

Leicester, Leicestershire and Rutland Combined Fire Authority

2008/09 Annual Audit Letter



The Members of Leicester, Leicestershire and Rutland Combined Fire Authority
Headquarters
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20 November 2009

Ladies and Gentlemen

We are pleased to present our Annual Audit Letter summarising the results of our 2008/09 audit. We look forward to presenting it to members on 13 January 2010.

Yours faithfully

PricewaterhouseCoopers LLP
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Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies

In April 2008 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

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Executive Summary

The purpose of this letter

The purpose of this letter is to provide a high level summary of the results of the 2008/09 audit work we have undertaken at Leicester, Leicestershire and Rutland Combined Fire Authority that is accessible for members and other interested stakeholders.

We have already reported the detailed findings from our audit work to those charged with governance in the following reports

- Audit opinion for 2008/09 financial statements, incorporating the conclusion on Use of Resources
- Report to those charged with Governance (ISA (UK&I) 260)

The matters reported here are those that we consider are most significant for the Authority.

Scope of work

Our audit work is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The Authority is responsible for preparing and publishing its financial statements, including the Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy,

efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- forming an opinion on the financial statements;
- reviewing the Authority's Annual Governance Statement;
- forming a conclusion on the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources; and
- undertaking any other work specified by the Audit Commission.

Our 2008/09 audit work has been undertaken in accordance with the Audit Plan that we issued on 25 June 2008.

Audit Findings

We audited the Authority's accounts in line with approved Auditing Standards and issued an unqualified audit report on 30 September 2009.

We did not identify any material weaknesses in the Authority's accounting and internal control systems during the audit.

The Authority already faces a number of financial challenges and there is every likelihood that following the general election in 2010 further significant cuts in public sector expenditure will have to be made.

The new use of resources framework forms part of the Comprehensive Area Assessment (CAA). We evaluated the arrangements against criteria set by the Audit Commission and reached a score of 2 (performs adequately) for each of the three areas under assessment (namely managing finances, governing the business and managing resources). It is important to note that although the one to four scoring definition is the same as that used in previous years, the underlying assessment methodology is fundamentally different. A score under the old use of resources system cannot therefore be compared to a score under the new system. There is no like for like comparison.

We issued an unqualified conclusion on the Authority's arrangements for its Use of Resources on 30 September 2009.

Summary of Recommendations

We have made a number of minor control recommendations to the Authority during the year within our interim controls report and ISA260 report. We have not repeated these in this document. In our view the key recommendations for the Authority to consider are:

- In the context of its medium term financial challenges the Authority should continue to focus on the following areas:
 - Sound financial management and keeping to budgets, in spite of service pressures;
 - Achieving the significant savings targets identified in the savings programme;
 - Improving and modernising services, making them more efficient and affordable;

- Sound management of the Authority's significant capital programme;
- Effective delivery of the new integrated financial management system;
- Collaborative partnership working with neighbouring Fire Authorities to maximise efficiencies
- During the course of our Use of Resources assessment work we have identified a number of areas for development, the most significant of which are summarised in this report. It is important that the Authority develops an action plan to take the development areas forward.

Audit findings

Accounts

We audited the Authority's accounts in line with approved Auditing Standards and issued an unqualified audit report on 30 September 2009.

Unadjusted Differences

There were no unadjusted misstatements for us to bring to the attention of members of the Audit Committee.

Adjusted Differences

We identified the following material misstatements from our audit of the accounts, which were subsequently adjusted:

- reclassification of 'capital expenditure not increasing value' to assets under construction
- inclusion of a fixed asset impairment to bring asset values in line with the market

During the course of our work we also identified a small number of immaterial errors and disclosure matters in the Authority's draft accounts, which were subsequently amended.

The net effect of all adjustments on the draft accounts can be summarised as

follows:

- £1.7 million decrease in the Authority's net assets position
- £0.42 million decrease in the Authority's deficit for the year (as set out on the face of the Income and Expenditure Account)
- £0.16 million decrease in the General Fund Balance.

Systems of internal control

We are required to report to you any material weaknesses in the accounting and internal control systems identified during the audit. We are pleased to report that we have not identified any such material weaknesses during the course of our audit procedures.

Financial Standing

Current Financial Performance

The Authority reported an in year deficit of £13.2 million in the Income and Expenditure Account for 2008/09. After adjusting for statutory accounting and carrying forward £0.8 million of resources to 2009/10, the Authority increased its General Fund balance by £0.5 million. The General Fund balance as at the 31st March 2009, and therefore the amount available to fund future

General Fund activities, was £3.4 million.

In order to deliver the 2009/10 budget, the Authority needs to achieve its savings target of £0.77 million. Current indications are that the Authority is on course to achieve savings of £0.5 million, however overall the projected outturn is that net expenditure will be £0.8m less than budget.

Medium term financial forecasts and associated risk

The November Policy Committee report set out resource requirements within the Medium Term Financial Strategy for 2010/11 of £37.0 million as set out in the table below:

	2010/2011 £ million
Net Budget Requirement Before Use of General Fund Reserves (incorporating £0.66 million of efficiency savings proposals)	37.0
Formula Grant	18.8
Council Tax (based on no increase over 2009/2010 levels)	17.1
<i>Unallocated General Reserve</i>	<i>0.9</i>
<i>Further Savings to be Identified</i>	<i>0.1</i>
Total Resources	37.0

The latest medium term plans highlight budget gaps of £0.1 million and £0.85 million in 2010/11 and 2011/12 respectively, assuming Council Tax increases of 4.94% per annum and General Fund Balances of 5% of budget, with a one off contribution from the General Fund in 2010/11 of £0.9 million.

The main areas of sensitivity to the achievement of the above forecasts are as follows:

- The Firefighters pension scheme is due to be revalued in April 2010, which may result in increased employers contributions
- In developing the Medium term financial plan, the crewing options and running costs for Birstall station had not been identified
- The Medium term financial plan assumes that any additional costs arising from the North Review will be funded from increased efficiencies
- Requirements emerging from national and local initiatives and legislation in the period of the Medium term financial plan have not been factored in to the allocations for 2010/11 and 2011/12.
- Reducing income levels in relation to grants / contributions and treasury management (interest rates).

The Authority also has a significant capital programme which amounts to approximately £18.2 million for the three years to 2011/12.

The Authority already faces a number of financial challenges and there is every likelihood that following the general election in 2010 further significant cuts in public sector expenditure will have to be made. In these circumstances, and given the budget risks the authority has itself already identified over the coming years, its remains imperative that the Authority continues to focus on the following areas:

- Sound financial management and keeping to budgets, in spite of service pressures;
- Achieving the significant savings targets identified in the savings programme;
- Improving and modernising services, making them more efficient and affordable;
- Sound management of the Authority's capital programme.

Use of Resources

The new use of resources framework forms part of the Comprehensive Area Assessment (CAA) and comprises the following three areas:

- Managing finances
- Governing the business.
- Managing Resources.

We evaluated the arrangements against criteria set by the Audit Commission in underlying Key Lines of Enquiry (KLoE) and reached a score for each based on the following:

- 1 Inadequate performance;
- 2 Performs adequately;
- 3 Performs well; or
- 4 Performs excellently.

The scores for these KLoEs then determines the overall score for each area, using rules issued by the Commission. The Commission in turn then determines an overall score for the Authority.

It is important to note that although the above one to four scoring definition is the same as that used in previous years, the underlying assessment methodology is fundamentally different. A score under the old use of resources system cannot therefore be compared to a score under the new system. There is no like for like comparison. The Audit and Inspection Letter for 2007/08, issued to the Authority in March 2009 summarises this well when it states that the *“2009 use of resources assessment framework will be more demanding than previous use of resources assessments. It is broader in scope and embraces wider resource issues such as people and workforce planning, and the use of natural resources. It also places more emphasis on considering outcomes for local people. It is particularly important to recognise*

that the key lines of enquiry are more strategic and focus much more explicitly than previously on value for money achievements rather than on processes.” Put simply it was easier to score, for example, a 3 under the previous methodology than is the case now.

Managing Finances

We have scored the KLoEs for managing finances reporting as follows:

Key Line of Enquiry		Score
1.1	The Authority plans its finances effectively to deliver its strategic priorities and to secure sound financial health	2
1.2	The Authority has a sound understanding of its costs and performance and achieves efficiencies in its activities	3
1.3	The Authority's financial reporting is timely, reliable and meets the needs of internal users, stakeholders and local people	2

Summary Findings

There is integration between the financial and service planning process, as set out in the planning framework. In 2008/09, there has been more involvement in the planning process from a local station level and this process has been driven at a senior manager level. At the time of review, the alignment between the Medium Term Financial Strategy, the Corporate Plan and the Integrated Risk Management Plan (IRMP) was not clearly evident. This was due to the fact that the proposals from the IRMP were still due to be fully costed and planned following completion of the consultation process. The Authority should also look to consult with stakeholders on the overall financial planning process, as engagement with stakeholders is currently carried out on more of a communicative basis.

The Authority has a track record of delivering its budgets and managing expenditure within available resources. There are however challenges in delivering the Medium Term Financial Strategy. Significant efficiency targets will need to be delivered and there are currently funding gaps in 2010/11 and

2011/12. The Authority does however have a good track record of delivering efficiency savings.

The Authority demonstrates that it has a sound understanding of its costs and it is carrying out a number of reviews to ensure that services are operating in the most efficient way and achieving value for money, such as a review of fleet management and the retained service. A review of crewing levels at city centre stations has also taken place to identify efficiency savings. As staff costs make up over 80% of the authorities total costs, Senior Management Team monitor establishment costs closely and there is challenge over vacant posts.

Current practice is challenged to ensure that Value for Money is obtained. For example, the size of the smoke detector budget was determined using information from MOSAIC (a geodemographic segmentation system) and targeted at deprived areas, compared to the process previously where smoke detectors were being provided on request and this resulted in most detectors being provided to the people who could essentially afford to provide their own.

The Authority have recognised the need to take a strategic approach to finding efficiency savings and through the Northern review, proposed the closure of two retained stations. This was subject to robust consultation with key local stakeholders and a proposal has now been made to close Moira station.

The whole life costs of equipment and appliances are taken in to account as part of the financing strategy. This informs the 10-year appliance replacement strategy. The new financial system will enable more robust use of whole life costing, as currently some indirect costs have yet to be incorporated in to whole life costing.

The Authority has maintained the lowest council tax level of any Combined Fire Authority for 2009/10. Members actively challenge financial information, which was clearly demonstrated by the reduction in council tax level as a result of member challenge.

Financial reporting is adequate, however the Authority has recognised the need to implement a new integrated financial system to reduce costs and improve efficiency within the finance function. The new system will enable the Authority to obtain bespoke reports to assist with financial monitoring and will automate a number of the processes which are currently manual.

Extensive consultation was undertaken on the Authority's Plan with a large number of internal and external stakeholders through a variety of methods. An Equality Impact Assessment was also undertaken to establish the needs of the local community, for example by identifying an increasing number of Polish immigrants in the area, which was then added to the translation page of the plan.

There is currently no consultation on the Annual Report in order to assess what stakeholders would like to see and no reporting of the Authority's environmental impact, however this will be reported on from 2009/10 as part of the new Performance Indicators in relation to measurement of the authority's carbon footprint.

Areas for Development

As part of their medium-term financial planning process, the Authority should aim to:

- more robustly challenge resource use and decide, with local public service partners, the best options for providing services;
- explore ways to: deliver priorities, efficiencies and improve value for money including from partnerships, develop closer collaborative working with partners and shared services;
- enable members and staff to use their scrutiny role to ensure the Authority works strategically and effectively with local service partners, so resources are directed to local priorities in the best way.

The Authority has made use of benchmarking in a number of areas, however there is further scope for the Authority to compare and evaluate processes, costs and outcomes with other organizations. The Authority should look to maximise comparison and benchmarking to increase its self-awareness and improve efficiency.

The Authority has carried out reviews in a number of areas, such as fleet management, to assess if services are providing value for money. This process should be rolled out across all key services within the Authority to identify areas of inefficiency and where value for money is not currently being achieved.

The new integrated financial system which is due to be implemented in 2010/11 should assist in making the finance function more efficient, through increased automation of processes and enhanced functionality and reporting. The Authority will need to ensure that it effectively manages the transition to the new financial system and puts in place appropriate controls to mitigate risks.

The Authority should be able to demonstrate that they have carried out consultation with the local community in relation to the format of external reporting and included information in relation to environmental impact in their reporting.

Diversity issues could also be more widely addressed in the Authority's reporting. This could be achieved by communicating:

- who receives services and where money has been spent (for example, across demographics and services);
- the impact of expenditure on local communities; and
- narrative on diversity issues within reports.

Governing the business

We have scored the KLoEs for governing the business as:

Key Line of Enquiry		Score
2.1	The Authority commissions and procures quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money.	2
2.2	The Authority produces relevant and reliable data and information to support decision making and manage performance	3
2.3	The Authority promotes and demonstrates the principles and values of good governance	2
2.4	The Authority manages its risks and maintains a sound system of internal control	2

Summary Findings

The authority engages with communities through a number of means, such as 'After the Incident' (ATI) surveys, Home Fire Safety Check surveys and the Place Survey. Full consultation was carried out on the corporate plan and Integrated Risk Management Plan in 2008/09, which included Community Safety Advisors conducting surveys with harder to reach groups. Service users and the local community are consulted on major decisions, such as the refurbishment of central station and the proposed plans to close two retained stations.

The Authority has undertaken joint commissioning with partners in a number of areas, such as the joint fire and police station in Shepshed and the agreement with East Midlands Ambulance service for the delivery of co-responding services in Billesdon. The Authority has demonstrated examples of working with partners to deliver services more effectively, for example, work has been carried out with Trading Standards in delivering community safety activities alongside advice to protect older people from rogue traders.

The Authority supports a regional procurement manager for the East Midlands and undertakes joint commissioning where appropriate, for example when procuring command support vehicles.

The Authority has demonstrated a number of examples of commissioning decisions which take account of environmental considerations.

The Authority have a partnership framework document in place, however it is acknowledged that it is not being used consistently and there is a lack of clarity around the partnerships that the Authority is in, what they contribute to, what risks they present and what outcomes there are. A review of partnerships is due to take place to address governance arrangements, risk management and effectiveness.

The Authority have a data quality management policy and a dedicated data team. The data management toolkit explains the methods for validating and verifying data. Key data sources are validated, such as Views (performance management system) data and IRS (Incident Recording System) data.

The authority has data sharing protocols and agreements with key partners, eg. Leicestershire Together data quality strategy and the Rutland agreement. The authority also works with partners on data quality, for example deliberate fire and malicious calls data is shared with Crime and Disorder Reduction Partnerships.

The authority produces a variety of different performance information reports which meet the needs of the user and are used to drive decision making.

Leicestershire were generally performing within quartile 2 against other fire authorities in 2007/08. They performed within the top quartile in the areas of low cost, number of deliberate fires and % change in number of primary fires from 1997/98.

Data quality spot checks were undertaken on the two national indicators: NI 33 (number of deliberate primary and secondary fires) and NI 49 (number of primary fires / number of fatalities / number of non fatal casualties) and on the local indicators for sickness absence and number of injuries / near misses. We identified that robust data quality processes were in place for the national indicators and adequate processes were in place for the local indicators. Minor areas for improvement were identified around the processes in place for the local PIs and these have been fed back to the relevant staff to action improvements.

Performance information is used in service and financial planning, for

example a high number of automatic fire alarms in 2007/08 was identified through BVPI 149i. An unwanted fire signals reductions manager was seconded, and implemented the revised procedure that has led to a forecast reduction of 23% in 2008/09 and efficiencies of approximately £37,000.

There are adequate governance arrangements in place, with good interaction between the officers and members. However, there needs to be evidence to show that the Authority has considered governance of partnerships and that fire specific member training is delivered in line with an annual members development programme.

The Authority have adequate risk management arrangements in place, however these need to be fully embedded within the organisation, so that risks are identified and monitored at an operational level, as well as at senior management and member level. The Authority has a counter fraud and corruption strategy and participates in the NFI process, however there is no proactive fraud plan in place and the Authority should specifically consider the risk of fraud and ensure that it is comfortable with the arrangements in place to address the risk of fraud.

Areas for Development

Service users and the wider community should be involved, as appropriate, at each stage of the commissioning cycle: assessing needs, establishing priorities, designing services, and reviewing performance.

The procurement strategy is currently under review to ensure that it links in to the Nottingham protocol and a statement of environmental commitment has been produced. Going forward, the Authority should aim to demonstrate that sustainability is considered in its wider strategic commissioning decisions, rather than only on specific one-off procurement decisions.

The Authority has shown a number of examples of procuring goods and services regionally to secure savings. The Authority should look to exploit any opportunities to collaborate with other Fire and Rescue Authorities, other public services, and seek innovative procurement solutions to maximise savings.

The Authority should consider providing more fire specific training for members on an ongoing basis. There is currently insufficient evidence that the authority uses individual personal development plans for members that identify skill gaps and inform the training plans for the year ahead.

The Authority should demonstrate that it regularly reviews member and senior officer roles and responsibilities to ensure they are coherent, comprehensive and continue to focus on delivering the purpose and priorities of the organisation.

The Authority has yet to demonstrate that appropriate governance procedures are in place for all partnerships, however the review of partnerships which is currently underway will cover this. To ensure that governance arrangements are effective, the Authority should consider carrying out an annual review of effectiveness for key committees to assess if they are operating in line with their Terms of Reference and are operating effectively.

The risk management process has developed from the previous year, however there is further work to be carried out around the risk management of partnerships. This work is incorporated in to the current review of partnerships. The Authority is rolling out risk management training across the organisation and should be able to demonstrate that all staff across the organisation are appropriately trained so that they can effectively manage risk in the workplace.

The Authority does not have a proactive fraud work plan in place and there is further work that can be done to promote an anti-fraud culture within the Authority through fraud awareness training. Although the risk of fraud is deemed low within the Authority, there should be clear evidence in place to demonstrate that members have fully considered the risk of fraud.

Managing resources

We have scored the KLoEs for managing resources as:

Key Line of Enquiry		Score
3.1	The Authority makes effective use of natural resources.	N/A
3.2	The Authority manages its assets effectively to help deliver its strategic priorities and service needs.	N/A
3.3	The Authority plans, organises and develops its workforce effectively to support the achievement of its strategic priorities	2

Summary Findings

The Authority have a People strategy which sets out how it will plan for and maintain a productive workforce. Succession planning is in its infancy.

There are procedures in place to award and recognise good performance and to manage poor performance. The Authority generally have good processes in place around training and appraisals.

Recruitment is undertaken regionally with jobs being advertised on JobsGoPublic, the Authority's website and through local media. Outreach days are held with local businesses to encourage applicants for the retained role. Further work is to be done to promote the retained role and increase capacity in this area, which is being carried out as part of the retained review which is currently underway.

Sickness levels are closely monitored through performance indicators. Although levels are not significantly high, the authority is committed to improving the levels further. A recent focus group was put together to review the absence management process and they put forward a number of proposals for improvement.

A review of shift patterns was carried out in 2007, which resulted in a change in shifts to increase productivity and capacity at the busiest time of the day.

Staff views are collected through various means and there is a flexible working policy which allows staff to return to work following retirement.

The authority has engaged and supported staff through the process of modernisation. There has been ongoing involvement through seminars, workshops, consultations and the staff consultation forum. The performance management project has involved managers to improve performance and retained staff have been constantly involved in the current retained review.

Establishment figures are presented and discussed at monthly Senior Management Team meetings. These include a profile of staff, including ethnicity and disability. The authority has a corporate equalities plan which sets out the targets to ensure the workforce is representative of the local population. However, this is an area where further work is required.

The Authority carried out a survey of female firefighters in 2008/09 and identified a number of areas for improvement. One outcome of this was changes to kits to ensure that they are appropriate to females.

Areas for Development

The Authority has recognised that succession planning in its infancy and this is an area under review by the Authority.

The Authority should be able to demonstrate a corporate strategic approach to workforce planning that reflects strategic priorities and objectives and supports the delivery of the service. It should align closely with strategic planning and be designed to deliver improvements in efficiency, productivity and value for money outcomes against local priorities.

The Authority could consider using benchmarking more effectively in assessing expenditure on staff costs. There should be evidence that high spending areas are benchmarked against other organisations, or by using business process improvement approaches to identify potential areas for efficiency savings and increased productivity.

The Authority recognises that it is below target in relation to the percentage of female workers and BME (Black and Minority Ethnic) representation within the workforce. The Authority should aim to meet or exceed national diversity targets at every recruitment round (at least 15 per cent of fire fighters recruited should be women and the BME representation should at least

match the local population).

Conclusion on Use of Resources

We were also required to issue a conclusion on the adequacy of the Authority's arrangements for ensuring economy, efficiency and effectiveness in its use of resources.

We issued an unqualified conclusion on the Authority's arrangements for its Use of Resources on 30 September 2009.

Annual Governance Statement

Fire Authorities are required to produce an Annual Governance Statement (AGS). The AGS was included in the financial statements.

We reviewed the AGS to consider whether it complied with guidance issued by relevant professional bodies and whether it is misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this context.

Treasury Management

During the year, the collapse of the Icelandic banking system, together with the disclosure that a number of public sector bodies in the UK held significant investments there, raised concerns nationally as to the adequacy of treasury management practices within the public sector. In response to such concerns, and as part of our use of resources assessment we completed a Treasury Management 'workbook' issued to us by the Audit Commission. This work, which was in the form of a questionnaire completed with the assistance of the Director of Finance, identified no matters for concern. The Authority did not hold funds in Icelandic banks but has in the light of this issue, reviewed its policies and strategies in this area.

Expenses

In light of the recent furore nationally on politicians expenses, we have raised the matter of expenses with the Authority. The discussions held gave no indications that the Authority's arrangements in this area were not operating

effectively.

Matters affecting future accounting periods

Transition to International Financial Reporting Standards (IFRS)

CIPFA has issued the Exposure Draft and Invitation to Comment on the Code of Practice on Local Authority Accounting in the United Kingdom 2010. This will apply to accounting periods starting on or after 1 April 2010. The new Code is the first to be prepared under IFRS. Because of the need to have comparative information for the first set of full IFRS accounts the effective date of the transition is 1 April 2009. The Authority will need to have values for assets and transactions as they should be recognised under IFRS from this date.

The Authority will need to ensure that it has a good grasp of the changes to accounting requirements under the new Code, and that it has robust plans in place to enable collection and processing of the information needed to comply with the new Code.

In our experience the key features of a successful IFRS conversion project have proven to be:

- Completed impact analysis and comprehensive conversion plans;
- The commitment of key stakeholders in the organisation;
- Operational steering and technical groups;
- Cabinet/audit committee oversight;
- Regular progress reporting against the plan;
- The necessary project management resources; and
- Appropriate training for all members and officers with IFRS involvement.

In the event that, pursuant to a request which you have received under the Freedom of Information Act 2000 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the "Legislation"), you are required to disclose any information contained in this report, we ask that you notify us promptly and consult with us prior to disclosing such information. You agree to pay due regard to any representations which we may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Legislation to such information. If, following consultation with us, you disclose any such information, please ensure that any disclaimer which we have included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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