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26 September 2005

Dear Sir

Purpose of Engagement Letter

The purpose of this Engagement Letter, which incorporates the attached Terms of Business (together the "Contract"), is to confirm the Services that PricewaterhouseCoopers LLP ("PwC") will undertake for Winchester City Council.

Scope of work

You, under the direction of the Principal Scrutiny Committee, have engaged us to produce a report of our findings and perform the following Services in connection with the payroll service provided by the Council to the Winchester Alliance for Mental Health (WAMH).

- (a) The Portfolio Holder for Finance and the Leader to be interviewed about their roles in the decision-making processes.
- (b) Councillor Hollingbery to be interviewed, to the extent that he is able to comment, taking account of any duty of confidentiality he owed to WAMH in respect of the period when he was a trustee of the charity.
- (c) In relation to the meeting of the Central Services Performance Improvement Committee held on 28 October 2003, why was no recommendation made to suspend or cease to provide further payroll services, given that the Director of Finance had previously written to WAMH to indicate that this approach would be recommended to the Committee.
- (d) An analysis of what issues should have been considered in the period between 28 October 2003 and 27 January 2004 when the debt rose from £201,903 to £385,000.
- (e) During the period between 28 October 2003 to 27 January 2004 who authorised the continuation of the payroll payments, and who was consulted as a part of that authorisation.

We will produce a report containing the results of our findings and our conclusion, giving you our views on the areas above. Our work does not constitute an audit and therefore we will provide no audit opinion, attestation or other form of assurance with respect to our Services. We will not audit or otherwise verify the information supplied to us in connection with this engagement, from whatever source. This investigation will not fetter our discretion in fulfilling our responsibilities as

your appointed auditors, and we reserve the right to report on this matter in our annual audit letter, drawing on the conclusions of this review as appropriate.

Deliverables

In undertaking the Services, we will produce a report containing the findings of our investigation and any recommendations for improvement.

Oral reports

PwC expects to provide oral advice in conjunction with the Services. PwC shall not be held responsible for oral advice unless PwC confirms such advice in writing.

Our team

The work will be undertaken by Matthew Hepenstal under the control of Greg Rubins. Where appropriate we will obtain specific advice from specialists from our tax and corporate recovery departments. We estimate that the work will take between and 5 and 8 days at a cost of £1,200 per day.

Greg Rubins a director in PwC, will discharge the responsibilities of the engagement partner and in doing so will bind PwC although Greg Rubins is not a partner.

Money laundering reporting

All the services we provide are in the regulated sector under The Proceeds of Crime Act 2002 and as such, partners and staff in audit and accountancy firms are required to report all knowledge or suspicion, or reasonable grounds to know or suspect, that a criminal offence giving rise to any direct or indirect benefit from criminal conduct has been committed, regardless of whether that offence has been committed by their client or by a third party. If as part of our work we have knowledge or suspicion, or have reasonable grounds to know or suspect, that such offences have been committed we are required to make a report to the National Criminal Intelligence Service. In such circumstances it is not our practice to discuss such reports with you because of the restrictions imposed by the tipping off provisions of the anti-money laundering legislation.

Limitation of liability

The attached Terms of Business set out the duties of the parties in respect of the Services. The Terms of Business, amongst other things:

- (a) limit our liability to a maximum amount of £1 million; and
- (b) limit the period within which a claim may be brought.

In respect of Section 7 of the Terms of Business, in no event shall PricewaterhouseCoopers LLP, its partners, or employees be liable for any loss, damage, cost or expenses arising in any way from or in connection with fraudulent acts or omissions, misrepresentation or wilful default on the part of Winchester City Council, its directors, employees or agents. We shall use reasonable skill and care in the provision of the services set out in this letter.

Use of report by third parties

Our report will be prepared for and only for Winchester City Council in accordance with the terms of our engagement letter dated 26 September 2005 and for no other purpose. We do not accept or assume any liability or duty of care for any other purpose or to any other person to whom the report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Safeguarding service

For the purpose of paragraph 8.18 of the Terms of Business, Greg Rubins, the engagement leader, or Glyn Barker, head of our Assurance and Business Advisory Services in the UK at our office at 1 Embankment Place, London WC2N 6RH is available to discuss any issues that you have.

Acceptance

This Engagement Letter and the attached Terms of Business together form the Contract between us. Please record your agreement to the terms of this Contract by signing the enclosed copy of this letter in the space provided and returning it to us.

Yours faithfully

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PricewaterhouseCoopers LLP

Confirmation of the Contract

Having read the Contract comprising the Engagement Letter dated 26 September 2005 and the attached Terms of Business, we acknowledge acceptance of and agree to engage PricewaterhouseCoopers LLP upon the provisions of the same.

For and on behalf of Winchester City Council

Name..... Signature.....

Date.....

Enclosure: PricewaterhouseCoopers LLP Terms of Business