SE/2005/86

A REPORT BY THE AUDITOR GENERAL FOR SCOTLAND UNDER SECTION 22(3) OF THE PUBLIC FINANCE AND ACCOUNTABILITY (SCOTLAND) ACT 2000

THE 2003/04 AUDIT OF INVERNESS COLLEGE

1. I have received the audited accounts of Inverness College for the year ended 31 July 2004. The auditor's report on the accounts is not qualified but contains a paragraph drawing attention to the College's position as a going concern. I prepared a similar report on the College's position as a going concern in respect of the 2002/03 financial year.

2. I submit these accounts and the auditor's report in terms of section 22(4) of the Public Finance and Accountability (Scotland) Act 2000, together with this report which I have prepared under section 22(3) of the Act.

3. Inverness College incurred a deficit of £525,407 in its Income and Expenditure account, for the period ended 31 July 2004. At 31 July 2004, the accumulated deficit on the College's Income and Expenditure Reserve was £3,317,079, a reduction of £38,284 from the deficit of £3,355,363 recorded at 31 July 2003.

4. The auditor's report, at pages 13 to 14 of the accounts, refers to the College's financial position in the following terms:
   "Going Concern

   > In forming my opinion, I have considered the adequacy of the disclosures made in the Statement of Accounting Policies at pages 15 and 21 of the financial statements concerning the continuation of support by the College's bankers and the Scottish Further Education Funding Council in terms of overdraft facilities and continuing recurrent funding. In view of the significance of these issues in the context of the College's accumulated deficit of £3.317 million as at 31 July 2004, I consider that they should be drawn to your attention. My opinion is not qualified in this respect. "

5. Inverness College is one of a number of colleges required by the Scottish Further Education Council (SFEFC) to prepare a recovery plan to address their accumulated deficits. As a result of additional funding received by the college in 2002/03 it prepared financial forecasts indicating that it could achieve surpluses on its Income and Expenditure Accounts in 2004/2005 and 2005/2006, thus achieving SFEFC targets for financial security within the sector. On these projections, the college anticipated that it would eliminate the £3,355,363 deficit on the income and expenditure reserve by 31 July 2009.

6. During 2003/04 the College repaid £329,000 of advances from SFEFC but at the same time its trading results were significantly poorer than expected The College had forecast a surplus of £94,000 for the year but incurred a deficit of £526,000. The College now estimates that it will be unable to clear the deficit on its income and expenditure reserve by 31 July 2009. To address this position, the College is currently examining ways to reduce its costs and to return its operational performance to surplus and SFEFC is working closely with the College to support that exercise.

Robert W Black
Auditor General for Scotland
19 April 2005