



Our Ref MG/ TF TRDC90327

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25 March 2009

Dear David

Annual audit fee 2009/10

We are writing to set out the audit work that we propose to undertake for the 2009/10 financial year at the Council and to outline our fee proposals in accordance with the requirements of the Audit Commission. The fee proposals:

- are based on the risk-based approach to audit planning as set out in the Code of Audit Practice and work mandated by the Audit Commission for 2009/10
- reflect only the audit element of our work, excluding any inspection and assessment fees. Your Comprehensive Area Assessment Lead will be writing to you separately on inspection fees.

The Audit Commission published its work programme and scales of fees 2009/10, in December 2008. From 2009-10, the Audit Commission has clarified that the starting point for any fee proposal is the scale fee, which is calculated using a prescribed formula. Any variation from scale fee must be approved by the Audit Commission, following agreement of the proposed fee with the audited body.

We are proposing a 2009/10 fee of £105,000 (excluding VAT). This represents a slight reduction in the prior year fee which acknowledges the assumed closure of the Housing Revenue Account. The proposed fee is 5% above the Audit Commission scale fee of £99,881 (this compares to 8% above scale fee last year). The fee remains above scale due to continuing risks relevant to our Code responsibilities. These risks relate to the capital programme and the implementation of shared services during the year.

A summary of the proposed fee is shown in the table below.

| Audit area | Planned fee 2009/10 | Planned fee 2008/09 |
|---|----------------------------|----------------------------|
| Financial statements, including WGA and IFRS support | £60,500 | £62,000 |
| Use of resources/VFM conclusion, including data quality | £44,500 | £44,560 |
| Total audit fee | £ 105,000 | £ 106,560 |
| Certification of claims and returns | TBC (Dec. 09) | £31,500 |

Chartered Accountants

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In setting the fee at this level, we have assumed that the general level of risk in relation to the audit of the financial statements is not significantly different from that identified to 2008/09. A separate plan for the audit of the financial statements will be issued in December 2009. This will detail the risks identified, planned audit procedures and any changes in fee.

The audit fee is based on the assumption that detailed working papers, and other specified information, are provided to an agreed timetable. Where the Council does not meet agreed timetables and/or provide poor documentation such that additional audit work is necessary, or the audit is delayed, we reserve the right to charge additional fees to cover the costs incurred.

The Council must prepare its annual accounts under International Financial Reporting Standards (IFRS), from 2010/11. Early preparation is essential and there is a risk that the Council may not be adequately prepared for the transition.

Using our IFRS experts, we will continue to help the Council to prepare for introduction of IFRS, through awareness raising sessions for officers and members and constructive challenge on the Council's plans and progress. This is included within the financial statements audit fee.

Specialist colleagues from Grant Thornton's Financial Reporting Advisory Group, can also be commissioned for more detailed technical support, should the Council require it.

Our use of resources assessments will be based upon the evidence from three themes:

- Managing finances
- Governing the business
- Managing resources.

The key lines of enquiry specified for the assessment are set out in the Audit Commission's work programme and scale of fees 2009/10. Our work on use of resources informs our 2009/10 value for money conclusion. However, we have identified a number of risks in relation to the value for money conclusion. For each risk, we consider the arrangements put in place by the Council to mitigate the risk, and plan our work accordingly. Our initial risk assessment for value for money audit work is shown in the table overleaf:

| Risk | Planned work | Timing |
|---|---|---------------|
| During 2009/10 the Council will be implementing a shared services arrangement with Watford Borough Council for the provision of corporate services, including the finance function. There is some audit risk attached to the re-configuration of systems, processes and staff that will arise (e.g. the adequacy of finance team resources or data quality in regard to merged accounting systems). | We will monitor the progress of shared services implementation through discussion with Council officers and review of committee minutes in order to identify and plan for emerging issues. | Ongoing |
| The Council has experienced some difficulty in delivering capital projects to plan in recent years. These difficulties have continued and on one project action is being taken to replace the main contractor, which is likely to result in some additional expense for the Council. | We will continue to monitor this issue both in terms of value for money, through the Use of Resources assessment, and for potential impact in the financial statements as part of our accounts audit. | Ongoing |

The quoted fee for grant certification work is an estimate only and will be charged at published hourly rates.

Our fees exclude any additional work requested by you that we may agree to undertake. Each piece of work will be separately negotiated and a detailed project specification agreed with you.

As we have not yet completed our audit for 2008/09, the audit planning process for 2009/10, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary. If we need to make any significant amendments to the audit fee during the course of the audit, we will first discuss this with you and then prepare a report outlining the reasons why the fee needs to change for discussion with the Audit Committee.

The audit fee will be billed in quarterly instalments from June 2009.

We will issue a number of reports relating to our work over the course of the audit. These are listed at Appendix 1.

The key members of the audit team for 2009/10 are:

Engagement Lead - Martin Grundy 020 7865 2302 / martin.grundy@gtuk.com

Audit Manager – Tom Foster 07920 073654 / thomas.foster@gtuk.com

Audit Executive – Matilda Davies 020 7728 3175 / matilda.davies@gtuk.com

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact the engagement lead in the first instance. Alternatively you may wish to contact the Head of Government Audit at Grant Thornton UK LLP, Richard Tremeer on richard.tremeer@gtuk.com.

Yours sincerely

Grant Thornton UK LLP

A Planned Outputs

Our reports will be discussed and agreed with the appropriate officers before being issued to the Audit Committee.

| Planned output | Indicative date |
|--|------------------------|
| Audit plan | March 2009 |
| Audit strategy document | June 2010 |
| Annual governance report | September 2010 |
| Auditor's report giving the opinion on the financial statements and value for money conclusion | September 2010 |
| Use of resources report | September 2010 |
| Annual audit letter | December 2010 |

Any other specific outputs will be agreed with officers and communicated to the Audit Committee.