

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

THE 2004/05 AUDIT OF INVERNESS COLLEGE

1. I have received the audited accounts of Inverness College for the year ended 31 July 2005. 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 2003/04 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 £966,793 in its Income and Expenditure account, for the period ended 31 July 2005. At 31 July 2005, the accumulated deficit on the College's Income and Expenditure Reserve was £3,666,884, an increase of £349,805 from the deficit of £3,317,079 recorded at 31 July 2004.
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 £3.7m as at 31 July 2005, I consider that they should be drawn to your attention. My opinion is not qualified in this respect."
5. My report on the College's accounts for 2003/04 noted that as a result of additional funding received from the Scottish Further Education Funding Council (SFEFC) (now the Scottish Further and Higher Education Funding Council (SFC)) back in 2002/03 the College had prepared financial forecasts indicating that it could achieve surpluses on its Income and Expenditure Accounts in 2004/2005 and 2005/2006. This would put the college on course to achieve SFEFC's target for financial security within the sector and enable the college to eliminate the deficit on the income and expenditure reserve by 31 July 2009.
6. During 2004/05 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 deficit of £244,000 for the year but incurred a deficit of £966,793. This included an increase in the College pension provision of £442,000. The College has undertaken an efficiency consultation exercise that identified reductions in future running costs of £500,000 and is considering further measures to address its efficiency in the longer term. However, the College now estimates that it is unlikely to clear the deficit on its income and expenditure reserve by 31 July 2009. The SFC is supporting the College by providing assistance from its Further Education Development Directorate to work closely with the College to help in the process of reviewing finance and governance arrangements.



Robert W Black
Auditor General for Scotland
27 January 2006