1. I have received the audited accounts of Stow College (the college) for the year ended 31 July 2008. The auditor’s report on the accounts is not qualified. However, I have decided to issue this report to bring to the Parliament’s attention a contingent liability identified in the college’s accounts, and the potential for an associated clawback of funding by the Scottish Funding Council (SFC).

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

3. The college’s accounts for 2007/08 include, in the notes to the accounts, details of a contingent liability (a potential liability that may exist in the future) but does not indicate the value.

4. In late 2008, the SFC commissioned a review of five programmes which had been included in the college’s audited teaching funding claims. The review was led by SFC’s internal auditors, with support from SFC and HMIE staff. The review concluded that two of the programmes included in the review did not meet the relevant teaching funding rules. The Chief Executive of SFC has written to the college to confirm his view that the findings of the review are correct. The college disputes the conclusions and the Board of Management has written to SFC’s Chief Executive to seek further clarification on aspects of the review and its conclusions.

5. The programmes that are in dispute are collaborative programmes, with delivery of education and training involving third-party providers. One programme relates to Chinese language teaching, while the other involves construction industry training.

**Chinese language and cultural studies**

6. The college has been delivering Cantonese and Mandarin language programmes in collaboration with the Glasgow Chinese School since 2000, although a written contract was not introduced until July 2007, following significant growth in the programme. Colleges undertake to deliver a specified volume of eligible activity in return for grant from SFC. The volume of activity claimed in relation to the Chinese School equated to £192,000 of SFC funding in 2007/08.

7. The review concluded that there was very limited resource input by the college and that there was no systematic monitoring of the Chinese School activities by the college – both key requirements of SFC funding – and that the programme therefore did not meet the eligibility criteria for teaching funding for such collaborative provision.
Construction industry training

8. The college has been delivering vocational training qualifications in collaboration with a private sector company since 2003, although a written contract was not introduced until July 2007. The volume of activity claimed in relation to the construction industry training equated to £988,000 of SFC funding in 2007/08. The review concluded that the college’s resource input was limited and that the programme therefore did not meet the eligibility criteria for teaching funding for such collaborative provision.

Potential clawback of funding and financial position of Stow College

9. I received the accounts on 31 March 2009 – three months later than they should have been received. It had been hoped that the issues could have been resolved prior to conclusion of the audit process and I was aware of the potential delay. The college’s 2007/08 accounts record an operating surplus of £81,000 in 2007/08, with total income of £13.7 million. The college’s income and expenditure reserve was £1.8 million at 31 July 2008.

10. The college’s Board of Management secured legal advice prior to finalising the college’s accounts and is of the opinion that the college has taken a fair and reasonable approach to the funding claims related to the two programmes. At the time the accounts were signed off, the college and the SFC had not reached agreement on the conclusions of the SFC review or on the value of any clawback, or on the implications for the college’s future funding requirements.

11. We understand that discussions will continue between SFC and the college on both the potential clawback and on future funding. However, because the sums involved may be significant, there remains a possibility that the outcome could have a significant impact on the college’s financial position. I have asked the college’s auditor to continue to monitor the situation.

Robert W Black
Auditor General for Scotland

24 April 2009