North East Scotland College

2023/24 Annual Audit Report

AUDIT SCOTLAND

Prepared for North East of Scotland College and the Auditor General for Scotland

December 2024

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Financial management and sustainability

3 The college has appropriate financial management arrangements in place which includes a three-year financial forecast and regular budget monitoring to the board.

4 After adjusting for one-off items, the college reported a surplus in its 2023/24 Adjusted Operating Position. A forecast deficit for the three year period to July 2027 will require hard decisions to be taken if financial balance is to be achieved.

5 Controls within the main financial systems were largely operating as expected while standards for the prevention and detection of fraud remain appropriate.

Vision, leadership, governance and use of resources

6 Steps should be taken to ensure financial plans are aligned with the college's new strategic priorities. Clear plans continue to progress and there is evidence of good practice operating around climate change and carbon management.

7 The college has an effective performance management framework in place and service performance is regularly reviewed. Full-time activity levels and rates are generally showing improvement over those reported in the previous year.

Introduction

1. This report summarises the findings from the 2023/24 annual audit of North East Scotland College (NESCol). The scope of the audit was set out in an Annual Audit Plan which was considered by the Audit and Risk Committee in May 2024. This Annual Audit Report comprises:

- significant matters arising from an audit of NESCol's annual report and accounts
- conclusions on the following wider scope areas that frame public audit as set out in the Code of Audit Practice 2021:
  - financial management
  - financial sustainability
  - vision, leadership and governance
  - use of resources to improve outcomes.

2. This report is addressed to the board of NESCol and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Audit appointment from 2022/23

3. The 2023/24 financial year was the second of our five-year appointment. Our appointment coincides with the new Code of Audit Practice which was introduced for financial years commencing on or after 1 April 2022.

4. We would like to thank board members and staff, and in particular those staff involved in the preparation of the annual accounts for their cooperation and assistance this year.

Responsibilities and reporting

5. NESCol has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the Accounts Direction from the Scottish Funding Council (SFC). The college is also responsible for establishing appropriate and effective arrangements for governance, propriety, and regularity.

6. The responsibilities of the independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000, the Code of Audit Practice and supplementary guidance, and International Standards on Auditing in the UK.

7. Weaknesses or risks identified are only those which have come to attention during normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues raised and to maintain adequate systems of control.

8. This report contains an agreed action plan at Appendix 1. It sets out specific recommendations, the responsible officers, and dates for implementation.

Auditor independence

9. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2023/24 audit fee of £63,650 as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

1. Audit of 2023/24 annual report and accounts

Public bodies are required to prepare annual reports and accounts comprising financial statements and other related reports. These are the principal means of accounting for the stewardship public funds.

Main judgements

Audit opinions on the annual report and accounts are unmodified.

The financial statements give a true and fair view of the state of affairs of North East Scotland College as at 31 March 2024 and have been properly prepared in accordance with the financial reporting framework.

Audit opinions on the annual report and accounts are unmodified

10. The board approved the annual report and accounts for North East Scotland College (NESCol) and its group for the year ended 31 July 2024 on 11 December 2024. As reported in the proposed independent auditor's report, the financial statements:

- give a true and fair view of the state of the college's affairs as at 31 July 2024 and of its surplus for the year then ended
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice
- have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of the Charities Accounts (Scotland) Regulations 2006 (as amended).

Overall materiality was assessed as £1.0 million

11. Broadly, the concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the financial statements, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

12. Our initial assessment of materiality was carried out during the risk assessment phase of the audit. This was reviewed on receipt of the unaudited annual report and accounts and is summarised in Exhibit 1.

Exhibit 1
Materiality values

Materiality level	Amount
Overall materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of the college's operations. Based on our professional judgment, it was set at 2% of gross expenditure.	£1,000,000
Performance materiality – This acts as a trigger point. If the aggregate of misstatements identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures should be considered. Using our professional judgement, it was assessed at 65% of overall materiality.	£750,000
Reporting threshold (i.e., clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This was set at 5% of planning materiality.	£50,000

Adjustments of £4.118 million were made in the audited accounts

13. Misstatements identified during the audit and late entries to the accounts had the overall material effect of increasing the total comprehensive loss on the statement of comprehensive income and reducing net assets by £4.118 million. This included a change in the accounting treatment for the national job evaluation exercise and corrections in respect of gift aid and pension contributions. Further information on job evaluation in included in Exhibit 2.

14. Other misstatements were identified during the course of our audit and while it is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected, the final decision on this lies with those charged with governance, taking into account advice from senior officers and materiality.

15. Two misstatements amounting to £122,000 were identified above our reporting threshold. These amounts were regarded as not material by management and have therefore not been corrected in the audited annual report and accounts. Further details of the uncorrected misstatements are included in Appendix 2.

Significant findings and key audit matters

16. Under International Standard on Auditing (UK) 260 we communicate significant findings from the audit to the board, including our view about the qualitative aspects of the body's accounting practices. The Code of Audit Practice also requires all audits to communicate key audit matters within the annual audit report under International Standard on Auditing (UK) 701. These are matters that we judged to be of most significance in our audit of the financial statements. The significant findings are summarised in Exhibit 2.

Exhibit 2
Significant findings and key audit matters from the audit of the annual report and accounts

Issue	Resolution
1. Job evaluation Note 24 discloses a contingent liability of £3.817 million in respect of the middle management and support staff job evaluation scheme costs. This had previously been included within accruals but was changed in 2023/24 in line with the Accounts Direction. On the basis that funds previously held in reserve by the Scottish Funding Council (SFC) have been returned to the Scottish Government, the Direction indicated a contingent liability as appropriate due to uncertainty. SFC have been asked by Audit Scotland to provide evidence of whether the job evaluation process has changed and/or been abandoned /revamped in any way. We have not been advised of any changes in the scheme and therefore the conditions which resulted in a liability in previous years still apply at 31 July 2024. In line with the Further Education SORP, where an obligation arises from a past event, if its impact can be reliably measured and it is likely to result in an outflow of benefit in future periods, then a liability exists and it should be provided for in the accounts. With no change reported in the job evaluation arrangements, the costs continue to meet this criteria and should therefore be included within provisions. In the past, the accounts included accrued income to match the liability. The associated funding for the sector was held in reserves by SFC. This changed in 2023 when these funds were returned to Scottish Government and it was agreed that responsibility for job evaluation funding	The estimated costs of the job evaluation exercise are a material amount which should be reflected in the accounts as a provision and included as an adjustment in the college's Adjusted Operating Profit (AOP) calculation. Failure to amend the accounts accordingly would require us to consider issuing a modified (qualified) opinion on the college's annual report and accounts. Resolution: The college agreed to amend the accounts in line with the Accounts Direction but opted not to include a prior year adjustment as the change in funding arrangements was not known about until March 2024.

Issue	Resolution
commitments would rest with the Scottish Government until the process is complete. This does not provide sufficient assurance to recognise the income and therefore it should not continue to be reflected in the accounts. An addendum to the Accounts Direction was issued on 13 November 2024. This requires colleges to include the liability as a provision in the accounts and to exclude the income. As a result, the college's accounts will reflect additional costs of £3.817 million and to compensate, the liability should be adjusted through the college's Adjusted Operating Profit calculation. Because the change in funding arrangements occurred in 2023, the Direction further stated that a prior year adjustment should be reflected in the accounts. We reviewed the funding announcements between SFC and the college. This confirmed the date the college was first aware of the transfer of funding to Scottish Government as being March 2024. The Vice Principal Finance and Resources also confirmed that other than the funding announcements, there were no communications on the matter with SFC. As March 2024 is later than December 2023, when the college concluded its 2022/23 accounts, we are satisfied that no prior year adjustments is required.	
2. Payment to Energy Transition Zone (ETZ) Ltd of £0.5 million Included in fixed assets within the accounts is the college's contribution of £0.5 million towards the construction costs of ETZ's new Skills Hub. The new hub is being constructed by ETZ and on completion in 2025, it will transfer to the college under a lease arrangement. At this stage however, the asset belongs to ETZ and should be included on its Balance Sheet. The college's contribution should therefore be classified as a prepayment in NESCol's accounts and not as a fixed asset.	This is a classification misstatement – the amount should be included within trade and other receivables on the balance sheet and not within fixed assets. There is no effect on the total assets figure reported on the Balance Sheet. Resolution: Following discussion with Finance and Resources, the accounts have not been corrected as the amount is not considered to be material. The item has been included as an unadjusted misstatement in Appendix 2.

Issue	Resolution
3. Deferred income (pre-received income) The balance sheet includes £3.9 million as pre-received income within creditors less than one year. This is funding received by the college which has not yet been released to income because the conditions of grant have not been fulfilled. The balance is made up of approx. 140 balances at 31 July 2024. Approx 70 balances equating to £1.8 million were received in 2022/23 and earlier. Given the passage of time, we queried whether any of the older amounts should now be reflected as income.	Having discussed the matter with the Financial Controller, we are satisfied that conditions still exist and there is an ongoing risk that funding could be clawed back by funders. We suggest that the Financial Controller's annual review of larger, older funding balances be evidenced in the working papers in future. **Recommendation 1** (Refer Appendix 1, action plan)
4. Revaluation Reserve The revaluation reserve is a non-cash reserve and represents the cumulative effect over time of movements on asset revaluations. The SORP requires that the movement in valuation be recorded for each individual property so that the balance on the reserve can be associated with individual assets rather than being a cumulative pot. It is not possible to identify the share of the revaluation reserve linked with each NESCol property as required by accounting standards. All movements, increases and decreases, are currently taken to the revaluation reserve. This may not be correct as some revaluation losses should perhaps be charged to the statement of comprehensive income. With the new Skills Hub transferring from ETZ next year, it would be useful to correct the capital accounting going forward.	**Recommendation 2** (Refer Appendix 1, action plan)

Audit work responded to the risks of material misstatement identified in the annual report and accounts

17. We obtained audit assurances over the identified significant risks of material misstatement in the annual report and accounts. Exhibit 3 sets out the significant risks of material misstatement to the annual report and accounts identified in the 2023/24 Annual Audit Plan. It also summarises the further audit procedures performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 3
Significant risks of material misstatement in the annual report and accounts

Audit risk	Assurance procedure	Results and conclusions
1. **Risk of material misstatement due to fraud caused by management override of controls** As stated in ISA (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.	Assessed the design and implementation of controls over journal entry processing, made inquiries of relevant officers about inappropriate or unusual activity relating to the processing of journal entries and other adjustments and examined a range of journals. Evaluated significant transactions outside the normal course of business. Assessed any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. Substantive testing of income and expenditure transactions around the year-end and accruals and prepayments to confirm they are accounted for in the correct financial year. Focused testing of accounting accruals and prepayments.	Based on the audit work undertaken, there was no evidence of management override of control.

18. In addition, we identified 'areas of audit focus' in our 2023/24 Annual Audit Plan where we considered there to be risks of material misstatement to the financial statements. These areas of specific audit focus are summarised in Exhibit 4.

Exhibit 4
Areas of audit focus

Area of audit focus	Assurance procedure	Results and conclusions
1. Estimation in the valuation of land and buildings There is a significant degree of subjectivity in the valuation of land and buildings. Valuations are	Evaluated the competence, capabilities and objectivity of the professional valuers. Assessed the reasonableness of valuations conducted by the	No significant issues were identified from our audit work in this area.

Area of audit focus	Assurance procedure	Results and conclusions
based on specialist and management assumptions, and changes in these can result in material changes to valuations.	professional valuers, including the use of any assumptions.	
2. The value of the net pension position The college's employees belong to one of two principal pension schemes, the Scottish Teachers' Superannuation Scheme (STSS), an unfunded scheme, or the Local Government Pension Scheme (LGPS) which is funded. In respect of the LGPS, the college, in common with many public bodies, moved from a deficit position to a surplus in recent years and this remained the case as at 31 July 2024. Significant estimation and judgements are required in the measurement, valuation and disclosures of pensions valuations under FRS 102. These valuations are based on specialist actuarial and management assumptions.	We assessed the work of the actuary and considered the appropriateness of the assumptions used. We assessed the college's approach for recognition of its pension asset in the financial statements subject to any asset ceiling and confirmed valuation disclosures are correctly reflected in the accounts. In accordance with ISA 500, we evaluated the competence, capabilities and objectivity of the actuary and by using the work of an independent expert, we challenged the key assumptions applied by the actuary when undertaking the valuation. Obtained assurances over the completeness and accuracy of data provided to the actuary. Considered the adequacy of the disclosures in the financial statements with regard to the net pension position.	No significant issues were identified from our audit work in this area.
3. Valuation of the provision for pension liabilities arising from early retirements The calculation of the provision uses a discount factor which needs to be from a reliable source and be free from bias. A change in the discount factor could result in a material movement in the value of the provision. There is also a risk of duplicating an element of the liability as the actuary calculates a relevant liability in respect of LGPS	We reviewed the calculation of the provision and the reliability and objectivity of discount factor used and confirmed whether or not there is duplication in the calculation of the liability.	No significant issues were identified from our audit work in this area.

Area of audit focus	Assurance procedure	Results and conclusions
members and includes it as part of their FRS 102 report.		
4. Other sources of grants The college receives other grants (c£7.5 million in 2022/23) which may not be correctly recognised in the financial statements. Income recognition is dependent on whether the funder has specified any conditions and the extent to which any such conditions will be met by the college. Accounting for grants is therefore inherently complex and can be subjective in relation to the fulfilment of the grant conditions.	We reviewed a sample of other grants for evidence of compliance with any performance conditions and ensured they are correctly accounted for in line with guidance.	No significant issues were identified from our audit work in this area.

2. Financial management and sustainability

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. Financial sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Conclusion

The college has appropriate financial management arrangements in place which includes a three-year financial forecast and regular budget monitoring to the board.

After adjusting for one-off items, the college reported a surplus in its 2023/24 Adjusted Operating Position. A forecast deficit for the three year period to July 2027 will require hard decisions to be taken if financial balance is to be achieved.

Controls within the main financial systems were operating as expected while standards for the prevention and detection of fraud remain appropriate**.**

The college operated within budget in 2023/24

19. The college reports its financial performance over the academic year to 31 July. It must meet the resource expenditure limits set by the Scottish Government Lifelong Learning Directorate through the SFC. These require the college to break even at 31 July against its agreed budget.

20. In June 2023, the board approved its 2023/24 budget which projected an operating deficit of £0.480 million. Subsequent updates to the original budget were reported in detail to the board with movements between budgets adequately explained. The final update before actual outturn figures were produced was in June 2024 when the revised deficit was £1.089 million.

21. The accounts include the college's calculation for its Adjusted Operating Position (AOP). An AOP is intended to reflect the underlying operating performance after allowing for material one-off or distorting items required by the SORP or other items outwith the control of the college. It is therefore designed to smooth any volatility in reported results arising from accounting standards and to recognise that some of the reported costs do not have an immediate cash impact.

Exhibit 5
Adjusted Operating Position

	2023-24 (£m)	2022-23 (£m)
(Deficit) before other gains and losses	(2.850)	(1.186)
Add back:		
Depreciation (net of deferred capital grant release)	0.961	0.989
Pension adjustment – Net service cost/ (income)	(0.245)	(0.161)
Pension adjustment - Net interest cost/ (income)	(1.358)	(0.072)
Loss on revaluation of Investment property	0.190	0.250
Costs of middle management job evaluation exercise no longer matched by revenue	3.817	-
Adjusted operating surplus/(deficit)	**0.515**	**(0.180)**

Source: NESCol Annual Report and Accounts for the year ended 31 July 2024

22. Exhibit 5 shows that the college's AOP for 2023/24 is a surplus of £0.515 million which is a considerable improvement to the underlying deficit in 2022/23 of £0.180 million. The movement is largely explained by the following items:

- £0.451 million – staff costs (savings less pay award)
- £0.775 million – reduced expenditure
- £0.240 million – improved performance of subsidiary company
- (£0.760) million – general inflation.

23. The current year AOP is a favourable outcome when compared to the projected deficit of £1.089 million reported to the Regional Board in October 2024. There are several reasons for the significant improvement including vacancy management, lower than budgeted untaken holiday leave accrual, increased income achieved from the college's subsidiary company and more controlled spending. As many of the savings achieved are non-recurring in nature, the board needs to find more recurring efficiency savings so they have a positive impact on more than one financial year.

24. The Leadership Team acknowledges the need to improve processes and budgeting to ensure more robust and accurate financial reporting to inform future planning and decision making. While senior management and board members receive regular and detailed financial information on the college's financial position and outturn throughout the year, there is scope to strengthen forecasting and budget monitoring arrangements to improve the accuracy of information.

Recommendation 3

Budget monitoring and forecasting arrangements should continue to be reviewed and strengthened to improve the accuracy of information used to inform decision making. Potential savings options need to focus on recurring savings which will have impact across several financial years.

Capital expenditure increased in 2023/24

25. Capital expenditure in 2023/24 was £4.231 million compared to £1.723 million last year. This is mainly due to £2.856 million being invested on the Gallowgate Campus South Block glazing which was fully funded by the Scottish Government. It also includes a £0.5 million contribution to ETZ Limited in respect of the new Skills Hub (Refer Exhibit 2, number 2).

Appropriate financial control arrangements are in place

26. Our work in this area has been undertaken to provide assurance for the audit opinion. From a review of the design and implementation of systems of internal control (including those relating to IT) relevant to our audit approach, and testing of the operating effectiveness of specific controls, we did not identify any significant internal control weaknesses which could affect the college's ability to record, process, summarise, and report financial and other relevant data and result in a material misstatement in the financial statements.

27. During the year, we did however observe capacity issues within the payroll team due to unplanned leave. There were additional commitments this year with the processing of the pay award including backdated amounts. When there is unplanned leave within a team and especially a small team, like the payroll team, there are increased pressures. The team continued to process the payroll each month and successfully dealt with the pay award but management should be alert to the increased risk when teams are stretched and ensure appropriate monitoring of internal controls is in place.

Recommendation 4

Management should be alert to the increased risk when teams are stretched and ensure appropriate monitoring of internal controls is in place.

Standards of conduct and arrangements for the prevention and detection of fraud and error are appropriate

28. In the public sector there are specific fraud risks, including those relating to grants and other claims made by individuals and organisations. Public sector bodies are responsible for implementing effective systems of internal control, including internal audit, which safeguard public assets and prevent and detect fraud, error and irregularities, bribery and corruption.

29. In our view, the college has adequate arrangements covering the prevention and detection of fraud or other irregularities. The college has an Anti-Bribery and Corruption policy which was approved by the Finance and Resources Committee. Briefings on this policy form part of the induction process for all staff.

The college has a medium-term financial forecast in line with SFC's requirements

30. The SFC requires colleges to submit a Financial Forecast Return (FFR) covering a three-year period including the latest forecast for the current year. SFC expects colleges to aim to achieve a balanced budget each year. Where a deficit is forecast in any year, they should work towards bringing income and expenditure back into balance over the forecast period.

31. The college's FFR for 2023/24 and the three years covering 2024-27 were submitted to SFC in June 2024. As in previous years, colleges are provided with guidance on assumptions in relation to SFC grant funding that should be used in preparing the FFR.

32. The FFR shows an underlying cumulative deficit of £1.578 million for the three years to July 2027. It has been highlighted to the board that attempting to regain a balanced budgetary position would seriously impact the college's abilities to meet growing demand and regional economic needs and ambitions. An Areas for Improvement Plan has been developed setting out potential cost savings, resource and service impact. This describes a number of areas being explored to address underlying deficits including:

- staff reduction through voluntary severance and other options
- delivering additional Higher Education funded places in partnership with Robert Gordon University
- increasing the volume of full time Higher National students and associated fee income
- increasing commercial income including increased profit from the college's subsidiary company.

33. The college has conducted an open voluntary severance scheme in recent years. The target annual staff cost saving was £1.2 million but only £0.616 million was achieved. In management's view, the college is already a lean organisation and will find it difficult to achieve the savings required through a reduction in staff costs.

Recommendation 5

The Areas for Improvement Plan outlining the different options to address financial gaps should be regularly presented to the board for scrutiny.

34. Exhibit 6 sets out the wider scope risks relating to financial sustainability identified in the 2023/24 Annual Audit Plan. It summarises the audit procedures performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Audit work has addressed the wider scope risk identified in the Annual Audit Plan

Exhibit 6
Risk identified from wider scope responsibilities under the Code of Audit Practice

Audit risk per Audit Plan	Assurance procedure	Results and conclusions
1. Financial sustainability The further education sector as a whole is facing financial challenges. Information available at the time of audit planning showed that NESCol was forecasting a deficit of approx. £1 million, up by £0.5 million from the original budget approved for the 2023/24 academic year. Uncertainties continue to exist around the potential scale of pay awards, higher non-pay expenditure and reduced flexibility within the funding model. There is a risk that the college will not find sufficient efficiency savings and commercial income to return a break-even position over the three year period covering 2024/27. Consequently, the quality and volume of service delivery may reduce.	Reviewed financial and savings plans. Discussed current financial situation and forecasts with officers and the various initiatives being explored to fill funding gaps. Reviewed Regional Board and committee minutes and papers.	Refer to paragraphs 30 to 33.

4. Vision, leadership, governance and use of resources

Public sector bodies must have a clear vision and strategy. They need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners.

Conclusion

Steps should be taken to ensure financial plans are aligned with the college's new strategic priorities. Clear plans continue to progress and there is evidence of good practice operating around climate change and carbon management.

The college has an effective performance management framework in place and service performance is regularly reviewed. Full-time activity levels and rates are generally showing improvement over those reported in the previous year.

The college is developing a new strategic plan

35. Colleges are expected to review their business models and strategic plans in light of the tight financial environment. As outlined in the Annual Report and Accounts, the college's new strategic plan was due to be implemented during 2023/24 but has been delayed. Work is underway on a new plan which should be in place for academic year 2025/26 and cover the five year period to 2030. A range of workshops and surveys have been undertaken to inform the college's refreshed corporate vision and values, as well as strategic priorities. Steps should also be taken to demonstrate how the college's financial plans align to the college's strategic priorities.

Recommendation 6

The college has plans in place to implement its new strategic plan in 2025/26 and should ensure that its financial plans are aligned with its new strategic priorities.

36. The college's governance arrangements are set out in the Governance Statement in the annual report and accounts. We have reviewed these arrangements and concluded that they are appropriate and effective. Based on our observations at the Audit and Risk Committee, scrutiny arrangements are working well.

Climate change arrangements

37. The Scottish Parliament has set a legally binding target of becoming net zero by 2045. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

38. Annually, the college produces an Environmental and Sustainability Report. The latest one, published in February 2024, reported that the college has continued its progress in reducing carbon emissions and reducing its negative impact on the environment.

39. For several years, the college has held British Standards Institute (BSI) accreditation in Environmental Management (ISO 14001:2015). During 2023/24, it was subject to a number of related audits including a full recertification audit by BSI to ensure the system continues to meet the requirements of the above standard. No major issues arose from those audits.

40. The college was an early signatory to the Universities and Colleges Climate Commitment for Scotland and participates in mandatory climate change reporting under the Climate Change (Scotland) Act 2019.

41. Internal Audit has also carried out a review of the systems in place to deliver Environmental Sustainability at the college. This audit included a review of the college's current position in relation to the strategic plans and operational arrangements in place to ensure compliance with the Climate Change (Scotland) Act 2009. The report was assigned Internal Audit's highest overall rating of "Good" and no significant weaknesses were identified from the work performed.

42. The Auditor General for Scotland is developing a programme of work on climate change. This involves a blend of climate change-specific outputs that focus on key issues and challenges as well as moving towards integrating climate change considerations into all aspects of audit work.

Good practice

Internal Audit has highlighted numerous strengths within the college's environmental sustainability arrangements which can be considered as good practice and include the following:

- the college has BSI ISO 14001 accreditation, demonstrating achievement of an internationally recognised standard for environmental management systems
- there is a dedicated environmental sustainability resource through the Environmental and Sustainability Manager
- Leading Sustainability is one of the college's key strategic themes

- a specific College Sustainability Strategy and accompanying Environmental and Energy Policy Statement have been developed setting out the college's commitment and ambitions
- a Carbon Management Plan setting out key targets and objectives for 2020-25 is in place and includes a register of projects implemented, risks and issues identified.

The college has an appropriate performance management framework

43. Securing the economical and effective management of the college's resources and expenditure is the responsibility of management. The Financial Memorandum with the SFC requires the college:

- to have a strategy for reviewing management's arrangements for achieving value for money
- to obtain a comprehensive appraisal of management's arrangements for achieving value for money.

44. Internal audit conducts value for money type reviews. For 2023/24, these included:

- a review of systems in place at the college's subsidiary, Aberdeen Skills and Enterprise Training (ASET) - the overall level of assurance assigned to the review was "Requires Improvement" which is defined by internal audit as 'system has weaknesses that could prevent it achieving control objectives'. The review considered the financial monitoring of profitability against budget, including projected income figures; and examined the way in which income and expenditure is allocated to individual activity / projects in order to achieve financial targets and deliver maximum financial benefit.
- space management processes used by staff for room allocation and the calculation of room utilisation. The report made one high priority recommendation in relation to the need to conduct a comprehensive facilities review of the college estate, along with an analysis of the curriculum, staff, and student needs across campuses to address current curriculum demands and broader campus requirements.

45. In line with SFC's requirements, the college submitted its annual Regional Outcome Agreement (ROA) for the academic year 2023/24 after it was approved by the board in October 2023. The ROA was accompanied by a College Level Evaluative Report which reflected on the commitments made in the previous year's ROA and included an enhancement plan for 2023-24.

Service performance is regularly reviewed. Full-time activity levels and rates are generally showing improvement over those reported in the previous year

46. The college continued to monitor key performance indicators (KPIs) throughout the year with six monthly reporting to the board. Performance against targets for some of these indicators is summarised in Exhibit 7.

Exhibit 7
Key performance indicators – trend analysis

KPI		2020/21	2021/22	2022/23	2023/24
A. Total number of credits delivered	Actual	133,127	128,655	129,769	116,040
	Target	132,005	131,915	128,812	115,931
B. Full Time Further Education - Proportion of enrolled students successfully obtaining a recognised qualification	Actual	56%	57%	63%	69%
	Target	73%	62%	60%	65%
C. Full Time Higher Education - Proportion of enrolled students successfully obtaining a recognised qualification	Actual	71%	65%	67%	72%
	Target	78%	72%	68%	68%
D. Overall College Student Satisfaction Outcomes		86.2%	89.6%	90.0%	89.6%

Source: NESCol Annual Report and Accounts for the year ended 31 July 2024

47. The SFC's recurring grant to colleges is based on the amount of learning that a college delivers. This is measured in units called 'credits' which equate to 40 hours of learning The credit target in 2023/24 was met which means the college retains all relevant funding and no clawback is necessary. The actual amount has however dropped by 10% from the 2022/23 level in line with SFC's credit target reduction. Full time Higher Education enrolments have fallen short by 145 students resulting in fee income being lower by £0.186 million.

48. Success rates across all types of student learners, i.e., Further Education (FE) and Higher Education (HE) have improved from the previous year with FE Full Time students registering the highest increase of 6%. The college largely attributes this to the focus on improving partial success particularly for full time FE learners. The partial success rate was also the main improvement highlighted by Education Scotland's Progress Visit in March 2023.

The college has developed an appropriate best value framework

49. Ministerial guidance for public bodies and the Scottish Public Finance Manual (SPFM) sets out management's duty to ensure that arrangements are in place to secure best value. The guidance sets out the key characteristics of best value and states that compliance with the duty of best value requires public bodies to take a systematic approach to self-evaluation and continuous improvement.

50. We considered how board members received assurances on the college's compliance with the Code of Good Governance and the processes in place for reviewing the effectiveness of the board and its committees. Based on our consideration of governance, performance management arrangements and the board's preparation for its next strategic plan, we consider that the college has an appropriate best value framework in place.

Appendix 1. Action plan 2023/24

2023/24 recommendations

Issue	Recommendation	Agreed management action/timing
1. **Deferred Income (page 10)**	The Financial Controller's annual review of larger, older funding balances should be evidenced in the working paper to provide a clear rationale for carry forward.	**Accepted** The college will review items held as deferred income and ensure the balance is amended to reflect current relevant circumstances. **Responsible officer** Vice Principal Finance & Resources **Agreed date** April 2025
2. Revaluation Reserve (page 10)	Prior to the next full valuation of property, allocate the balance on the revaluation reserve across properties to enable full compliance with the requirements of the SORP in relation to revaluation reserves.	**Accepted** The college will review the revaluation reserves providing an analysis allocating the reserve to each campus. **Responsible officer** Vice Principal Finance & Resources **Agreed date** April 2025
3. Budget monitoring (page 16)	Budget monitoring and forecasting arrangements should continue to be reviewed and strengthened to improve the accuracy of information used to inform decision making. Potential savings options need to focus on recurring savings which will have impact across several financial years.	**Accepted** The college will review the current processes and monitoring ensuring improvements are achieved. The finance staffing will also be reviewed. **Responsible officer** Vice Principal Finance & Resources **Agreed date** February 2025

Issue	Recommendation	Agreed management action/timing
4.Payroll (page 16)	Management should be alert to the increased risk when teams are stretched and ensure appropriate monitoring of internal controls is in place.	**Accepted** The college is aware of the risks linked to the small payroll team. A review and further mitigations will be assessed. **Responsible officer** Director of People Services **Agreed date** April 2025
5.Areas for Improvement Plan (page 17)	The Areas for Improvement Plan outlining the different options to address financial gaps should be regularly presented to the board for scrutiny.	**Accepted** The college will provide regular updates to the board for scrutiny. **Responsible officer** Vice Principal Finance & Resources **Agreed date** April 2025
6.Strategic Plan (page 19)	The college has plans in place to implement its new strategic plan in 2025/26 and should ensure that its financial plans are aligned with its new strategic priorities.	**Accepted** The college is continuing to develop the new strategic plan and are confident this will be in place for 2025/26. **Responsible officer** Vice Principal Curriculum & Quality **Agreed date** August 2025

Appendix 2. Summary of uncorrected misstatements

We report all uncorrected misstatements in the annual report and accounts that are individually greater than our reporting threshold of £50,000.

The table below summarises uncorrected misstatements that were noted during our audit testing and were not corrected in the financial statements. Cumulatively these errors are below our performance materiality level as explained in Exhibit 1. We are satisfied that these errors do not have a material impact on the financial statements.

Narrative	Account area	Statement of Comprehensive Income		Balance Sheet	
Accounting Misstatements		**Dr £000**	**Cr £000**	**Dr £000**	**Cr £000**
1. Overstatement of untaken leave accrual	Staff Costs		63		
	Creditors			63	
2. 2023/24 income not accrued	Income		59		
	Debtors			59	
Total			**122**	**122**	

Account Disclosure Issues
There is a classification error in respect of the college's contribution to ETZ Ltd. £500,000 has been included in fixed assets when it should be identified as prepayments within trade and other receivables. There is no impact on total assets recorded in the Balance Sheet.

North East Scotland College

2023/24 Annual Audit Report

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