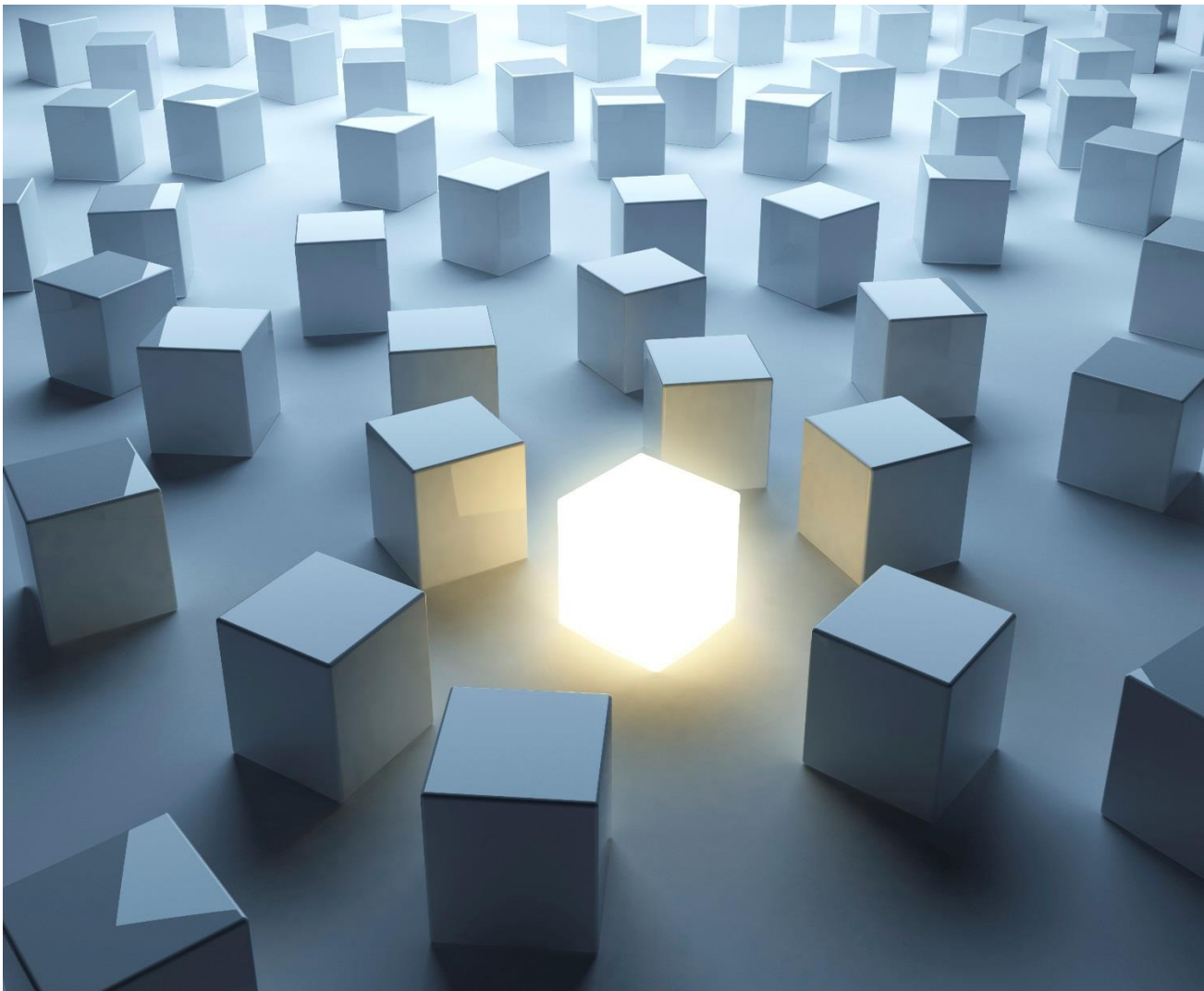


Audit Completion Report 2015/16

North Tyneside Council

September 2016



North Tyneside Council

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14 September 2016

Dear Members

Audit Completion Report – Year ended 31 March 2016

We are pleased to present our Audit Completion Report for the year ended 31 March 2016. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks was outlined in our Audit Strategy Memorandum which we presented to the Audit Committee on 30 March 2016. We have reviewed our Audit Strategy Memorandum and concluded the original significant audit risks remain appropriate.

We would like to take this opportunity to express our thanks to your officers for their assistance during the course of our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 07979 164467 or gareth.davies@mazars.co.uk.

Yours faithfully

Gareth Davies
Partner
Mazars LLP

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01 Executive summary

Purpose of this document

This document has been prepared to communicate the findings of our audit for the year ended 31 March 2016 to the members of North Tyneside Council (the Council) and forms the basis for discussion at the Audit Committee and full Council meetings of 21 and 22nd September 2016 respectively.

Our communication with you is important to:

- share information to assist both the auditor and those charged with governance to fulfil our respective responsibilities;
- provide you with constructive observations arising from the audit process;
- ensure, as part of the two-way communication process, we gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing the Council; and
- receive feedback from you on the performance of the engagement team.

Our work on the Council's accounts is designed to provide reasonable assurance that they are free from material misstatement. In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'. We consider materiality when planning and performing our work and in assessing audit results.

At the planning stage, we made a judgement about the size of misstatements which we would consider to be material; Appendix C provides more information on our approach.

As outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards of Auditing (UK and Ireland) which means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement. Section 3 of this report includes our conclusions on the significant risks we set out in our Audit Strategy Memorandum. We also set out details of internal control recommendations in section 4 and a summary of misstatements identified in section 5.

Status and audit opinion

We have substantially completed our audit of the financial statements for the year ended 31 March 2016. At the time of preparing this report, the following matters remain outstanding:

Area outstanding	Work to be completed
Pensions assurance from the Pension Fund auditor	We have not yet received and reviewed the required assurance from the auditors of Tyne and Wear Pension Fund (Ernst & Young) over pension-related entries.
Closure procedures	Review and closure processes, including final consideration of post balance sheet events, checking the revised financial statements.

We will provide an update on these outstanding matters in the form of a follow-up letter to Members of the Council.

Subject to the satisfactory conclusion of the remaining audit work, we anticipate:

- issuing an unqualified opinion, without modification, on your financial statements; and
- concluding you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

We also anticipate completing our work in respect of your Whole of Government Accounts submission in line with the group instructions issued by the National Audit Office by the deadline of 21 October 2016. Our proposed audit report is set out in Appendix B.

02 Commentary on the financial statements

Comprehensive Income and Expenditure Statement (CIES)

The CIES shows the cost of providing services, prepared in accordance with the Code of Practice on Local Authority Accounting in the UK 2015/16. The statement shows a deficit for the year of £16.6m (2014/15 surplus of £34.8m). As with other local authorities, the statement differs from the Council's reported performance on its revenue budget for the year because of items of expenditure which are correctly charged to CIES under accounting rules but are not charged to the General Fund under statute. The Council's performance against its revenue budget is set out in the Narrative Report to the financial statements in the format of the Council Tax leaflet. The actual outturn for the year, as reported to Cabinet, was an underspend of £1.6m which has been transferred to reserves. Disclosure note 4, amounts reported for resource allocation decisions, is in a format more akin to that reported to Cabinet.

After the surplus or deficit for the year, the CIES then accounts for other items, primarily the gains or losses arising from the revaluation of Property, Plant and Equipment and an actuarial adjustment in respect of the defined benefit liability for pensions to arrive at the total comprehensive income and expenditure reported. Historically, pension adjustments show marked significant movements, due to the complex interaction of actuarial assumptions.

Movements in Reserves Statement (MIRS)

The MIRS takes the deficit on the provision of services of £16.6m, and adjusts it for the entries in the CIES that were required under accounting rules, but which are not chargeable to the General Fund under statute. Note 3 sets out the adjustments between the accounting basis and the funding basis.

The MIRS statement culminates in the closing balance on each reserve. Total Usable Reserves represent real resources available to the Council, whereas Unusable Reserves do not. Between 31 March 2015 and 31 March 2016 Usable Reserves increased from £87.8m to £88.9m. Included within Usable Reserves is the General Fund balance, which is available to meet unforeseen circumstances, which remained at the Council's policy level of £6.6m.

Note 30 to the financial statements sets out the Council's Usable Reserves in more detail, showing that £54.3m (£46m as at 31 March 2015) is held in Earmarked Reserves (including HRA reserves totalling £15.6m). Although these reserves are earmarked and in some cases, ring-fenced for specific purposes, they do provide the Council with some flexibility in managing in the current challenging financial environment. Total Usable reserves of £88.9m contain:

- General Fund balances of £13.6m (£14.2m as at 31 March 2015);
- Earmarked balances of £59.6m (£53.4m as at 31 March 2015);
- Housing Revenue Account reserve: £4.4m (£3.7m as at 31 March 2015); and
- Other reserves (capital receipts, major repairs and capital grants unapplied) of £11.4m (£16.4m as at 31 March 2015).

Housing Revenue Account (HRA)

The HRA shows the financial performance of the Council's ring-fenced housing provision. The statement shows a deficit on HRA services of £11.1m (surplus of £34.1m 2014/15). As with the CIES, this position differs from the Council's reported performance on the HRA because of items of expenditure which are correctly charged under accounting rules but are not charged to the HRA under statute. The outturn position representing a net underspend on the revenue budget for 2015/16 of £0.7m (2014/15 £0.7m). The overall HRA balance increased from £3.7m to £4.4m.

Collection Fund

The Collection Fund sets out the transactions in relation to the collection from taxpayers and distribution of council tax and non-domestic rates. For 2015/16, this statement shows a surplus of £2.5m (2014/15 deficit of £1.0m).

Capital expenditure

The Council's capital programme aims to ensure that North Tyneside has the assets and infrastructure it needs, within the limits of affordability. Capital expenditure in 2015/16 was £98.3m (£88.6m 2014/15), and £26.6m (£23.0m 2014/15) of this was financed from capital grants and contributions.

Balance sheet

The balance sheet shows the value of the Council's assets and liabilities on a single date at the year-end. It shows the Council's net assets of £198.1m (£173.9m as at 31 March 2015). As set out in the Council's Narrative Report, the main reason for the increase is due to reduced long-term liabilities, as a result of a fall in long-term borrowing as well as the pension liability. The latter is historically subject to significant fluctuations as a result of the interaction of the actuarial assumptions. The Council's net assets are matched by reserves which comprise both Usable (£88.9m) and Unusable (£109.1m) reserves.

03 Significant findings

Set out below are the significant findings from our audit. These findings include:

- our audit conclusions regarding the significant risks outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 7 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year; and
- any significant difficulties we experienced during the audit.

Significant risks

Management override of controls

Description of the risk

In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.

How we addressed this risk

We addressed this risk through performing audit work over:

- accounting estimates impacting amounts included in the financial statements;
- consideration of identified significant transactions outside the normal course of business; and
- journals recorded in the general ledger and other adjustments made in preparation of the financial statements.

We updated our understanding and evaluation of internal control processes and procedures as part of our audit planning, including completion of a fraud risk assessment. We also obtained information from the Audit Committee and management on processes for assessing the risk of fraud in the financial statements and arrangements in place to identify, respond to and report fraud.

Audit conclusion

Our work has provided the assurance we sought and has not highlighted any significant issues to bring to your attention, other than the internal control recommendations detailed further in this report.

Revenue recognition

Description of the risk

There is an inherent risk of fraud in financial reporting relating to the recognition of revenue due to the potential to inappropriately record revenue in the wrong period. The Council relies on income as part of its medium-term financial strategy.

How we addressed this risk

We performed audit procedures on:

- journals recorded in the general ledger and other adjustments which recognise income, made in the preparation of the financial statements;
- a sample of income to confirm it has been accounted for in the correct accounting period; and
- the year-end reconciliation for receivables to the ledger.

Revenue recognition

Audit conclusion

Our work has provided the assurance we sought and has not highlighted any significant issues to bring to your attention, other than the internal control recommendations detailed further in this report.

Pension transactions and balances

Description of the risk

The financial statements contain material entries in a number of primary statements as well as material disclosure notes in relation to the Council's participation in the Local Government Pension Scheme. These entries arise from complex estimates used by the Council's Actuary as well as information provided to the Actuary by the Council. This results in an increased risk of material misstatement.

How we addressed this risk

We:

- evaluated the Council's arrangements (including relevant controls) for making estimates; and
- considered the reasonableness of the Actuary's assumptions that underpin the relevant entries made by the Council in its financial statements, through the use of an expert commissioned by the National Audit Office.

We also liaised with the auditors of Tyne and Wear Pension Fund (EY) and carried out procedures as appropriate.

Audit conclusion

Subject to review of the response from the local government pension scheme auditor EY, our audit has provided the assurance we sought and has not highlighted any significant issues to bring to your attention.

Property, plant and equipment – valuation

Description of the risk

The financial statements contain material entries in respect of property, plant and equipment as well as material disclosure notes, with the previous audit identifying a material error in respect of council dwellings. We have therefore assessed there is a risk of misstatement in relation to the valuation of property, plant and equipment, in addition to accounting changes relating to fair values this year (IFRS 13).

How we addressed this risk

We:

- challenged the assumptions used by the Valuer in his valuation report;
- compared the valuations used by the Council against local valuation trends, through the use of an expert commissioned by the National Audit Office; and
- substantively tested the valuation of property, plant and equipment.

Audit conclusion

Our work has provided the assurance we sought and has not highlighted any significant issues to bring to your attention other than the matters detailed further in this report (unadjusted misstatements and internal control recommendation).

Accounting policies and disclosures

We have reviewed the Council's accounting policies and disclosures and concluded they comply with the requirements of the Code of Practice on Local Authority Accounting.

Ahead of the earlier closedown for local government in 2017/18, the Council has continued to streamline the financial statements, removing non-material accounting policies and disclosures. We made a small number of recommendations to enhance and clarify policies and disclosures as part of our audit work, including the addition of a policy in respect of the Better Care Fund (pooled budgets).

For 2015/16, the underlying guidance included revised requirements for the Explanatory Foreword (now entitled 'Narrative Report'). These requirements included a recommendation to include non-financial as well as financial data. The Council has updated its Foreword to reflect the requirements of the new Narrative Report although there remains scope to enhance the non-financial performance data included. We also recommended the Council clarify the financial outturn for the year reported in this section.

Significant difficulties during the audit

During the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management, with regular update meetings throughout the audit period which facilitates our audit work.

The Council has an action plan in place to prepare for the earlier closedown; we will continue to work with the Council over the coming year to identify areas where processes could be streamlined, in particular the timeliness of responses for our sample testing and the clarity of working papers for key areas such as the Collection Fund (NNDR).

Electors' rights to inspect the accounts

The Accounts and Audit (England) Regulations 2015 ('the regulations'), introduced new requirements in respect of publishing the financial statements and the period within which local electors may raise questions on the financial statements or make an objection to an item of account. For 2015/16 the Council set this period as 1 July to 11 August 2016. We received no questions or objections within this period.

04 Internal control recommendations

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we considered the internal controls in place relevant to the preparation of the financial statements in order to design audit procedures to allow us to express an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

We have not identified any significant deficiencies as a result of our work this year that we need to bring to your attention.

Internal control recommendations

We have identified a number of internal control recommendations in respect of:

1. Members interests: ensuring changes to interests are declared within 28 days as required by the Code of Conduct;
2. Adult Social Care: ensuring there is adequate evidence to support rates paid for care;
3. Property, Plant and Equipment: Valuer's judgement;
4. Private Finance Initiative: retention monies;
5. Cut-off testing: recommendation arising from testing;
6. Property: ensuring there is a signed tenancy agreement in place; and
7. Journals: maintaining an audit log of deleted journals.

These are detailed below.

1. Members' interest – compliance with Code of conduct for changes in interests

Description of the deficiency

Testing of related party disclosures identified that Members' declarations of interests were not up-to-date, with the Code of Conduct requiring any changes to be notified within 28 days.

Potential effect

Non-compliance with the Code of Conduct. As set out in the Code, failure to disclose, without reasonable excuse or to register a Disclosable Pecuniary Interest is a criminal offence under section 34 of the Localism Act. Risk of incomplete disclosures in the financial statements.

Recommendation

A reminder should be sent to all Members to ensure they declare changes to interests (in particular at the start of each new year and after new appointments are made) as per the underlying Code at least annually. Reminders on the importance of interest should be built into any on-going training. We understand Internal Audit work is on-going in this area.

Management response

Management will ensure that this recommendation is put in place. The requirement placed upon Members to update their Register of Interests and the significance of any failure to do so forms part of the training on the Code of Conduct. Members are also reminded of the need to do so at other times. The use of the Register of Interests to identify any related party transactions has previously been acceptable to external audit but a need to provide more robust governance arrangements is accepted. As a result the mechanism for identifying any related party transactions will now revert to an annual return from each Member.

2. Adult social care – care plans and inadequate evidence to support rates paid

Description of the deficiency

Sample testing of adult social care expenditure identified several cases where the rate paid for support by the Council did not agree to the underlying care plan and there was inadequate evidence to support the rate paid. While our sample testing did not identify errors above the trivial level, we consider there is scope for a better internal audit trail to support rates paid.

Potential effect

The Council may be paying the incorrect rate. Risk of financial loss or additional expenditure being incurred.

Recommendation

Controls in place should be strengthened to ensure there is a clear audit trail retained to support changes in rates paid for client support. The Council may wish to consider carrying out a wider exercise to determine if there are other cases where the rates are not supported by adequate evidence.

Management response

Management will request Internal Audit to carry out a review of this area to ensure the controls are operating effectively and are strengthened where required.

3. Property, plant and equipment: Valuer's judgement

Description of the deficiency

Testing of the revaluation of schools identified an inconsistency in the specialised basis of valuation used for high schools between years; the impact of this error has been included in the Summary of Misstatements.

Potential effect

Misstatement of Property, Plant and Equipment.

Recommendation

Acknowledging the Valuer's judgement is a key determinant in arriving at valuations, there should be consistency in the application of specific valuation bases (e.g. for schools) between years, regardless of whether there is a change in the Valuer. The Council's internal controls should include appropriate checks to ensure this happens.

Management response

Management will ensure that all valuations are reviewed for consistency and appropriate evidence of judgements made is available.

4. Private Finance Initiative: retention monies

Description of the deficiency

Testing of Private Finance Initiative (PFI) expenditure identified that retention monies were not fully taken into account; the impact of this error is included in the Summary of Misstatements.

Potential effect

Misstatement of Property, Plant and Equipment (Private Finance Initiative)

Recommendation

Ensure retention monies are taken into account in the calculation of Housing PFI expenditure in future years.

Management response

Management will ensure that the recommendation is put in place.

5. Cut-off testing: receipts and payments

Description of the deficiency

Testing of receipts identified an extrapolated error in relation to business rates just below triviality, namely the understatement of 15/16 business rates prepayments. Whilst just below triviality, we recommend controls in this area are reviewed for future years. A trivial error was also identified from our testing of payments, in relation to benefit payments and refunds included in the wrong year.

Potential effect

Misstatement of income and expenditure.

Recommendation

Review the calculation of business rates prepayments in future years to ensure this error is not replicated. Ensure benefit payments and refunds are included in the correct year.

Management response

Management will ensure that the recommendation is put in place.

6. Property – signed tenancy agreement not in place

Description of the deficiency

Sample testing of income identified a property transferred from Tyne and Wear Development company several years ago for which there is no signed tenancy agreement in place.

Potential effect

No formal agreement of rent charges with tenants could lead to disputes over rent.

Recommendation

Ensure there is a signed tenancy agreement in place for all properties.

Management response

Management will endeavour to ensure that there is a signed tenancy agreement in place for all properties

7. Journals: lack of audit trail for deleted journals

Description of the deficiency

Prior to journals being posted to the General Ledger (but after the 'initial' posting), they can be deleted, resulting in a gap in the sequential numbering of journals.

Our audit testing identified three journals which had been deleted. There were valid explanations and evidence for deletion of two of these journals (being duplicate journals), however there was no evidence to support one journal. It is clear this deleted journal was not posted, therefore there is no risk of material error, however an audit trail must be maintained where journals are deleted, to maintain the integrity of the sequential numbering.

Potential effect

Lack of audit trail; journals are a key control within the General Ledger.

Recommendation

Ensure an audit trail is maintained of deleted journals.

Management response

This recommendation has now been implemented

IT audit review

The objective of this work was to evaluate the controls in place over the IT environment (applications and underlying infrastructure) by:

- understanding the IT environment, applications, interfaces and related controls; and
- assessing the design and operating effectiveness of the controls in place over the main processes:
 - physical security;
 - backup and disaster recovery;
 - access management; and
 - change management.

Our work concluded that reliance can be placed on the IT General Controls operating over the systems identified as material for the 2015/16 financial audit and the underlying infrastructure. No significant issues were identified that could have an impact on the financial accounts. As part of our work we followed-up recommendations made as part of our previous year IT audit review which we found to have been appropriately addressed, and made several improvement recommendations as set out below.

IT audit review – security (leavers process)

Description of the deficiency

Sample testing of leavers identified 3 out of 25 leavers have not been disabled from Northgate (one leaver) or Swift (two leavers) systems. All tested leavers had been disabled from the Active Directory and our review of the last log-on date provided assurance they had not logged on after leaving.

Potential effect

Unauthorised access to the Council's programs may compromise the confidentiality and integrity of information.

Recommendation

Ensure all leavers are disabled from all the systems.

Management response

Management will ensure that the recommendation is put in place. We will review the leavers process and ensure that due diligence is applied for all systems access. We would expect this to be in place already so the review is welcomed as it has identified some current gaps in processes.

IT audit review – security (Axis Income Management periodic user review)

Description of the deficiency

No evidence supporting the Axis Income Management (AIM) periodic user review for the audit period was identified at the time of our review. We obtained assurance from other testing including privileged access.

Potential effect

Unauthorised access to the Council's programs may compromise the confidentiality and integrity of data.

Recommendation

Review users at least annually, including, but not limited to:

- privileged access;
- accounts that have not been used for a certain period of time (e.g. 90 days); and
- generic accounts.

Management response

Management will ensure that the recommendation is put in place.

05 Summary of misstatements

We set out below the misstatements identified during the course of the audit.

The first table outlines the non-trivial misstatements that were identified during the course of our audit for adjustment. Management has assessed these as not being material either individually or in aggregate to the financial statements and does not currently plan to adjust (and for which specific representation will be required in the management letter of representation set out in Appendix A).

None of the adjusted misstatements identified during the audit would result in a change to the Council's underlying financial position; there are no material unadjusted misstatements.

Unadjusted misstatements 2015/16

	CIES		Balance Sheet	
	Dr £000	Cr £000	Dr £000	Cr £000
1	Dr: Property, Plant and Equipment - Council Dwellings		387	
	Cr: CIES – surplus on revaluation of non-current assets	387		
Being error in calculation of revaluation of property, plant and equipment (PPE) brought into use, resulting in understatement of PPE.				
2	Dr: Property, Plant and Equipment – Housing PFI		2,261	
	Cr: PFI Creditors			2,261
Being estimated error in calculation of the housing PFI expenditure for the year in relation to the exclusion from total expenditure of retention amounts.				
3	Dr: CIES – all headings (excluding HRA and non-distributed costs)	831		
	Cr: CIES – non-distributed costs		831	
Being incorrect adjustment for pension costs (when reversing out pension charges as required to replace with actual pension charges as required under statute) impacting on allocation between lines only (no net impact).				
4	Dr: CIES - surplus on revaluation of non-current assets		621	
	Dr: Revaluation Reserve		3,618	
	Cr: Property, Plant and Equipment			4,239
Being error in valuation of schools as a result of a different valuation index being used in 2015/16 which highlighted a different basis used in previous years, resulting in an overstatement of schools net book value.				

Disclosure amendments - adjusted

The financial statements have been amended for a number of other minor errors, omissions, clarifications and typographical errors. The main disclosure note misstatements identified during the course of the audit are outlined below, all of which have been amended by management.

Disclosure note	Amendment
Note 4 Amounts Reported for Resource Allocation Decisions	Amendment to first table to remove schools' income and expenditure already included (both years, no net impact). Minor amendment to second table to ensure consistency with final table.
Note 14 Members' Allowances and Expenses	Minor amendment of £0.019m to the total basic allowance disclosed due to omission of two Members.
Note 15 Related Party Transactions	Minor amendment to disclosures as well as additional disclosure in respect of the North East Combined Authority.
Note 16 Audit Costs	Minor amendments to non-audit fee work (in respect of grant assurance work).
Note 37 Financial Instruments	Several amendments including update of narrative and amendment of the 2014/15 debtor by £6.072m to exclude income in advance.

Disclosure amendments - unadjusted

Disclosure note	Amendment
Note 7 Leasing – operating leases: Authority as Lessor	Extrapolated overstatement of minimum lease payments 'due after year 5' by £0.792m. No impact on primary statements.

06 Value for money

Overall conclusion

We are required to reach a conclusion on whether the Council has arrangements in place to secure value for money (VfM) in its use of resources, based on the criterion specified by the National Audit Office: *'in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people'*.

On the basis of our work, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016. We intend to issue an unqualified VfM conclusion as set out in Appendix B.

Significant risk to VfM

In the Audit Strategy Memorandum we identified one significant risk relevant to our VfM review. We detail below how we addressed this risk and our conclusion.

VfM significant risk – level of savings required

Description of the risk

The Council is facing continuing financial pressures from reduced funding, increased demand and changing responsibilities. The Council is responding to these challenges via a programme of efficiencies, service reviews and developing new ways to manage demand and deliver services, encapsulated in its 'Target Operating Model' and 'Creating a Brighter Future' programme.

The latest medium-term financial strategy forecasts the need to make savings of £14.158 million in 2015/16, as well as a further £15.737 million in 2016/17. In addition, the Council needs to make further savings of £23.598 million in 2017/18 and £16.533 million in 2018/19 in order to deliver a balanced budget.

The level of savings the Council needs to achieve over the period of its medium-term financial strategy, on top of savings already achieved in recent years, represents a significant risk to the value for money conclusion.

How we addressed this risk

We carried out audit procedures reviewing the robustness of:

- the medium-term financial strategy;
- budget monitoring reports and other finance updates; and
- a sample of the savings plans and underlying assumptions to their delivery.

Audit findings

Medium-term financial strategy

The Council approved an updated medium-term financial strategy (MTFS) in February 2016, covering 2016-2019, based on the refreshed 'Our North Tyneside' strategic plan and building on the previous year's MTFS. The latest MTFS sets out the key challenges and risks facing the Council in delivering its refreshed transformation plan "Creating a Brighter Future", which is predicated on the continued development of the 'Target Operating Model' in the coming years.

In light of the financial challenges facing the Council, the budget for 2016/17 included a 2% "Adult Social Care Precept" to fund Adult Social Care and a general 2% increase in Council Tax. The MTFS sets out the principles adopted for each area, such as Council Tax, Housing and Welfare Reform, commercial opportunities, and revenue income generation (e.g. applying a charging policy consistently across all services). The MTFS includes achievement of savings of £15.737m, £23.598m and £16.533m over the coming three years.

In developing its MTFS, the Council has taken into account other relevant factors e.g. its use of service organisations (CAPITA, Engie and Kier) and the latest changes impacting on pension funds (namely their pooling). Strengthening performance management and obtaining value for money in respect of the CAPITA partnership is referred to later in this report.

VfM significant risk – level of savings required

The Council has also considered relevant risks e.g. the risk of savings not being fully deliverable. For this risk, the Council sets out its in-year monitoring of the savings programme which allows for corrective action to be taken. As part of revising the MTFS, an updated Reserves and Balances policy was agreed as expected; it is for the Council to determine an appropriate General Fund balance to maintain. For 2015/16, the Council has assessed the previous year balance of £6.6m remains appropriate.

We considered the robustness of the MTFS as a whole, critically challenging the assumptions it has been based on. Overall, our assessment is that the MTFS is robust, subject to the deliverability of the planned savings, which the Council itself acknowledges is a key financial risk to monitor. This is in addition to other risks which require careful monitoring and further work in the coming years e.g. the HRA business plan and the potential impact of welfare reform on rent collection. Other challenges include the Better Care Fund.

The Council is aware it needs to keep its MTFS under review, in light of known key financial risks as well as any emerging ones (e.g. any risks associated with the Accountable Care Organisation) and that each year should not be taken in isolation, but future years' needs and pressures kept under review. Strong underlying budget monitoring remains crucial to the overall resilience of the Council.

Budget monitoring reports and other finance updates

The Council has continued to report regularly on its financial performance to both Cabinet and the Finance sub-Committee. The 2015/16 outturn was an overall net underspend of £1.6m; underspends at the year-end included amounts relating to a reduction in borrowing due to the reliance on internal borrowing, which the Council recognises is not a sustainable strategy.

The latest budget monitoring report to Cabinet in September 2016 highlights early significant financial pressures as at the end of July 2016 which will require close monitoring and underline the scale of financial challenges ahead. We note the Member and Officer working group which has been set up to review and address the overspend.

Savings plans

As highlighted above, the Council's Medium-Term Financial Strategy and overall resilience of the Council is based on the achievement of targeted savings each year. Recognising this, the Council reports regularly on its saving programme via regular reports to Cabinet, which show progress against each savings area.

We reviewed a sample of savings in order to assess the reasonableness of plans in place and their deliverability. Overall, we obtained appropriate evidence to support the savings being projected. We looked back at 2015/16 savings and their achievement as well as a forward look at 2016/17 and future years savings. Inevitably, at this stage, future years plans (post 2016/17) are not fully developed; it is important due focus is maintained on agreeing these in time to meet the relevant deadlines for savings to have been made. In respect of 2016/17 savings, overall, our testing did not identify any significant issues.

In the latest progress report to Cabinet in September 2016, the Council reported efficiency savings not yet confirmed totalling £1.3m and that risks remain in respect of some of the projects as savings are only considered to be achieved once they are assessed as being realisable. The Council's assertion is that the majority of savings will be delivered as plans are in place but that close monitoring is required during the year.

Audit conclusion

Our work has provided the assurance we sought and has not highlighted any significant issues to bring to your attention.

The scale of financial challenges facing the Council is increasing each year. A robust Medium-Term Financial Strategy is in place, predicated upon the achievement of targeted savings linked to the Council's transformation programme.

The Council is well aware that it needs to maintain a focus on robust underlying budget management as well as monitoring the achievement of savings and developing plans for future years' savings. As well as monitoring known pressures and financial risk areas, there are also emerging risks such as the impact of the new Accountable Care Organisation.

VfM commentary

The following paragraphs set out commentary from our VfM review, against the sub-criteria of the guidance issued by the National Audit Office supporting the overall criterion, as set out below.

VfM sub-criteria	Description
Informed decision-making	Financial and performance information and reliable and timely financial reporting. Managing risks effectively and maintaining a sound system of internal control.
Sustainable resource deployment	Effective planning of finances. Organisational development.
Working with partners and other third parties	Working with third parties effectively. Commissioning services effectively.

Informed decision-making

Financial and performance information and reliable and timely financial reporting

The Council has continued to regularly report on its financial performance via regular reports to Cabinet and the Finance sub-committee.

Councils are large organisations covering multiple services; inevitably gaining an overview of the financial performance is difficult. The Council's finance reports contain a summary of financial performance, which is crucial to facilitate Members oversight of financial performance and this clarity will be increasingly important in the coming year as financial pressures emerge.

The Council's performance is reported to Cabinet by way of regular updates on the recently refreshed 'Our North Tyneside Plan'. The Overview and Scrutiny Committee also receives updates on the 'Our North Tyneside Plan' and challenges officers on performance where appropriate. The March 2016 performance update to Cabinet highlighted the challenge by Members on how levels of deprivation were being addressed, with resulting action by way of a pilot in several wards.

The above strategic performance reporting is supplemented by service-level reporting.

Included within the finance reports are regular updates on the 'Creating a Brighter Future' Council-wide transformation Plan which we have commented on earlier in this section.

As noted from the most recent finance report (September 2016), the financial pressures on the Council are increasing. The Council is well aware of this and recognises the need to maintain robust budget monitoring and regularly report on its financial performance along with taking corrective action when required.

Managing risks effectively and maintaining a sound system of internal control

The Council's governance framework is set out in its Annual Governance Statement (published as part of its Annual Report including financial statements) along with how the effectiveness of that framework is reviewed throughout the year.

The Council has received an overall 'satisfactory' internal audit opinion for 2015/16, with two limited assurance reports in respect of street lighting PFI and information governance. A comprehensive internal audit plan is in place which takes into account the strategic priorities of the Council. There is appropriate challenge by the Audit Committee over coverage and risk areas.

Regular risk management reports are presented to Members.

Sustainable resource deployment

Effective planning of finances

The Council approved a balanced budget in its latest refresh of its Medium-Term Financial Strategy (MTFS) earlier this year. Our consideration of the robustness of the MTFS is set out earlier in this report.

Organisational development

The Council recognises the importance of a robust workforce strategy and having a sustainable workforce in the future to support its strategic priorities, which may be increasingly made up of a mix of public, private and voluntary support. Separate strategies are in place for key areas, such as Children's for which the Council has invested in a variety of programmes, partnerships and initiatives that aim to create an environment in which its workforce can flourish; through learning, supporting and challenge.

The demands of coming years, will challenge the Council in sustaining a fit-for-purpose workforce.

Working with partners and other third parties

Working with third parties effectively

The Council is party to an increasingly wide range of partnerships and recognises the importance of these in delivering on its objectives. Its Annual Governance Statement highlights partnerships as a potential governance issue to be closely monitored and the need to continue to embed and review partnership governance arrangements, as well as ensuring boundaries and responsibilities remain clear and are robustly managed.

Given the use of service organisations, the Council's financial and performance reporting includes updates on its key partnerships with Capita, Engie and Kier, supported by the monthly Operational Partnership Board. Most recently, the Council has carried out work to refine the partnership with Capita so as to ensure value for money is maximised in the future.

2015/16 was the first year of the Better Care Fund Pooled Budget for North Tyneside and there were pressures in respect of the Clinical Commissioning Group's (CCG) own financial pressures. Successful delivery of the Better Care Fund is important as part of expanded joint working that will be necessary in order to deliver the new NHS system-wide Sustainability and Transformation Plans.

Most recently, the Council is working with the CCG and other NHS partners in respect of the new Accountable Care Organisation (ACO), with due diligence work being carried out over the summer. The Council is well aware that understanding the implications of the new ACO and how the governance arrangements will actually work is crucial to its ultimate success.

Commissioning services effectively

Fundamental to the Council's overall future state is the Creating a Brighter Future transformation programme, underpinned by the establishment of a 'Target Operating Model' which is central to ensuring the Council's structure is fit-for-purpose in the future and that it can commission services effectively. Fully setting out this target operating model is a significant task which requires breaking down services and critically examining (and challenging) what is needed; this work is in progress.

Overall assessment

Having gathered evidence of the Council's arrangements we conducted a 'reality check', building upon our existing knowledge of the Council and in particular:

- reports by statutory inspectorates or other regulators;
- achievement of performance and other targets; and
- performance against budgets and other financial targets.

Our 'reality check' has not highlighted any new risks relevant to our responsibilities.

Based on the above reality check and overall assessment, there are no matters arising from our VfM work we need to report.

Appendix A – draft management representation letter

To be provided to us on headed note paper

22 September 2016

Dear Mr Davies

North Tyneside Council - audit for year ended 31 March 2016

This representation letter is provided in connection with your audit of the financial statements for North Tyneside Council for the year ended 31 March 2016 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

I confirm the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

My responsibility for the financial statements and accounting information

I believe I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Council you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Head of Finance I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.

As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records

I confirm all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Cabinet and other Committee meetings, have been made available to you.

Accounting policies

I confirm I have reviewed the accounting policies applied during the year in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Council's financial position, financial performance and cash flows.

Accounting estimates, including those measured at fair value

I confirm any significant assumptions used by the Council in making accounting estimates, including those measured at fair value, are reasonable.

Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Council have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing

the financial statements have been disclosed to you and accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Laws and regulations

I confirm I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

Fraud and error

I acknowledge my responsibility as Head of Finance for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Council involving:
 - management and those charged with governance;
 - employees who have significant roles in internal control; and
 - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, analysts, regulators or others.

Related party transactions

I confirm all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

I have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which I am aware.

Impairment review

To the best of my knowledge, there is nothing to indicate there is a permanent reduction in the recoverable amount of property, plant and equipment below their carrying value at the balance sheet date. A further impairment review is therefore not considered necessary.

Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Service Concession Arrangements

I am not aware of any material contract variations, payment deductions or additional service charges in 2015/16 in relation to the Council's PFI schemes that you have not been made aware of.

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Going concern

To the best of my knowledge there is nothing to indicate that the Council will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Unadjusted misstatements

I confirm the effects of the uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to this letter as an Appendix.

Yours faithfully for and on behalf of North Tyneside Council

Janice Gillespie
Head of Finance

Letter of representation appendix – unadjusted misstatements

Unadjusted misstatements 2015/16				
	CIES		Balance Sheet	
	Dr £000	Cr £000	Dr £000	Cr £000
1	Dr: Property, Plant and Equipment - Council Dwellings		387	
	Cr: CIES – surplus on revaluation of non-current assets	387		
Being error in calculation of revaluation of property, plant and equipment (PPE) brought into use, resulting in understatement of PPE.				
2	Dr: Property, Plant and Equipment – Housing PFI		2,261	
	Cr: PFI Creditors			2,261
Being estimated error in calculation of the housing PFI expenditure for the year in relation to the exclusion from total expenditure of retention amounts.				
3	Dr: CIES – all headings (excluding HRA and non-distributed costs)	831		
	Cr: CIES – non-distributed costs		831	
Being incorrect adjustment for pension costs (when reversing out pension charges as required to replace with actual pension charges as required under statute) impacting on allocation between lines only (no net impact).				
4	Dr: CIES - surplus on revaluation of non-current assets		621	
	Dr: Revaluation Reserve		3,618	
	Cr: Property, Plant and Equipment			4,239
Being error in valuation of schools as a result of a different valuation index being used in 2015/16 which highlighted a different basis used in previous years, resulting in an overstatement of schools net book value.				

Disclosure amendments - unadjusted

Disclosure note	Amendment
Note 7 Leasing – operating leases: Authority as Lessor	Extrapolated overstatement of minimum lease payments 'due after year 5' by £0.792m. No impact on primary statements.

Appendix B – draft audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NORTH TYNESIDE COUNCIL

Opinion on the Council's financial statements

We have audited the financial statements of North Tyneside Council for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014. The financial statements comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of North Tyneside Council in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Members of the Council as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Head of Finance and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Head of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of North Tyneside Council as at 31 March 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Opinion on other matters

In our opinion, the information given in the Narrative Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007 and the December 2012 addendum;
- we issue a report in the public interest under section 24, schedule 7 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24, schedule 7 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Council and the auditor

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under section 20 of the Local Audit and Accountability Act 2014 to satisfy ourselves the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the National Audit Office.

We report if significant matters have come to our attention which prevent us from concluding the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required to conclude whether the Council has put in place arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We have planned and undertaken our work in accordance with the Code of Audit Practice as issued by the National Audit Office and had regard to relevant guidance. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion published by the National Audit Office, we are satisfied that, in all significant respects, North Tyneside Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts consolidation pack. We are satisfied this work does not have a material effect on the financial statements or on our value for money conclusion.

Gareth Davies
Partner
For and on behalf of Mazars LLP

The Rivergreen Centre
Aykley Heads
Durham, DH1 5TS

Appendix C – materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole.

Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assumed that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We considered materiality whilst planning and performing our audit.

Whilst planning, we made judgements about the size of misstatements which we considered to be material and which provided a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures. In 2015/16 we set materiality at the planning stage at £6.604 million (being capped at the level of the General Fund balance) with a clearly trivial threshold of £0.198m below which identified errors will not usually be reported. We set lower materiality levels for the accounting entries we consider to be more sensitive, for example, senior officer's remuneration, as we considered these items to be of specific interest to users of the accounts sufficient to warrant audit procedures which would not otherwise be applied based on the materiality level for the audit as a whole. The materiality determined at the planning stage did not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, would be considered as immaterial.

We revised materiality for the financial statements as our audit progressed. Our closing assessment of materiality in 2015/16, based upon the final version of the financial statements, remained unchanged (as the level of the General Fund balance did not change).

We discussed with management any significant misstatements or anomalies that we identified during the course of the audit and we reported in our Audit Completion Report all unadjusted misstatements we identified other than those which were clearly trivial, and obtained written representation that explained why these remain unadjusted.

Appendix D – independence

As part of our on-going risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm no new threats to independence have been identified since issuing our Audit Strategy Memorandum (which detailed potential threats, which remain unchanged, in respect of grant assurance and certification work) and therefore we remain independent.

Whilst no new threats to independence have been highlighted, for completeness, we highlight to you that the Council-owned North Tyneside Trading companies have appointed Mazars LLP to carry out the external audit of their financial statements for 2015/16. The value of this work is £3,500 and we have assessed there are no threats to our independence as a result of this work.