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Our ref **Gm/West Dunbartonshire  
Letter Draft 281107**

Contact **Greg McIntosh  
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28 November 2007

**DRAFT**

Dear Mr Connell

**West Dunbartonshire Building Our Future Schools Project – Audit View on  
Provisional Accounting View**

We have, in our capacity as the external auditors of West Dunbartonshire Council ('the Council') completed our review of the Provisional Accounting View prepared for the Council by Caledonian Economics ('CalEc') on the proposed accounting treatment of the Schools PPP Scheme ('the Scheme') dated 23 July 2007.

*Responsibilities of the audited body and the auditor*

The Council is accountable to the public for the stewardship of funds under its control. It is for the Council alone to take decisions about the most appropriate accounting treatment for any transactions it is considering entering into, after taking whatever advice it deems necessary. Our review is designed solely to consider whether there is sufficient evidence to support the Council's proposed approach to accounting for the transactions associated with the Scheme in future statutory accounts.

We would also draw to your attention that we have not sought to independently confirm the factual accuracy of all the information provided or made available to us by the Council in connection with this review.

*Purpose of this letter*

The purpose of this letter is to provide the Council with a view of the proposed accounting treatment of the Project from the perspective of the external auditor. These views are expressed in our capacity as auditor and should not be regarded as advice. This letter is provided to inform you of our views as auditors at this stage of the Scheme and for no other purpose. In particular, no responsibility is accepted toward any other organisation or individual who may seek to place reliance on its contents.

### *Provisional Accounting View*

CalEc have assessed the accounting treatment appropriate to the Scheme in accordance with The Treasury's *Technical Note No1 (Revised): How to Account for PFI Transactions* ('the Technical Note'), insofar as this interprets:

- *Financial Reporting Standard 5 (FRS5), 'Reporting the Substance of Transactions'*; and
- *Application Note F to FRS5, 'Private Finance Transactions and Similar Contracts'*.

The Local Authority SORP ('the SORP') provides the framework for reporting PFI transactions through its adoption of FRS 5. CIPFA's *Guidance Notes for Practitioners* suggest that the contents of the Technical Note will also be of interest when considering the accounting treatment of a local government PFI scheme, but application of the Technical Note is not mandatory.

CalEc have concluded that the underlying assets associated with the construction and operation of the Scheme will be off-balance sheet to the Council. CalEc's assessment is based on the following version of the Project Agreement and the financial model:

- The preferred bidder version of the Project Agreement entitled 3055855\_1 WS Comparison\_#2638235v1\_LegalDiv\_-Project Agreement (Pre ITN) (Final Version)\_#3055733v1\_LeaglDiv\_-Project Agreement (PB Draft 1).DOC; and
- The PB Version of the financial model: "BAM bank standard bid model Sept 07.xls.

Should significant changes be made to the Project Agreement before it is signed, these could invalidate the conclusions arrived at by CalEc and the Council as to the accounting treatment appropriate to the Scheme. The final judgement on the proposed accounting treatment will be given when the project has to be accounted for in the financial statements of the Council. It will be for the auditors of the Council to consider whether the Scheme's accounting treatment is consistent with relevant accounting standards and guidance in force at that time.

CalEc have drawn attention to the fact that the Central Government Financial Reporting Manual ('FReM') will be compliant with International Financial Reporting Standards (IFRS) from the financial year 2008/09. The CIPFA/LASAAC Joint Committee, which is responsible for the SORP, has announced that it will delay the adoption of IFRS in the local government sector to 2009/10 at the earliest. Revised Treasury Guidance on accounting for PFI/PPP schemes in the public sector is expected shortly, but there is a risk, referred to in CalEc's provisional accounting view, that the property underpinning this transaction may have to be recognised on the Councils balance sheet under IFRS.



*Conclusion*

On the basis of the information provided to us, and subject to any further information that may come to our attention during the course of our audit, we have concluded that we are not minded to challenge the Council's view that it will be appropriate for the property provided under the Scheme not to be accounted for on the Council's balance sheet.

Please contact Greg McIntosh on 020 7311 6430 or 07884 476962, or alternatively Keith Macpherson, should you have any comments or questions on the contents of this letter.

Yours sincerely

KPMG LLP