1. I have received the audited accounts of James Watt College for the year ended 31 July 2006. 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.

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. James Watt College incurred a deficit of £3.872 million in its Income and Expenditure account, for the period ended 31 July 2006. This deficit is equivalent to 10.5% of the College’s income for the year. The College’s accumulated deficit was £5.336 million at 31 July 2006, an increase of £3.32 million from the deficit of £2.016 million recorded at 31 July 2005, after the transfer of £0.552 million from the Revaluation Reserve.

4. The auditor’s report, at pages 8 to 9 of the accounts, refers to the College’s financial position in the following terms:

   “Without qualifying our opinion, we draw attention to the accounting policies in the financial statement, which indicate that the College incurred a net deficit of £3,872k during the year ended 31 July 2006 and, as of that date, the College’s current liabilities exceeded current assets by £3,017k. These conditions along with other matters as set forth in the accounting policies, indicate the existence of a material uncertainty which has cast significant doubt about the College’s ability to continue as a going concern.”

5. In July 2006 the College’s bankers would not renew its overdraft without a guarantee from the Scottish Funding Council (SFC), which the SFC could not legally give. However, between July and September 2006, the College received advances of grant totalling £3m from the SFC. As a condition of the advances of grant in September 2006, the SFC required the College to work with the Further Education Development Directorate (FEDD), to identify the underlying reasons for its financial problems. The FEDD reported to the College in December 2006 identifying failings and recommending action, which the College has accepted. After consulting with staff, the College has developed a financial recovery plan, which the SFC has seen. The financial recovery plan identifies anticipated savings of around £1.6 million to be made in 2007/08 and cash flow projections showing that it aims to achieve a small cash reserve by 2010/11. This is over and above in year savings exercises that have been introduced for 2006/07. The SFC is continuing to support the College. A new Acting Principal was appointed in October 2006 and a new Chair of the Board of Management in December 2006.

Robert W Black, Auditor General for Scotland, 19 March 2007