaches to the curriculum that strengthens engagement and promotes retention.

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b) KPIs

The table below reports relevant Key Performance Indicators monitored by the HEA during 2015-16.

Description	15-16 actual year- end	15-16 target year- end	14-15 actual year- end
Number of HEA institutional subscribers	243	248	238
Number of institutions participating in the HEA's PVC Network	103	90	80
Number of institutions participating in the HEA's UK Engagement Survey	29	50	24
Number of institutions participating in the HEA's Postgraduate Taught Experience Survey	105	100	100
Number of Associate Fellows (descriptor 1)	15,464	16,754	11,754
Number of Fellows (descriptor 2)	57,844	60,205	50,205
Number of Senior Fellows (descriptor 3)	4,808	4,767	2,767
Number of Principal Fellows (descriptor 4)	587	750	400
Number of institutions who have a HEA CPD Accreditation	131	147	102

Exceeds target	Less than 10% below target	Below target
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c) Financial overview

For the financial year ended 31 July 2016 there was a deficit of £660k (compared to a deficit of £545k in 2014-15). As anticipated income reduced by £4,063k (25.0%), mainly as a result of the reduction in grant funding, and expenditure was reduced by £3,948k (23.5%).

The financial results for the year are summarised below:

	2016 £000	2015 £000	Change £000	%
Total Income	12,168	16,231	(4,063)	(25.0)
Total Expenditure	12,828	16,776	(3,948)	(23.5)
Total Income	(660)	(545)	(115)	21.1

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Income

The reduction in income was predominantly as a result of the expected cuts in funding body grants. The analysis of income is shown below:

	2016 £000	2015 £000	Change £000	%
Funding body grants	7,832	12,669	(4,837)	(38.2)
Institutional subscriptions	2,667	2,549	118	4.6
Other income	1,624	960	664	69.2
Investment income	45	53	(8)	(15.1)
Total Income	12,168	16,231	(4,063)	(25.0)

Funding body grants

Funding body grants of £7,832k were received in 2015-16, a reduction of £4,837k (38.2%) on 2014-15. This was in line with the reductions notified in April 2014.

Institutional subscriptions

Total income from institutional subscribers was £2,667k (2014-15, £2,549k). The total number of institutional subscribers continued to increase during 2015-16, with a total of 243 (2014-15, 238). Over 238 institutions have already subscribed to the HEA during 2016-17.

Other income

The HEA generated other income of £1,624k (2014-15, £960k) via a number of additional activities including:

- individuals applying for HEA Fellowship through direct recognition based on their experience;
- staff development and change programmes, such as the HEA's new Executive Development Programme, and Leading Transformation in Learning and Teaching (LTLT) course;
- consultancy services for a number of Higher Education Institutions and Government bodies both within the UK and internationally.

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Expenditure

Total expenditure reduced by £3,948k (23.5%) with staff costs reducing by £302k (5.7%) and other expenses reducing by £3,656k (32.4%).

	2016	2015	Change	
	£000	£000	£000	%
Staff costs	5,007	5,309	(302)	(5.7)
Other operating expenses	7,636	11,292	(3,656)	(32.4)
Depreciation	150	149	1	0.7
Interest and other finance costs	35	26	9	34.6
Total Expenditure	12,828	16,776	3,948	(23.5)

Balance sheet and liquidity

Reserves at 31 July 2016 are £3,227k (2014-15, £3,887k).

The reserves policy was amended in November 2014 to increase the level of reserves held to between six and twelve months of fixed costs. This followed the notification of future year funding reductions and is deemed to be sufficient to meet the future needs of the HEA during this period of change.

The Finance Committee continue to review the HEA's level of reserves and liquidity on a regular basis to ensure it is adequate to accommodate its medium term plans.

Capital expenditure

	£000
Computer Equipment	25
Total capital expenditure	25

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Cashflow

	£000
Cash at bank and in hand at 1 August 2015	9,733
Deficit for the year	(660)
Adjustment for non-cash movements included in surplus	150
Adjustment for changes in working capital	(2,119)
Capital expenditure	(25)
Net cash movement	(2,654)
Cash at bank and in hand at 31 July 2016	7,079

There was a net outflow of cash of £2,654k (2014-15, £1,369k) leaving the HEA with a cash position of £7,079k at the year end.

Future plans

The HEA's agenda – the professionalisation of teaching – is becoming increasingly important. Teaching quality is coming into sharper focus, driven by Government policy and also by students, with all institutions reliant on student fees, there is an increasing need to demonstrate the quality of teaching.

As an increasing number of the HEA's UK institutional subscribers support staff involved in teaching and learning to attain HEA Fellowship, the challenge will become how the HEA supports staff in their CPD. Individuals will continue to be supported throughout their career with a comprehensive range of professional learning opportunities to gain skills and recognition as a result. The HEA will further promote and celebrate the most effective practice and practitioners internationally through high-profile global teaching awards.

Overseas providers and ministries are equally concerned about teaching quality and the challenges they face are not radically different from those in the UK. There is also appetite internationally from practitioners wishing to be part of a global community focused on teaching excellence. The HEA aims to become a global thought leader on teaching quality to actively influence policy internationally. By acting as a hub for best practice in teaching and learning internationally the HEA will create significant value for its UK customers.

The HEA continues its expansion as a global charity that promotes better teaching in HE. The HEA will be known for championing professional standards through delivering innovative and impactful work with individuals, institutions and ministries who share a passion for great teaching.

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Principal risks and uncertainties

The HEA maintains a strategic risk register which details the high-level risks. The Executive is responsible for identifying risks and the appropriate response actions. The strategic risk register is reviewed by Audit Committee at each of its meetings and an annual review is undertaken by the Board.

The key risks during 2015-16 were:

- institutions not subscribing in 2016-17 which would impact the HEA's ability to deliver value to the sector and future financial sustainability;
- failure to maintain its influence on relevant aspects of Government policy including future TEF/White Paper developments which would impact the HEA's standing in the higher education sector;
- insufficient capability and capacity of HEA staff to deliver the 2015-16 objectives within budget;

The principal risks and uncertainties being faced by HEA include:

- failure to secure sufficient funds to enable the delivery of its charitable objectives;
- the outcome of Universities UK's review of sector agencies diverts resource or creates market uncertainty, which makes it difficult to deliver its objectives for 2016-17;
- failure to demonstrate its reach, value and impact to key stakeholders results in a loss of reputation and future take-up of HEA products and services;
- a decrease in staff engagement and retention as a result of the HEA not developing a proud, energised and customer-focused business, which impacts the delivery of the business plans.

Going concern

The Audit Committee has reviewed and reported to the Board on the assessment of strategic risks. The Finance Committee and the Board have also received reports on non-financial indicators which are of significance to longer term financial sustainability.

The Board has approved the business plan, financial forecasts and the required reserve levels and is satisfied that the HEA will operate in a financially sustainable manner. The Board considers that the HEA has sufficient resources to continue in operational existence for at least but not limited to the 12 months from the date these statutory accounts are signed and continues to adopt the 'going concern' basis in preparing the statutory accounts.

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Potential future developments

The Board has noted that there have been significant events that could materially change the HEA operation. In February 2016, Universities UK (a body representing approximately 80% of traditional universities and a founding member of the HEA) launched a review of the landscape of agencies operating in the Higher Education sector. Early indications from the review suggest that the UUK Board would prefer to see mergers of some of these agencies potentially including the HEA.

Any such merger could impact the HEA in all areas from Board composition, structure and infrastructure through to changes to strategy.

A handwritten signature in black ink, appearing to read 'Rama Thirunamachandran', written in a cursive style.

Professor Rama Thirunamachandran (Chair)

A handwritten signature in black ink, appearing to read 'S Marshall', written in a cursive style.

Professor S Marshall (Chief Executive)

23 November 2016

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Statement of principal accounting policies

Company information

The Higher Education Academy is a registered charity and company limited by the guarantee. The registered office is Innovation Way, York Science Park, Heslington, York, YO10 5BR.

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education 2015: the Companies Act 2006, and in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS102). This is the first year in which the financial statements have been prepared under FRS 102. Refer to note 23 for an explanation of the transition. The HEA is a public benefit entity and therefore has applied the relevant public benefit requirement of FRS 102.

Going concern

The Audit Committee has reviewed and reported to the Board on the assessment of strategic risks. The Finance Committee and the Board have also received reports on non-financial indicators which are of significance to longer term financial sustainability.

The Board has approved the business plan, financial forecasts and the required reserve levels and is satisfied that the HEA will operate in a financially sustainable manner. The Board considers that the HEA has sufficient resources to continue in operational existence for at least but not limited to the 12 months from the date these statutory accounts are signed and continues to adopt the 'going concern' basis in preparing the statutory accounts.

Recognition of income

Grant Funding

Where grant funding receivable from the funding bodies represents the funding allocation attributable to the current financial year, it is recognised in the income and expenditure accounts.

Institutional Subscriptions

Institutional subscriptions are recognised over the period to which they relate.

Other Income

Income from specific grants, contracts and other services is accounted for on an accruals basis and recognised in the accounts when the conditions for their receipt have been complied with and there is reasonable assurance that the grant or contribution will be received. This is

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generally equivalent to the sum of the relevant expenditure incurred during the year and any related contributions towards overhead costs.

Investment Income

All income from short-term deposits is credited to the income and expenditure account in the period in which it is earned.

Grants made

Where grants made are not utilised, a claw-back is recognised as a debtor in the balance sheet. The associated grant income is then deferred until the original conditions for its receipt have been complied with.

Pension schemes

The Higher Education Academy participates in the Universities Superannuation Scheme (the scheme). Throughout the current and preceding periods, the scheme was a defined benefit only pension scheme until 31 March 2016 which was contracted out of the State Second Pension (S2P). 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. The institution 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 income and expenditure account represents the contributions payable to the scheme in respect of the accounting period. Since the institution has entered into an agreement (the Recovery Plan that determines how each employer within the scheme will fund the overall deficit), the institution 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 income and expenditure account.

Tangible fixed assets

Tangible assets are capitalised where they are capable of being used for a period that exceeds one year. Laptops, desk top computers, servers and printers are capitalised, irrespective of cost. All other equipment (excluding computer software and licences), furniture and fittings are capitalised at cost where the aggregated or individual cost is £1,000 or more.

Depreciation

All tangible fixed assets are depreciated on a straight line basis over their useful economic life as follows:

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Equipment	-	three years
Computer equipment	-	three years
Furniture and fittings	-	five years

Leased assets

Costs in respect of operating leases are charged to expenditure on a straight-line basis over the lease term.

Liquid resources

Liquid resources include sums on short-term deposits with recognised banks, building societies and government securities.

The HEA has no significant exposure to cashflow interest rate risk as it does not have any loans or interest charging facilities in place.

Provisions

Provisions are recognised when the HEA has a present financial obligation as a result of a past event and it is probable that a transfer of economic benefit will be required to settle the obligation, and a reliable estimate can be made of its value.

Contingent liabilities

Contingent liabilities are disclosed by way of a note, when the definition of a provision is not met and includes three scenarios: a possible rather than a present obligation; a possible rather than a probable outflow of economic benefits; an inability to measure the economic outflow.

Taxation

The HEA is a charity within the meaning of schedule 3 of the Charities Act 2011 and as such is a charity within the meaning of section 467 Corporation Tax Act 2010 (CTA 2010).

Accordingly, the HEA is potentially exempt from taxation in respect of income or capital gains received within categories covered by part 11 of CTA 2010 or section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied to exclusively charitable purposes.

The HEA receives no similar exemption in respect of Value Added Tax.

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Reserves

The HEA's 2015-16 reserves policy sets a target level of six to twelve months fixed costs. This is deemed appropriate to ensure sufficient funds are available to maintain the programme of work in the event of an unexpected loss of income. This policy allows directors to meet their obligations under the Companies Acts and to comply with Charity Commission guidance.

The HEA may establish a designated reserve, where reserves are earmarked for a particular purpose.

Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

Creditors

Short term trade creditors are measured at the transaction price. Other financial liabilities, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

Financial instruments

The Company only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other accounts receivable and payable, loans from banks and other third parties, loans to related parties and investments in non-puttable ordinary shares.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade payables or receivables, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration, expected to be paid or received. However, if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not a market rate or in case of an out-right short-term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

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Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Income statement.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract

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Statement of financial activities (incorporating the income and expenditure account) for the year ended 31 July 2016

	Notes	2016 £000	2015 £000
Income			
Funding body grants	2	7,832	12,669
Other income	3	4,291	3,509
Investment income	4	45	53
Total income		<u>12,168</u>	<u>16,231</u>
Expenditure			
Staff costs	5	(5,007)	(5,309)
Other operating expenses	7	(7,636)	(11,292)
Depreciation	9	(150)	(149)
Interest and other finance costs	8	(35)	(26)
Total expenditure		<u>(12,828)</u>	<u>(16,776)</u>
(Deficit) for the year retained within the Income and Expenditure reserve	22	(660)	(545)
Fund balances brought forward at 1 August 2015		<u>3,887</u>	<u>4,432</u>
Fund balances carried forward at 31 July 2016		<u>3,227</u>	<u>3,887</u>

The income and expenditure account is in respect of continuing activities for the HEA.

There were no gains and losses other than those reported in the income and expenditure account.

The accompanying accounting policies and notes form an integral part of these financial statements.

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Balance sheet as at the 31 July 2016

	Notes	2016 £000	2015 £000
Fixed assets			
Tangible assets	9	<u>205</u>	<u>330</u>
		205	330
Current assets			
Debtors	10	3,038	1,733
Cash at bank and in hand		<u>7,079</u>	<u>9,733</u>
		10,117	11,466
Creditors: amounts falling due within one year	11	(6,058)	(6,818)
Net current assets		<u>4,059</u>	<u>4,648</u>
Total assets less current liabilities		<u>4,264</u>	<u>4,978</u>
Provisions for liabilities	12	<u>(1,037)</u>	<u>(1,091)</u>
NET ASSETS		<u>3,227</u>	<u>3,887</u>
Reserves			
I & E reserve	22	3,227	3,537
Designated Reserve	22	-	350
TOTAL RESERVES		<u>3,227</u>	<u>3,887</u>

The financial statements on pages 16 to 35 were approved by the Board on 23 November 2016 and were signed on its behalf by:



Professor Rama Thirunamachandran (Chair)

The Higher Education Academy
Company number 04931031

The accompanying accounting policies and notes form an integral part of these financial statements.

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Statement of cashflows for the year to 31 July 2016

	Notes	2016 £000	2015 £000
Cash flows from operating activities	13	(2,639)	1,570
Cash flows from investing activities	14	10	27
Cash flows from financing activities	15	<u>(25)</u>	<u>(228)</u>
Change in cash and cash equivalents in the reporting period		<u>(2,654)</u>	<u>1,369</u>
 Reconciliation of net cash flow to movement in net funds			
(Decrease) / Increase in cash in the year	16	(2,654)	1,369
Change in net debt resulting from cash flows		<u>-</u>	<u>-</u>
Movement in net funds in the year		(2,654)	1,369
 Cash and cash equivalents at the beginning of the reporting period		 <u>9,733</u>	 <u>8,364</u>
 Cash and cash equivalents at the end of the reporting period		 <u>7,079</u>	 <u>9,733</u>

The accompanying accounting policies and notes form an integral part of these financial statements.

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Notes to the financial statements

1. Significant judgements and estimates

Preparation of the financial statements requires management to make significant judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors considered to be relevant. The items in the financial statements where these judgements, estimates and assumptions have been made include:

Pension Scheme

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 that provided by USS. 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 scheme provided by USS meets the definition of a multi-employer scheme and has therefore recognised the discounted fair value of the contractual contributions under the funding plan in existence at the date of approving the financial statements.

2. Funding body grants

	2016	2015
	£000	£000
Higher Education Funding Council for England	5,821	9,461
Scottish Funding Council	820	1,532
Higher Education Funding Council for Wales	362	525
Department for Employment and Learning	130	193
Jisc	1	271
Department for Business, Innovation & Skills (BIS)	405	492
Department for Culture, Media and Sport	291	-
Other	2	195
	<u>7,832</u>	<u>12,669</u>

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3. Other Income

	2016 £000	2015 £000
Institutional subscriptions	2,667	2,549
Other income	1,624	960
	4,291	3,509

4. Investment income

	2016 £000	2015 £000
Interest receivable	45	53
	45	53

5. Staff

	2016 £000	2015 £000
Staff costs for the above persons:		
Wages and salaries	4,049	4,063
Social security costs	365	293
Movement on USS provision	37	438
Pension costs	556	515
	5,007	5,309

Emoluments of the Chief Executive:

	2016 £000	2015 £000
Salary	161	158
Benefits in kind	4	3
Pension Contributions	21	25
Total emoluments	186	186

The pension contributions in respect of the Chief Executive are in respect of employer's contributions to the USS pension scheme and are paid at the same rate as for other employees.

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The number of higher paid post-holders who received emoluments, excluding pension contributions in the following ranges was:

	2016 £000	2015 £000
£60,000 to £69,999	3	1
£70,000 to £79,999	1	1
£80,000 to £89,999	1	1
£90,000 to £99,999	-	-
£100,000 to £109,999	1	-
£110,000 to £119,999	-	1
£120,000 to £129,999	-	-
£130,000 to £139,999	-	-
£140,000 to £149,999	-	-
£150,000 to £159,999	-	1
£160,000 to £169,999	1	-
	<u>7</u>	<u>5</u>

The average number of persons employed by the HEA during the year, by major category, expressed as full-time equivalents was:

	2016 No.	2015 No.
Services	31	26
EPP	30	30
Marketing	11	9
Overheads	21	27
TechDis	-	1
	<u>93</u>	<u>93</u>

2015-16 payroll costs and average full-time equivalent numbers reflect staffed operations throughout the restructure. Severance payments made during 2015-16 and included above are £137k (2014-15, £104k).

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6. Key management personnel

The key management personnel of the company comprises those persons having authority and responsibility for planning, directing and controlling the activities of the HEA and comprises all members of the Executive of the HEA. The total employee benefits of the key management personnel were £809k (2015: £703k). The remuneration of the key management personnel is determined by the Remunerations Committee.

7. Other operating expenses

	2016	2015
	£000	£000
Academy operational costs	3,350	7,667
Indirect staff costs	573	775
Rent and rates	404	375
Travel and subsistence	668	684
Postage, printing, stationery and telephone	168	185
Professional fees	732	317
Office equipment and computer maintenance	882	671
General expenses	70	112
Public relations and fundraising	572	152
Recruitment costs	217	154
Loss on disposal of asset	-	3
Restructure	-	197
	7,636	11,292

	2016	2015
	£000	£000
Other operating expenses include:		
Auditors' remuneration		
- External auditor's remuneration in respect of audit services	32	30
- External auditor's remuneration in respect of non-audit services	34	50
- Internal audit	21	18
Hire of buildings – operating leases	330	330

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8. Interest and other finance costs

	2016 £000	2015 £000
Bank charges	15	13
Finance cost of USS pension	20	13
	35	26

9. Tangible fixed assets

	Computer equipment £000	Equipment £000	Fixtures & fittings £000	Total £000
Cost or valuation				
Opening balance	781	7	472	1,260
Additions	25	-	-	25
Disposals	(1)	-	-	(1)
At 31 July 2016	805	7	472	1,284
Depreciation				
Opening balance	564	7	359	930
Provision for the period	86	-	64	150
Disposals	(1)	-	-	(1)
At 31 July 2016	649	7	423	1,079
Net book value				
At 31 July 2016	156	-	49	205
Net book value				
At 31 July 2015	217	-	113	330

10. Debtors

	2016 £000	2015 £000
Amounts falling due within one year:		
Debtors	2,800	1,477
Other debtors	54	51
	2,854	1,528
Prepayments	155	132
Accrued income	29	73
	3,038	1,733

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11. Creditors: amounts falling due within one year

	2016 £000	2015 £000
Trade creditors	676	651
Other tax and social security	157	35
Accruals and Deferred Income	5,225	6,132
	<u>6,058</u>	<u>6,818</u>

12. Provisions for liabilities

	Obligation to fund past deficit on USS Pension £000	Onerous lease £000	Other £000	Total £000
As at 1 August 2015	973	14	104	1,091
Provided for during the year	57	-	-	57
Utilised in the year	-	(7)	(104)	(111)
At 31 July 2016	<u>1,030</u>	<u>7</u>	<u>-</u>	<u>1,037</u>

13. Reconciliation of consolidated operating deficit to net cash flow from operating activities

	2016 £000	2015 £000
(Deficit) for the year	(660)	(545)
Depreciation (note 9)	150	149
Decrease/(increase) in debtors (note 10)	(1,305)	645
(Decrease)/increase in creditors (note 11 & 12)	(814)	1,345
Interest receivable (note 4)	(45)	(53)
Bank charges (note 8)	35	26
Loss on disposal of assets	-	3
Net cash (outflow)/inflow from operating activities	<u>(2,639)</u>	<u>1,570</u>

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14. Returns on investments and servicing of finance

	2016 £000	2015 £000
Interest receivable	45	53
Bank charges	(35)	(26)
Net cash inflow from returns on investments and servicing of finance	<u>10</u>	<u>27</u>

15. Capital expenditure and financial investment

	Year ended 31 July 2016 £000	Year ended 31 July 2015 £000
Capital expenditure	(25)	(228)
Net cash outflow from capital expenditure and financial investment	<u>(25)</u>	<u>(228)</u>

16. Analysis of changes in net funds

	At 1 August 2015 £000	Cashflow £000	At 31 July 2016 £000
Cash at bank and in hand	9,733	(2,654)	7,079
Total	<u>9,733</u>	<u>(2,654)</u>	<u>7,079</u>

17. Pensions and similar obligations

The total cost charged to the profit and loss account is £556k (2015: £515k) as shown in note 5. The latest available full actuarial valuation of the scheme was at 31 March 2014 ("the valuation date"), which was carried out using the projected unit method.

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

The 2014 valuation was the third valuation for USS under the scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions. At the valuation date, the value of the assets of the scheme was £41.6 billion and the value of the scheme's technical provisions was £46.9 billion indicating a shortfall of £5.3 billion. The assets

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therefore were sufficient to cover 89% of the benefits which had accrued to members after allowing for expected future increases in earnings.

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

	2016	2015
Discount rate	2.6%	3.3%
Pensionable salary growth	2.0%	3.5% in the first year and 4.0% thereafter
Price inflation (CPI)	2.2%	2.2%

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

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

Use of these mortality tables reasonably reflects the actual USS experience. To allow for further improvements in mortality rates the CMI 2014 projections with a 1.5% pa long term rate were also adopted. The current life expectancies on retirement at age 65 are:

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

	2016	2015
Scheme assets	£49.8bn	£49.0bn
Total scheme liabilities	£58.3bn	£67.6bn
FRS102 total scheme deficit	£8.5bn	£18.6bn
FRS 102 total funding level	85%	72%

18. Capital commitments

There were no capital commitments contracted for at 31 July 2016 (2015: £nil).

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19. Financial commitments

At 31 July 2016 the HEA had total commitments under non-cancellable operating leases as follows:

	2016	2015
	£000	£000
Future minimum lease payments due:		
Not later than 1 year	303	330
Later than 1 year and not later than 5 years	999	1,053
Later than 5 years	1,380	1,629
	<u>2,682</u>	<u>3,012</u>

There is one property with 10½ years of a 25 year lease remaining. There is a break clause on this property in 4½ years which mitigates any risk.

20. Contingent liabilities

There were no contingent liabilities at 31 July 2016 (2015: £nil).

21. Related party transactions

Due to the nature of the HEA's operations and the composition of the Board (being drawn from the higher education sector), it is inevitable that transactions will take place with organisations in which a director of the board or a member of the HEA may have an interest. All transactions involving organisations in which a director of the Board or a member of the HEA may have an interest are conducted at arms' length and in accordance with the HEA's financial regulations and normal procurement procedures.

During the period there were no material transactions (neither income nor expenditure) with organisations with which any director of the Board or member of the HEA may have an interest.

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The following transactions were identified for disclosure under FRS 102: Related Party Disclosures:

Director/Trustee	Institution	Receipts to the institution £000	Payments to the institution £000	Owed to (Owed from) £000
Professor A J Chapman	Cardiff Metropolitan University	14	26	(15)
Professor M Mannion	Glasgow Caledonian University	-	20	-
Professor J Kay	University of Exeter	8	(3)	-
Professor R Thirunamachandran	Canterbury Christchurch University	31	11	(30)
A Carey	Cranfield University	12	-	(1)
Professor R Bunting	Buckinghamshire New University	26	-	-
S Vieru	National Union of Students	-	8	-
G Donnelly	Oxford Brookes University	36	58	(36)
G Donnelly	University of Cumbria	15	-	(15)
Professor J Last	Norwich University of the Arts	20	-	(7)
Professor G Layer	University of Wolverhampton	47	12	(45)
J Robinson	Brunel University	41	9	-

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22. Reserves

	Designated reserve £000	I & E reserve £000	Total £000
As at 31 July 2015	350	3,537	3,887
Deficit for the period	(350)	(310)	(660)
At 31 July 2016	-	3,227	3,227

A designated reserve was established in 2011-12 to support business development, this was utilised in the year.

23. Transition to FRS 102

As explained in the accounting policies, these are the HEA's first financial statements prepared in accordance with FRS 102 and the SORP. The accounting policies have been applied in preparing the financial statements for the year ended 31 July 2016, the comparative information presented in these financial statements for the year ended 31 July 2015 and in the preparation of an opening FRS 102 Balance Sheet at 1 August 2014. An explanation of how the transition to FRS 102 has affected the HEA's financial position, and performance is set out below:

Financial position

	31 July 2015 £000	1 August 2014 £000
Total Funds under 2007 SORP	4,860	4,954
Recognition of USS pension provision	(973)	(522)
Total Funds under 2015 SORP	3,887	4,432

Financial performance

	31 July 2015 £000
Deficit for the year under 2007 SORP	(94)
Recognition of USS pension provision movement	(451)
Deficit for the year under 2015 SORP	(545)

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

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multi-employer scheme is a scheme for entities not under common control and represents (typically) an industry-wide scheme such as that provided by USS. 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 scheme provided by USS meets the definition of a multi-employer scheme and has therefore recognised the discounted fair value of the contractual contributions under the funding plan in existence at the date of approving the financial statements.

Previously under UK GAAP the company did not recognise such a liability and resulting expense in the financial statements. Accordingly, at transition a liability of £522,000 was recognised and a cost of £451,000 was recognised in statement of financial activities for the year ended 31 July 2015. A liability of £973,000 was recognised at that date.

24. Financial instruments

	Year ended 31 July 2016 £000	Year ended 31 July 2015 £000
Financial assets that are debt instruments measured at amortised cost:		
Trade and other debtors	2,854	1,528
Accrued Income	29	73
	<hr/> 2,883 <hr/>	<hr/> 1,601 <hr/>
Financial liabilities measured at amortised cost:		
Trade and other creditors	<hr/> 2,854 <hr/>	<hr/> 1,528 <hr/>

Financial assets measured at amortised cost comprise cash, trade debtors and other debtors

Financial liabilities measured at amortised cost comprise loans, overdrafts, trade creditors, accruals, and other creditors.

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Corporate Governance and Internal Control Statement

The HEA is a registered charity and was incorporated as a company limited by guarantee on 14 October 2003. The HEA is committed to demonstrating best practice in all aspects of corporate governance, following good practice guidance relevant to its status. This summary describes the manner in which the HEA has applied this guidance. Its purpose is to help the reader of the accounts understand how the principles have been applied.

The HEA endeavours to conduct its business in accordance with the seven principles identified by the Committee on Standards in Public Life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership). These are known as the Nolan Principles.

It also has regard to voluntary Governance Code of Practice contained in the Committee of University Chairmen's 'Guide for Members of Higher Education Governing Bodies in the UK', published in December 2014.

Board of Directors

Professor Rama Thirunamachandran, Vice Chancellor at Canterbury Christchurch University commenced as Chair of the Board on 1 August 2015.

The Board of Directors, which meets formally four times a year, is responsible for the HEA's long-term strategy and objectives and for providing overall financial and organisational control. In this role it brings independent judgement to issues of strategy, performance, resources and standards of conduct.

In order to monitor and scrutinise progress, the Board is provided with regular and timely information on the overall financial performance of the HEA together with other information such as performance against targets, and proposed capital expenditure.

The Board conducts its business through four committees, Finance, Audit, Governance and Nominations, and Remuneration. Each committee has terms of reference, reviewed annually and approved by the Board. The decisions of these committees are formally reported to the Board. Minutes of Board meetings are available on the HEA website <https://www.heacademy.ac.uk/about/governance/minutes-board-meetings>.

The Company Secretary maintains a register of financial and personal interests of the directors and trustees. The register is available for inspection at the registered office. All directors/trustees are able to take independent professional advice in furtherance of their duties at the HEA's expense and have access to the Company Secretary, who is responsible to the Board for ensuring compliance with all applicable procedures and regulations. The appointment and removal of the Company Secretary are matters for the Board as a whole.

Formal agendas, papers and reports are supplied to directors/trustees in a timely manner, prior to Board meetings. Additional briefings are also provided as necessary, including a monthly newsletter.

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The Board has an independent non-executive membership. The Board considers that each of its members is independent of management and free from any business or other relationship, which could materially interfere with the exercise of their independent judgement.

There is a clear division of responsibility in that the roles of the Chair and Chief Executive are held by separate individuals.

The Chair is responsible for leading the Board and ensuring its effectiveness.

The Chief Executive is the head of the HEA and has a general responsibility to the Board for the organisation, direction and management of the HEA. The Board is responsible for the appointment and removal of the Chief Executive.

Appointments to the Board

Any new appointments to the Board are a matter for the consideration of the Board as a whole (other than those that are the responsibility of nominating bodies as specified in the Articles of Association).

Governance and Nominations Committee

The Governance and Nominations Committee meets at least once a year and was chaired by Professor Rama Thirunamachandran as Chair of the Board. A further three Board Directors comprise the committee, each of whom chair the Board's subcommittees. The committee is responsible for the selection and nomination of any new member for the Board's consideration. The committee recommended to the Board in November 2015 that Iain Rolland, to be appointed from a Board co-optee to be a full Board member and approved the appointment of Professor Geoff Layer as a co-optee for a two-year term of office.

Audit Committee

The Audit Committee meets at least three times a year and is chaired by Geoff Donnelly, until November 2015, when Professor Rebecca Bunting then took over as Chair. A further two Board Directors, plus two co-opted members, comprise the current committee. In addition, both the internal and external auditors attend the meetings. The committee is responsible for advising the Board on the following key issues:

- reviewing the integrity of the financial statutory statements and work of the external auditors prior to recommending the approval of the annual accounts;
- reviewing the effectiveness of internal control and risk management arrangements;
- the extent to which satisfactory arrangements are in place to promote value for money through economy, efficiency and effectiveness;
- to review the effectiveness and independence of the internal and external auditors and ensuring the appropriate implementation of recommendations.

At least once a year, the internal and external auditors meet the committee for independent discussion, without the presence of HEA management.

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The Audit Committee also advises the Board on the appointment of external auditors and their remuneration for both audit and non-audit work. It has delegated authority to appoint internal auditors and set their terms of engagement.

Finance Committee

Finance Committee meets at least four times a year and is chaired by Anthony Carey. A further four Board Directors comprise the current committee which is responsible for advising the Board on the following key issues:

- formulation of finance and resource objectives in the HEA's strategic and operating plans, including the recommendation of an annual budget and medium-term financial forecast;
- the financial health and solvency of the HEA, including the safeguarding of its assets;
- monitoring the progress of the organisation's business development activities.

Remuneration Committee

The Remuneration Committee meets at least once a year and was chaired by Professor Professor Rama Thirunamachandran as Chair of the Board in November 2015, at which it was agreed that Vice-Chair, Professor Janice Kay would become the Chair. The Committee comprises the Chair of the Board, Vice-Chair, Chair of Finance Committee and one Board Director. The committee has delegated authority to review the performance of the Chief Executive and the other senior post holders appointed by the Board and to set the remuneration and conditions of service (including any severance arrangements) for all senior post holders, with particular responsibility to represent the public interest.

All Board committees operate in accordance with written terms of reference which outline their responsibilities in more detail and are reviewed annually and approved by the Board.

Internal control

Scope of responsibility

The Board is ultimately responsible for the HEA's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable, not absolute assurance, against material misstatement or loss.

The Board has delegated the day-to-day responsibility to the Chief Executive for maintaining a sound system of internal control that supports the achievement of the HEA's policies, aims and objectives while safeguarding the funds and assets for which they are responsible. The Chief Executive is also responsible for reporting to the Board any material weaknesses or breakdowns in internal control.

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The purpose of the system of internal control

A system of internal control is designed to manage risk to a reasonable level rather than eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The HEA's system of internal control is developed through processes designed to identify and prioritise the risks to the achievement of HEA policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control is continuously being improved with assistance from the HEA's internal auditors.

The system of internal control is based on a framework of regular management information, administrative procedures including the segregation of duties, and a system of delegation and accountability. In particular, it includes:

- comprehensive budgeting systems with an annual budget, which is reviewed and agreed by the Board;
- regular reviews by the Board of periodic and annual financial reports which indicate financial performance against forecasts;
- setting targets to measure financial and other performance;
- clearly defined capital investment control guidelines; and
- the adoption of formal project management disciplines, where appropriate.

The HEA has an internal audit service, which operates in accordance with the requirements of the HEFCE Audit Code. The work of the internal audit service has been informed by an analysis of the risks to which the HEA is exposed, and annual internal audit plans are based on this analysis. The analysis of risks and the internal audit plans are endorsed by the HEA's Board on the recommendation of the Audit Committee. Annually, the Head of Internal Audit (HIA) provides the Audit Committee with a report on internal audit activity in the HEA. The report includes the HIA's independent opinion on the adequacy and effectiveness of the HEA's system of internal control, risk management controls and governance processes.

Capacity to handle risk

The Board has reviewed the key risks to which the HEA is exposed, together with the operating, financial and compliance controls that have been implemented to mitigate those risks. In the opinion of the Board, a formalised process for identifying, evaluating and managing the HEA's significant risks has been in place throughout the year and up to the date of approval of the annual report and accounts, and a process for identifying, evaluating and managing operational risks has been developed.

Review of effectiveness

The Chief Executive has responsibility for reviewing the effectiveness of the system of internal control. The review of the effectiveness of the system of internal control is informed by:

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- the work of the internal auditors;
- the work of the executive managers within the HEA who have responsibility for the development and maintenance of the internal control framework;
- comments made by the HEA's financial statements auditors in their management letters.

The Executive and the Audit Committee receive regular reports from internal audit, which include recommendations for improvement. The Audit Committee's role in this area is confined to a high-level review of the arrangements for internal control.



Professor Rama Thirunamachandran (Chair)



Professor S Marshall (Chief Executive)

23 November 2016

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Statement of the Directors' and Trustees' responsibilities

The Directors and trustees are responsible for preparing the operating and financial review and the financial statements in accordance with applicable law and regulations.

Company and charity law requires the directors and trustees to prepare financial statements for each financial year. Under that law, the directors and trustees prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws), including FRS 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland. Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and surplus or deficit of the HEA for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting 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 Academy will continue in operation.

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

Directors and trustees must ensure that there are appropriate financial and management controls in place in order to safeguard public and other funds and to ensure they are used properly. In addition, directors and trustees are responsible for securing economical, efficient and effective management of the HEA's resources and expenditure.

The Directors confirm that:

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

The Directors and trustees are responsible for the maintenance and integrity of the corporate and financial information included on the HEA's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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Signed on behalf of the Board

A handwritten signature in black ink, appearing to read 'Rama TM', written over a horizontal line.

**Professor Rama Thirunamachandran (Chair)
HEA**

Company No. 04931031

23 November 2016

**The Higher Education Academy
Statutory Report and Accounts
Year ended 31 July 2016**

Independent auditor's report to the members of The Higher Education Academy

We have audited the financial statements of The Higher Education Academy ('the HEA') for the year ended 31 July 2016 which comprise the statement of principal accounting policies, the statement of financial activities (incorporating the income and expenditure account), the balance sheet, the statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

This report is made solely to the HEA's members, as a body, in accordance with section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 and Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the HEA'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 HEA and the HEA's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and trustees, and auditor

As explained more fully in the Statement of the directors' and trustees' responsibilities set out on page 41, the directors and trustees (the trustees are also the directors of the charitable company for the purposes of company law) are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

We have been appointed as auditor under section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 and under the Companies Act 2006 and report in accordance with regulations made under those Acts. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the HEA's affairs as at 31 July 2016 and of its deficit, and its income and expenditure, recognised gains and losses and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, and the 2007 Statement of Recommended Practice: Accounting for Further and Higher Education; and

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- have been prepared in accordance with the requirements of the Companies Act 2006, the Charities and Trustee Investment (Scotland) Act 2005 and regulation 8 of the Charities Accounts (Scotland) Regulations 2006 (as amended).

Emphasis of matter – Potential future developments

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in the Report of the Directors on page 15 concerning any future impact on HEA in relation to the review being carried out by Universities UK. As described in the Report of the Directors, Universities UK are currently undertaking a review to look at the future direction of the sector in which HEA operate, which could result in the merger or dissolution of number of entities, including HEA and other similar entities. We are aware that this review is currently being undertaken, with the outcome at the date of this report unknown. These conditions, along with the other matters explained in the Report of the Directors on page 14 indicate the existence of a material uncertainty in respect of the future operations of the entity. As the outcome of the review and potential impact on HEA are unknown, the financial statements do not include any adjustments that could arise as a result of this review.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Report of the Directors, incorporating the Strategic Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Opinion on other matters prescribed by HEFCE's Memorandum of assurance and accountability dated June 2014

In our opinion, in all material respects:

- funds from whatever source administered by the HEA for specific purposes have been properly applied to those purposes and managed in accordance with the relevant legislation;
- funds provided by HEFCE have been applied in accordance with the Memorandum of assurance and accountability and any other terms and conditions attached to them; and
- the requirements of HEFCE's accounts direction have been met.

Matters on which we are required to report by exception

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

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

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**Peter Edwards
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Sheffield**

23 November 2016

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Directors and Trustees

The Board of Directors and trustees who served during the year and up to the date of signature of this report were as listed below.

Appointed by Universities UK and Guild HE

Professor Rama Thirunamachandran, Vice- Chancellor and Principal, Canterbury Christ Church University and Chair of the Board;

Professor Tony Chapman, Vice-Chancellor, Cardiff Metropolitan University;

Professor John Last, Vice-Chancellor, Norwich University of the Arts;

Appointed by the UK Higher Education Funding Councils

Professor Janice Kay, Provost, University of Exeter;

John Robinson, Finance Director, Brunel University

Appointed by the Board of Directors

Professor Rebecca Bunting, Vice-Chancellor, Buckinghamshire New University;

Sorana Vieru, Vice President, National Union of Students;

Anthony Carey, Partner, Mazars LLP;

Geoff Donnelly, Chair of Governors, Oxford Brookes University; Board member, University of Cumbria;

Professor Geoff Layer, Vice Chancellor, University of Wolverhampton

Johnny Rich, Chief Executive, Push;

Sara Parkin, Founding Director of Forum for the Future;

Iain Rolland, Group Chief Internal Audit, Government Internal Audit Agency, HM Treasury.

No trustees received any payment for their duties other than reimbursement of travel and subsistence expenses incurred in the course of their duties. Ten claimants have been reimbursed a total of £1k during the year.

Related party transactions are reported in note 21 to the financial statements.

Auditors

A formal tender process was undertaken in November 2014 and Grant Thornton were reappointed as external auditors from 2014-15 for a three year period.

Professional advisers

External auditors:

Grant Thornton UK LLP

Statutory Auditor

Whitehall Riverside

Leeds

LS1 4BN

Internal auditors:

RSM

(formerly Baker Tilly Risk Advisory Services LLP)

Springfield House

76 Wellington Place

Leeds

LS1 2AY

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Bankers:

The Royal Bank of Scotland Plc York Branch 6 Nessgate York YO1 9FY	Yorkshire Bank Plc York Branch 46 Coney Street York YO1 9NQ
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Handelsbanken UK Unit 5, Tudor Court Nether Poppleton York North Yorkshire YO26 6RS	Barclays Bank Plc 25 James Street Harrogate North Yorkshire HG1 1QX
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Solicitors:

DAC Beachcroft LLP 100 Fetter Lane London EC4A 1BN	Lupton Fawcett Denison Till Yorkshire House East Parade Leeds LS1 5BD
Bond Dickinson St Ann's Wharf 112 Quayside Newcastle upon Tyne NE1 3DX	Mills and Reeves Botanic House 100 Hills Road Cambridge CB2 1PH
Serenwood Limited Oakdene 82 The Fairway Leeds LS17 PD	Aaron & Partners LLP Cannon Court North Abbey Lawn Shrewsbury SY2 5DE

Executive:

Professor Stephanie Marshall, Chief Executive Officer

Dr Mark Jones, Chief Operating Officer

Olivia Fleming, Director of Services

Simon Jones, Director of Marketing and Communications

Colin Simonds, Director of Finance and Resources

Hannah Purkis, Company Secretary