

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 LEWS CASTLE COLLEGE

1. I have received the audited accounts of Lews Castle College for the year ended 31 July 2004. The auditors' report on the accounts is not qualified but draws 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 auditors' 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. Lews Castle College incurred a deficit on its Income and Expenditure account, of £358,000 for the year ended 31 July 2004. At 31 July 2004, the accumulated deficit on the College's General Reserve was £1,438,000.
4. The auditors' report, at pages 27 to 28 of the accounts, refers to this matter in the following terms:

“Basis of Audit Opinions

In forming our opinion, we have considered the adequacy of the disclosures made in note 1 of the financial statements concerning the uncertainty surrounding cash flow forecasts, including the uncertainty of future funding streams from the Funding Council, and therefore the College's ability to continue in existence. In view of the significance of this uncertainty we consider it should be drawn to your attention but our opinion is not qualified in this respect.”

5. Following a deterioration in the college's cash position during 2002-03, its bankers withdrew the college's overdraft facilities in December 2003. As a result, the college introduced extensive monitoring procedures to ensure that cash outflow did not exceed cash inflow. To assist the college, the Scottish Further Education Funding Council (SFEFC) provided a repayable cash advance of £556,600 in the period August 2003 to March 2004. The college and SFEFC have not yet agreed a repayment schedule for the advance, although the college has proposed to make an initial repayment of £20,000 in August 2005, subject to its cash position at 31 July and that a payment does not cause liquidity problems.
6. The college has continued discussions with SFEFC over plans to achieve financial security and has already implemented recurring annual savings of £255,000, primarily as a result of redundancies. The College is looking for opportunities for further cost reductions and SFEFC continues to support the College in that exercise.
7. SFEFC is reviewing the funding of colleges, such as Lews Castle, that operate in remote and sparsely populated areas. The results of the review will not be available before summer 2005 but SFEFC has already allocated additional annual grant funding of £250,000 to Lews Castle College for 2003-04 and 2004-05. On that basis the College has produced financial forecasts predicting surpluses on its continuing operations in financial years 2004/05 to 2006/07.

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**Robert W Black
Auditor General for Scotland
19 April 2005**