

# North East Scotland College

2022/23 Annual Audit Report



 AUDIT SCOTLAND

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

December 2023

---

# Contents

---

Key messages	3
Introduction	4
1. Audit of 2022/23 annual report and accounts	6
2. Financial management and sustainability	13
4. Vision, governance and resources	17
Appendix 1. Action plan 2022/23	21

---

# Key messages

---

## 2022/23 annual report and accounts

- 1 Audit opinions on the annual report and accounts are unmodified.
- 2 The financial statements give a true and fair view of the state of affairs of North East Scotland College as at 31 March 2023 and have been properly prepared in accordance with the financial reporting framework.

## Financial management and sustainability

- 3 The college has appropriate financial management arrangements in place which includes a three-year financial plan and regular budget monitoring to the board.
- 4 After adjusting for one-off items, the college reported a small deficit in its 2022/23 Adjusted Operating Position. A budget deficit is forecast for 2023/24 and hard decisions will require to be taken in subsequent years to manage a financial situation which is expected to be even more challenging.
- 5 Controls within the main financial systems were operating as expected while standards for the prevention and detection of fraud remain appropriate.

## Vision, governance and resources

- 6 The college has clear plans in place to support its vision and strategy and has appropriate governance arrangements.
- 7 Service performance is regularly reviewed. Activity levels and rates are better than target and generally show improvement over those reported in the previous year.

---

# Introduction

---

**1.** This report summarises the findings from the 2022/23 annual audit of North East Scotland College (Nescol). The scope of the audit was set out in an annual audit plan presented to the Audit and Risk Committee in September 2023. 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 and sustainability
  - Vision, governance and resources

**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](http://www.audit-scotland.gov.uk) in due course.

## Audit appointment from 2022/23

**3.** We have been appointed by the Auditor General for Scotland as auditor of Nescol for the five-year period from April 2022 until March 2027. The 2022/23 financial year was the first of that 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 for their cooperation and assistance during the year and we look forward to working together constructively over the course of the five-year appointment.

## Responsibilities and reporting

**5.** The college 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. 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 and the [Code of Audit Practice 2021](#), and supplementary guidance and International Standards on Auditing in the UK.

**7.** Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management of the college from its responsibility to address the issues we raise 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 2022/23 audit fee of £60,040 as set out in our 2022/23 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

---

# 1. Audit of 2022/23 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 of 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 2023 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 Nescol and its group for the year ended 31 July 2023 on 13 December 2023. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- expenditure and income were in accordance with applicable enactments and guidance
- the audited part of the remuneration and staff report, performance report and governance statement were consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

## 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.

**12.** 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.

13. Our initial assessment of materiality was carried out during the risk assessment and planning 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
<b>Overall materiality</b> – 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
<b>Performance materiality</b> – 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.	£650,000
<b>Reporting threshold (i.e., clearly trivial)</b> – 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

## The accounts were adjusted by £2.283 million

14. Misstatements identified during the audit and late entries to the accounts had the overall effect of increasing the total comprehensive gain on the statement of comprehensive income and expenditure and net assets by £2.283 million.

15. The main adjustments related to a reduction in the early retirement provision, increased gift aid due from the subsidiary company and the repayment of grant to a funding body where the credit target had not been achieved.

## 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.

17. 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.

18. 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
<p><b>1. Accounting and classification of the Gordon Centre property</b></p> <p>This property valued at £2.450 million was reclassified in 2021/22 as investment property as it is not currently used for operational purposes. However, it was erroneously classified as an operational asset in 2022/23.</p>	<p>The audited accounts have been amended by reducing Fixed Assets and increasing Investment Property by £2.450 million in the Balance Sheet.</p> <p>The in-year revaluation decrease of £0.250 million was also reclassified. It is now included as expenditure, increasing the deficit. Previously it was within unrealised surplus on revaluation of Land and Buildings (below the deficit line in the accounts). There is no impact on the total comprehensive gain for the year shown in the Statement of Comprehensive Income and Expenditure.</p>
<p><b>2. Valuation of Balgownie land held for sale</b></p> <p>College properties were all revalued at 31 July 2023 except for the Balgownie land which was last revalued in 2019/20 at a value of £2.4 million. As this property is currently held for sale, it was not included in the college's 2022/23 programme for revaluation.</p> <p>Given the current economic climate, there is a risk the value of the property is materially misstated.</p>	<p>The college is of the opinion that this property is not materially misstated. The value was significantly reduced in 2018 to reflect the economic climate when the value was reduced from £13 million to its current value of £2.4 million.</p> <p>The property is currently held for sale. Property experts indicate there is demand for larger sites and confirm that consistent sales rates are being generated. If, however, the Balgownie site remains unsold, the college will obtain a valuation as at 31 July 2024.</p> <p>Assurances over the carrying amount of assets held at 31 July 2023 have been provided in the letter of representation.</p>
<p><b>3. Provision for early retirements not funded by pension schemes</b></p> <p>Pension liabilities arising from early retirements are not funded except where the retirement is due to ill-health. Colleges are therefore required to recognise a provision for the actuarial cost of early retirements to the extent not met by pension schemes. At 31 July 2023, Nescol's provision was estimated at £5.720 million.</p>	<p>The audited accounts have been amended to reflect a lower provision of £3.982 million based on a higher discount factor.</p>



Issue	Resolution
<p>Previously, the Scottish Funding Council (SFC) provided colleges with guidance for the calculation of such a provision. This practice ceased a couple of years ago when the SFC indicated that colleges should engage with their actuaries in calculating this provision.</p> <p>Nescol's provision includes 20 former employees who are members of North East Scotland Pension Fund (NESPF) and 70 former employees who are members of the Scottish Teachers Superannuation Scheme.</p> <p>When calculating the provision, Nescol continued to use a discount factor consistent with previous years since the SFC stopped providing guidance.</p> <p>The 20 members of the NESPF were also picked up as part of the actuary's valuation of that pension scheme's assets and liabilities. The actuary's valuation for the 20 former employees' unfunded benefits was £277,000 at 31 July 2023 compared with the college's separately calculated provision of £578,000.</p> <p>Across the public sector, the valuation of pension schemes has experienced significant swings in 2022/23 with many reporting net pension assets for the first time. In respect of its position with NESPF, Nescol first reported a pension asset in 2021/22 and this continues to be the case in 2022/23. The main reason for the significant change in valuation is the change in the discount factor.</p> <p>If a similar discount factor to that used by the actuary is applied to the college's unfunded pension liabilities at 31 July 2023, then the provision would reduce by £1.738 million to £3.982 million. This movement is a material amount to the audit opinion.</p>	
<p><b>4. Overstatement of Foundation Apprenticeship grant income</b></p> <p>The accounts included grant income in respect of Foundation Apprenticeships. The award of this grant is based on an agreed target level of credits being achieved. For 2022/23, the target was not met and therefore grant of £0.232 million will be clawed back by the funding body. Grant income is therefore overstated by £0.232 million.</p>	<p>The audited accounts have been amended to reflect the likely repayment of grant. Grant income has been reduced and creditors increased by £0.232 million.</p>

## Performance Report

**19.** The Financial Reporting Manual (FrM) requires the annual report and accounts to include a performance report and the Scottish Funding Council's Accounts Direction for Scotland's Colleges sets out the requirements for the content of the report.

**20.** Nescol sets out a lot of detail in the performance report about its strategic vision, values and themes, and regional priorities. While the content includes enough to satisfy many of the requirements, in our view, there is scope to streamline this information and include more focus on the year being reported upon.

**21.** While actual performance against target is provided for learner success, and credits delivered, there is limited narrative setting out the college's view of performance and no reporting of progress against strategic priorities. The report should include some information about the organisational structure of the college and explain how the key risks and challenges impacting on the year under review were managed. It should also include more linkage between the performance analysis and other parts of the financial statements. This will provide a cohesive understanding of performance and allow the opportunity to introduce the key events within the annual accounts.

---

## Recommendation 1

The performance report should provide a stronger narrative on the college's 'story' for the year, be supported by financial and non-financial information and include commentary on the key risks and challenges and their mitigation.

---

## Our audit work responded to the risks of material misstatement we identified in the annual report and accounts

**22.** We have obtained audit assurances over the identified significant risks of material misstatement in the annual report and accounts. [Exhibit 3](#) sets out the significant risks we identified in our 2022/23 Annual Audit Plan. It also summarises the further audit procedures we performed to obtain assurances over these risks and the conclusions from the audit work completed.

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

Audit risk	Assurance procedure	Results and conclusions
<p><b>1. Risk of material misstatement due to fraud caused by management override of controls</b></p> <p>As stated in International Standard on Auditing (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.</p>	<p>Assessed the design and implementation of controls over journal entry processing and tested a sample of journals with a focus on risk areas.</p> <p>Made enquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</p> <p>Assessed any changes since the prior year to the methods and underlying assumptions used to prepare accounting estimates.</p>	<p>Based on the audit work undertaken, there was no evidence of management override of control.</p>

**23.** In addition, we identified "areas of audit focus" in our 2022/23 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
<p><b>1. Estimation in the valuation of land and buildings</b></p> <p>There is a significant degree of subjectivity in the valuation of land and buildings. Valuations are based on specialist and management assumptions and changes in these can result in material changes to valuations.</p> <p>Land and buildings were subject to a full independent valuation in 2019/20 with a</p>	<p>Evaluated the competence, capabilities and objectivity of the professional valuers.</p> <p>Assessed the reasonableness of valuations conducted by the professional valuers, including the use of any assumptions.</p>	<p>Other than items 1 and 2 in Exhibit 2, no issues were identified from our audit work in this area.</p>

Area of audit focus	Assurance procedure	Results and conclusions
<p>desktop valuation exercise at 31 July 2022 which resulted in a net book value of £104m. We anticipate that with the sharp rise in inflation, there may be significant changes in the value of the college's properties by 31 July 2023. Where this is likely to be the case, this increases the risk of material misstatement in the financial statements.</p>	<p>Substantively tested the reconciliation between the financial ledger and the asset register, including a sample of land and building assets revalued in the year.</p> <p>Assessed the adequacy of the college's disclosures regarding the assumptions in relation to the valuation of land and buildings</p>	
<p><b>2. The value of the net pension position</b></p> <p>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 which is funded. STSS is treated for accounting purposes as a defined contribution scheme because the college is unable to identify its share of the underlying assets and liabilities of the scheme.</p> <p>There is a degree of subjectivity in the measurement and valuation of the net pension position due to the specialist and management assumptions adopted. The significant increase in the inflation rate this year could have a material impact on these assumptions. Changes in the assumptions could result in material changes in the valuation at the year end.</p>	<p>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.</p> <p>Obtained assurances over the completeness and accuracy of data provided to the actuary.</p> <p>Considered the adequacy of the disclosures in the financial statements with regard to the net pension position.</p>	<p>No issues were identified from our audit work in this area.</p>
<p><b>3. Other sources of grants</b></p> <p>The college receives other grants (approx. £7 million) 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.</p>	<p>Reviewed a sample of other grants for evidence of compliance with any performance conditions and ensured the accounting was in line with guidance.</p>	<p>Other than item 4 in Exhibit 2, no issues were identified from our audit work in this area.</p>

---

## 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 plan and regular budget monitoring to the board.

After adjusting for one-off items, the college reported a small deficit in its 2022/23 Adjusted Operating Position. A budget deficit is forecast for 2023/24 and hard decisions will require to be taken in subsequent years to manage a financial situation which is expected to be even more challenging.

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 2022/23

**24.** 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 Advanced Learning and Science Directorate through the Scottish Funding Council. These require the college to break-even against its agreed budget over a three-year reporting cycle.

**25.** The Adjusted Operating Position (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 institution. The AOP is therefore designed to smooth any volatility in reported results arising from FRS 102 and to recognise that some of the reported costs do not have an immediate cash impact on the institution. [Exhibit 5](#) shows the AOP in respect of 2022/23.

**26.** The group deficit of £1.186 million includes a £0.250 million audit adjustment (Refer Exhibit 2, item 1 on page 8) relating to a loss on revaluation of investment property which has not been budgeted for. Excluding this adjustment, the college is reporting a deficit of £0.936 million which is a slightly improved outcome over the budgeted deficit of £1.130 million. The variance includes higher income, lower administration costs and higher teaching costs.

**Exhibit 5****Adjusted Operating Position**

	2022-23 (£m)	2021-22 (£m)
Deficit before other gains and losses	(1.186)	(2.689)
Add back:		
Depreciation (net of deferred capital grant release)	0.989	0.983
Pension adjustment – Net service cost/(income)	(0.161)	1.510
Pension adjustment - Net interest cost/(income)	(0.072)	0.258
Loss on revaluation of Investment Property	0.250	-
<b>Adjusted operating (deficit)/surplus</b>	<b>(0.180)</b>	<b>0.462</b>

Source: Nescol Annual Report and Accounts for the year ended 31 July 2023

**Budget processes were appropriate**

**27.** The college was budgeting for a deficit of approx. £1 million when the budget was approved by the Regional Board in June 2022. It was subsequently revised in March 2023 to reflect adjustments including a reduction of £0.268 million in expected SFC grants.

**28.** Fee income targets decreased by £0.359 million, in particular Student Awards Agency Scotland fees, due to less Higher National students. The pay award assumption was updated to reflect an increase in line with the rest of the public sector, each 1% change being equivalent to £0.300 million. Staff costs were rebased to staff levels at December 2022 and allowed for some unfilled posts while non-staff costs were realigned to reflect levels experienced at the time of budget revision.

**29.** Henderson Loggie, the college's internal auditor reviewed the financial planning arrangements at the college. The report gave their highest rating which means the system meets control objectives. A number of strengths were reported including:

- The college has developed a Financial Plan which is aligned to its Strategic Plan and associated objectives.
- Processes are in place for monitoring financial plans and budgets, efficiency savings are identified, factors which materially impact on financial performance are reviewed and assumptions are revisited.
- The college maintains strong links with regional employers and trade organisations, is well placed to identify commercial training

opportunities and monitors commercial activity volumes and margins regularly throughout the year.

## Appropriate financial control arrangements in place

**30.** Our work has been undertaken to provide an audit opinion on the annual report and accounts. From our review of the design and implementation of systems of internal control (including those relating to IT) relevant to our audit approach and testing 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 that result in a material misstatement in the financial statements.

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

**31.** 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.

**32.** In our view, the college has adequate arrangements in place to prevent and detect fraud or other irregularities. The college has an Anti-Bribery and Corruption policy which has recently been refreshed and approved by the Finance and Resources Committee.

**33.** The Regional Board has overall responsibility for ensuring this policy complies with legal and ethical obligations and the Vice Principal Finance and Resources has primary and day-to-day responsibility. Briefings on this policy form part of the induction process for all staff.

## Audit work has addressed the wider scope risks identified in our Annual Audit Plan

**34.** [Exhibit 6](#) sets out the wider scope risks relating to financial sustainability which we identified in our 2022/23 audit plan. It summarises the audit procedures we performed to obtain assurances over these risks and the conclusions from the audit work completed.

### Exhibit 6

#### Risks identified from the auditor's wider responsibility under the Code of Audit Practice

Audit risk	Assurance procedure	Results and conclusions
<b>Financial sustainability</b> The further education sector as a whole is facing financial challenges. Nescol is forecasting a £1m deficit in each of the financial years, 2022/23 and 2023/24. Uncertainties continue to	Reviewed outturn monitoring reports and financial plans. Discussed the current financial situation and forecasts with officers and the various initiatives being explored to fill funding gaps.	The college has developed a medium-term financial strategy for the period from 2023 to 2026. This sets out the plans for staff reduction through voluntary release and vacancy management in the short term. Later years will be

Audit risk	Assurance procedure	Results and conclusions
<p>exist around the potential scale of any pay awards.</p> <p>There is a risk that the college will not find sufficient efficiency savings and commercial income to return a break-even position in the medium term.</p> <p>Consequently, the quality and volume of service delivery may reduce.</p>	<p>Reviewed board and committee minutes and papers.</p>	<p>more challenging requiring hard decisions to be made.</p> <p>Conclusion: this is an area of ongoing risk for the college. Appropriate steps are being undertaken to manage this risk and the college is aware that further action and hard decisions are required.</p>

## The college has a three-year financial plan covering 2023-26

**35.** Colleges have already sought voluntary redundancies to reduce their staff costs and help save money in the longer term.

**36.** The college is permitted to incur a deficit in a given year but is required to achieve a balanced budget over a three-year rolling period. In July 2023, Nescol submitted a three-year financial plan to the Scottish Funding Council covering financial years 2023/24 to 2025/26.

**37.** The budget for 2023/24 anticipates an operating deficit of £0.984 million and assumes that the additional £26 million funds allocated to the sector in the Scottish Government's Budget announcement have been revoked. The other main factors considered include:

- flat cash funding from SFC and a 10% reduction to the Credit target
- deliver additional funded places including higher education funded places in partnership with Robert Gordon University
- staff cost savings of approx. £0.8m to be generated through voluntary severance costs.

**38.** The college does not currently anticipate that further reductions in staff numbers will be required in financial year 2023/24. However, vacant posts will not be filled wherever appropriate and the existing reduction in staff numbers has been reflected in the Credits volume planned for 2023/24.

**39.** Looking ahead to financial years 2024/25 and 2025/26, the financial position is more challenging. Some colleges, including Nescol, anticipate the need for further, significant staffing reductions which could severely erode their ability to deliver a viable curriculum. This might also require the use of compulsory redundancies. The need for further reductions to courses or Credit delivery is not anticipated as regional demand is expected to exceed the minimum Credit target.



---

# 4. Vision, governance and 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

The college has clear plans in place to support its vision and strategy including targets to reduce carbon emissions from its activities and has appropriate governance arrangements.

Service performance is regularly reviewed. Activity levels and rates are better than target and generally show improvement over those reported in the previous year.

---

## The college has a clear vision and strategy

**40.** The college has a Strategic Plan covering 2021-23 which is currently being refreshed. It is supported by a suite of corporate and operational plans covering the key areas of college activity and their priorities. These are appropriately linked into the financial planning process.

**41.** The key elements of the college's governance arrangements are set out in the Governance Statement in the annual accounts. We have reviewed these arrangements and concluded that they are appropriate.

**42.** The Regional Board has a Strategic Risk Register which considers matters that may impact on the college's ability to deliver on its strategic objectives. The Executive and Leadership Teams and the Audit and Risk Committee have respective roles in reviewing risk on a regular basis.

**43.** We note that the Strategic Risk Register and associated risk management processes are currently being streamlined and refreshed. The register in place during the year was overly detailed, not particularly user friendly and lacked an appropriate summary of salient points for board members including changing and emerging risks. We will monitor the ongoing improvements being made to the arrangements during our audit appointment. It would also be helpful to include a reference in the governance statement to any governance reviews and/or improvement activity being undertaken in the year.

## Appropriate governance arrangements are in place

**44.** In 2022/23, governance arrangements have continued to include a mix of in-person and virtual meetings. The Regional Board meets in-person on a quarterly basis while all committee meetings are held virtually. There are four main committees which meet regularly and a further two, remuneration, and governance and nominations which meet as required.

**45.** There were a number of important membership changes with the chair and vice chair of the Regional Board and all committees largely changing during the year. In a number of cases, the vice chair became the chair when the previous chair reached the end of their tenure. While this provides good continuity, it will take time for the new arrangements to become embedded.

## IT and Cyber security arrangements are being reviewed

**46.** The college has implemented a range of cyber security good practices and is aiming to achieve the objectives set out in the Scottish Government's Cyber Resilience Framework.

**47.** The arrangements already include firewalls, anti-malware, systems monitoring tools and multifactor authentication. Work is ongoing in relation to completing a suite of sub-policies to support the IT Security Policy and implementing cyber-security incident response plans.

**48.** More widely, there is an ongoing project to refresh the college's network and Wi-Fi arrangements and improve IT business continuity and disaster recovery arrangements.

## Climate change targets are in place

**49.** Nescol 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. It has held British Standards Institute (BSI) accreditation in Environmental Management (ISO 14001:2015) for several years.

**50.** Membership of the college's Sustainability Committee includes curriculum and support staff from each campus along with student representatives and it reports to the Executive and Leadership Teams. The purpose of the committee is to promote an ethos of environmental and social sustainability in all aspects of college business. It acts as an enabler in meeting the targets set in the college's Carbon Management Plan and provides a forum for ensuring best practice across the college. The college aims to reduce CO<sub>2</sub> emissions from its activities by 50% from the 2018/19 baseline by 2025. It is also incorporating Net Zero carbon targets in all projects, the largest at the moment being the installation of Solar PV panels across all its campuses.

**51.** The Auditor General 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.

## The college regularly reviews service performance

**52.** The college board is responsible for securing the economical and effective management of Nescol's resources. In that regard, the Financial Memorandum with the SFC requires the college to have a strategy for reviewing management's arrangements for achieving value for money.

**53.** The College Evaluative Report and Enhancement Plan (EREP) reports on a prescribed set of expectations and measures of success provided by the SFC. The EREP is a self-evaluation tool and an enhancement plan of areas for improvement in service delivery. Trends in performance against the Outcome Agreement measures and priorities, and areas of positive practice and improvement are used to identify actions for the enhancement plan. The 2022 report was reviewed by senior leadership and the board before submission to the SFC. The plan helps the college to coordinate its priorities and risks.

**54.** A selection of the college's trend performance measures are summarised in [Exhibit 7](#).

### Exhibit 7

#### Key Performance Indicators – trend analysis

Key Performance Indicators	2018/19 <sup>1</sup>	2019/20 <sup>2</sup>	2020/21 <sup>2</sup>	2021/22	2022/23
A.Total number of credits delivered	132,223	133,730	133,127	128,655	129,769
B.Proportion of Credits Delivered to 10% Most Deprived Postcode Areas <sup>3</sup>	2.1%	1.9%	1.8%	3.1%	2.5%
C.Proportion of enrolled students successfully obtaining a recognised qualification – full time Further Education	65%	62%	56%	57%	63%
D.Proportion of enrolled students successfully obtaining a recognised qualification – full time Higher Education	72%	73%	71%	65%	66.0%
E.Percentage of students satisfied overall with their college experience <sup>3</sup>	93%	-	86%	90%	90%

Source: Nescol Annual Report and Accounts for the year ended 31 July 2023

Note 1 – 2018/19 figures were taken from the Outcome Agreement

Note 2 – 2019/20 figures for Measures C, D and E and all figures for 2020/21 were impacted by the Covid-19 pandemic and may not be comparable

Note 3 – KPIs B and E were taken from the Outcome Agreement and the figures for 2022/23 are based on forecast

**55.** The SFC 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 number of credits delivered in 2022/23 was 129,769 which is higher than the target of 128,812 and last year's total of 128,655 but lower than the three years prior to last year. The proportion of credits delivered to the 10% most deprived postcodes has also gone down to 2.5% this year compared to 3.1% last year but is higher than the three years prior to last year. The college continues to ensure those living in the most deprived locations and care-experienced applicants are guaranteed an interview for a suitable course.

**56.** It is encouraging to note however that learners' success has improved for both full time Further Education and Higher Education students compared to last year. Overall satisfaction of students with their college experience is currently at 90%, this is higher than the 2020/21 rate of 86.2% but is lower than 2018/19 of 93.3%.

# Appendix 1. Action plan 2022/23

## 2022/23 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p><b>1. Performance Report</b></p> <p>The college should strengthen its performance report within the annual report and accounts. There is scope to streamline the report, include more focus on the year under review and include a narrative setting out the college's view on performance.</p> <p>Risk: There is a risk that the performance report may not include all the requirements of the Financial Reporting Manual and the Accounts Direction.</p>	<p>The performance report should provide a stronger narrative on the college's 'story' for the year supported by financial and non-financial information and include commentary on the key risks and challenges and their mitigation.</p>	<p>Agreed.</p> <p>Responsible Person: Financial Controller (External Affairs)</p> <p>Date: July 2024</p>

# North East Scotland College

## 2022/23 Annual Audit Report

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

[www.audit-scotland.gov.uk/accessibility](http://www.audit-scotland.gov.uk/accessibility)

For the latest news, reports and updates, follow us on:



Audit Scotland, Woodhill House Annexe, Westburn Road, Aberdeen AB16 5GB  
T: 0131 625 1500 E: [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)  
[www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)