



Informing the audit risk assessment for East Devon District Council 2019/20

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between the Council's external auditors, Management and the Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit Committee under auditing standards.

Background

Under International Standards on Auditing (UK) (ISA(UK)) auditors have specific responsibilities to communicate with Audit Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit Committee and supports the Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Council's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Going Concern,
- Related Parties, and
- Accounting Estimates.

Purpose

This report includes a series of questions on each of these areas and the response we have received from the Council's management. The Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2019/20?</p>	<p>Valuation of the Council's assets and pension liability are areas that are continually subject to volatility and this is particular true with the circumstances of Covid-19.</p> <p>Council Tax and Business Rate collection has fallen and careful consideration of the appropriate level of Provisions is required.</p> <p>The implication of Covid-19 on the Council income streams and areas of additional expenditure although the impact is in 2020/21 the question of the Council being a going concern needs to be considered. Through analysis and reports to members it can be seen that although this has a significant impact the Council can manage the position.</p>
<p>2. Have you considered the appropriateness of the accounting policies adopted by the Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?</p>	<p>Accounting policies are reviewed prior to Accounts preparation. They are presented to the Audit and Governance Committee for member approval (although this year this will at the same time as the accounts being presented as meetings have been cancelled as a result of Covid-19).</p> <p>We are not aware of any events or transactions, other than the additional notes relating to Covid, that may cause a change or adoption of new accounting policies.</p>
<p>3. Is there any use of financial instruments, including derivatives?</p>	<p>The use of financial instruments (which includes cash balances and investing) is strictly defined and adhered to through the Treasury Management Strategy. Outcomes are reported through to Cabinet.</p> <p>Financial derivatives do not make up any part of the investment portfolio or strategy.</p>
<p>4. Is Are you aware of any significant transaction outside the normal course of business?</p>	<p>None</p>

General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	None
6. Are you aware of any guarantee contracts?	None
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	None
8. Other than in house solicitors, can you provide details of those solicitors utilised by the Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	Trowers & Hamlins, Bevan Brittan, Devonshires and Ashfords. Predominantly these relate to specific advice or assistance on transactional / contractual matters. There are no open litigation matters involving external solicitors.
9. Have any of the Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	No
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	Advisors not used on issues which would have significant impact on the Council's financial position. Treasury Management, VAT, Planning advisors etc. used as part of normal business.

Fraud

Issue

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As the Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit Risk & Assurance Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from the Council's management.

Fraud risk assessment

Question	Management response
<p>1. Have the Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Council's risk management processes link to financial reporting?</p>	<p>The risk of fraud being committed against the Council is assessed on an annual basis as part of the Council's planning its audit and fraud assurance work. Arrangements are in place to both prevent and detect fraud.</p> <p>Internal review processes and key reconciliations are built into the Accounts Closedown plan.</p> <p>The risk of material misstatement of the accounts due to undetected fraud is considered to be low.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>Council tax (discounts), benefits and contracts / procurement are areas of inherent risk. They are mitigated through the control environment and through a programme of independent internal audit and assurance work. However the risk of fraud within the financial statements is considered to be low.</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within the Council as a whole or within specific departments since 1 April 2019?</p> <p>As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>All concerns regarding fraud should be reported to the s151 and issues raised to the Fraud Forum.</p> <p>No concerns have been raised since 1 April 2019.</p> <p>The Council's risk register and internal audit reports and work programme are reported quarterly to the Audit & Governance Committee.</p>

Fraud risk assessment

Question	Management response
<p>4. Have you identified any specific fraud risks?</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within the Council where fraud is more likely to occur?</p>	<p>Internal Audit include all risks within their planning process and will highlight and allocate resources to areas considered at greater risk.</p> <p>Particular consideration is given to financial systems, traditionally cash has been an area of high risk but there are not many process now where individuals deal with cash.</p>
<p>5. What processes do the Council have in place to identify and respond to risks of fraud?</p>	<p>As above – In addition the Council does have a Corporate Fraud resources who review areas inline with an agreed strategy which focussed on high risk areas including council tax and tenancy fraud.</p>
<p>6. How would you assess the overall control environment for the Council, including: the process for reviewing the effectiveness the system of internal control; internal controls, including segregation of duties; exist and work effectively?</p> <p>If not where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>The overall control environment is strong. The Head of Internal Audit opinion in 2018/19 did not highlight any significant weaknesses and no such issues are expected to be raised for 2019/20.</p> <p>All policies and procedures for staff to comply with are documented and regularly tested by Internal Audit for both appropriateness and compliance and staff have to confirm on a regular basis that they have read and understand them.</p> <p>There have been no weaknesses reported in relation to potential to override controls or exert undue influence on the reporting process. Budgets are monitored in a consistent, structured and open manner. The Council neither rewards nor penalises staff based on financial targets.</p>

Fraud risk assessment

Question	Management response
7. Are there any areas where there is potential for misreporting?	No concerns
8. How do the Council communicate and encourage ethical behaviours and business processes of it's staff and contractors? How do you encourage staff to report their concerns about fraud? What concerns are staff expected to report about fraud? Have any significant issues been reported?	There is a staff code of conduct and Financial Regulations. These are available for all staff to access on the Council web-site. Staff are regularly reminded of these. There is a Counter Fraud and Corruption Policy and a Whistleblowing procedure in place which explain the procedures to follow. Policies are in place regards Money Laundering including expectations from staff if suspicions are raised. No significant issues reported
9. From a fraud and corruption perspective, what are considered to be high-risk posts? How are the risks relating to these posts identified, assessed and managed?	All posts have the risk for potential fraud and all staff are expected to be fully compliant of and comply with the code of conduct and Financial Regulations. There is a hierarchy of authority to authorise expenditure/ virement commensurate with individual responsibilities ensuring appropriate governance oversight of major commitments. Controls around reduced single dependencies and separation of duties are established ad these are checked upon by Internal Audit particular around financial and IT system controls
10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? How do you mitigate the risks associated with fraud related to related party relationships and transactions?	Members and officers are required to make full disclosure of any relationships that may impact upon their roles. Members are required to declare any relevant interests at Council and Committee meetings. No fraud risk has been identified on the basis of this.

Fraud risk assessment

Question	Management response
<p>11. What arrangements are in place to report fraud issues and risks to the Audit Committee? How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control? What has been the outcome of these arrangements so far this year?</p>	<p>The Audit and Governance Committee routinely receive details of all audit reports and full reports are presented where only partial assurance for an area is given. In these circumstances, relevant officers are required to attend and account for identified deficiencies and detail remedial actions being undertaken.</p> <p>Any investigations in relation to fraud will be reported to the Audit and Governance Committee as a matter of course. Again, any recommendations and remedial actions will be reported to the Committee.</p> <p>No issues have required reporting in 2019/20</p>
<p>12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>None to report</p>
<p>13. Have any reports been made under the Bribery Act?</p>	<p>None to report</p>

Law and regulations

Issue

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit Committee, is responsible for ensuring that the Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?</p>	<p>All reports / Portfolio Holder decisions are considered for legal issues before submission to members and Legal's comments are provided in these reports – this is a Constitutional requirement. Monitoring Officer (qualified lawyer) is the statutory officer responsible for legal/ethical compliance; the position is supported by another qualified lawyer as deputy. The Monitoring Officer prepares reports to Council for constitutional changes. The Legal team advise teams on powers and duties and ensure teams are informed of relevant changes to laws and regulations when they arise. Work flows review lawfulness of Council actions and appropriate advice given where any potential risks / breaches found. The Monitoring Officer is under a duty to report any unlawful decision making to Council.</p> <p>Staff in legal and licensing teams regularly attend training courses on updated and new legislation. New legal issues and how to make the council compliant are discussed at senior management team and team meetings. Council's solicitor regularly advises SMT of legal cases impacting on council practice so heads can act on it. Corporate complaints process, together with Local Government Ombudsman investigation / decisions, enables review of decision making on an ongoing basis. Regular reports to SMT on complaint and LGO findings so learnings can be taken on board. Council also receives reports on both complaints / LGO outcomes.</p> <p>Internal Audit and External Agency Reviews, findings of which are reported to Audit & Governance Committee.</p> <p>The Constitution is on the internet/ intranet for main legal framework. Delegated functions are within the Constitution: part 3 section 3. Strategic Leads monitor and implement changes required in individual service areas with reports to Committee as necessary; Senior Management team monitors cross cutting issues; Delegations in Constitution updated annually. Legal Team raise areas of concern with Council Solicitor / Monitoring Officer so there is corporate awareness. Corporate complaint process enables further review of the Council's decision making. Audits provide a further check mechanism as does the Scrutiny function.</p> <p>Not aware of any changes that significantly impact the financial statements.</p>

Impact of laws and regulations

Question	Management response
5. What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	Finance discuss with Monitoring Officer (Senior Legal Officer) to identify any significant litigation claims at year end.
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	None to report

Going Concern

Issue

Matters in relation to going concern

ISA (UK) 570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.

The going concern assumption is a fundamental principle in the preparation of financial statements. Under this assumption entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

Going concern considerations have been set out below and management has provided its response.

Going concern considerations

Question	Management response
<p>1. Has the management team carried out an assessment of the going concern basis for preparing the financial statements for the Council? What was the outcome of that assessment?</p>	<p>Yes. Going concern is considered as part of the preparation of the financial statements. This considers key areas that impact on the Council's ability to continue as a going concern including financial resilience and medium term financial forecasts.</p> <p>The Council's has a relatively healthy financial position in 2019/20, the implications of Covid-19 on 2020/21 position and the MTFP have been assessed and the Council is in a position to manage financially and has options to balance it's budgets going forward.</p>
<p>2. Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with the budget and the financial information provided to members throughout the year?</p>	<p>Yes</p>

Going concern considerations

Question	Management response
3. Are the implications of statutory or policy changes appropriately reflected in the Council, financial forecasts and report on going concern?	Yes
4. Have there been any significant issues raised with the Audit Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control).	No
5. Does a review of available financial information identify any adverse financial indicators including negative cash flow or poor or deteriorating performance against the better payment practice code? If so, what action is being taken to improve financial performance?	No

Going concern considerations

Question	Management response
<p>6. Does the Council have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Council's objectives? If not, what action is being taken to obtain those skills?</p>	<p>Yes. There are sufficient staff in post with the appropriate skills and experience. The level of the challenge to deliver the Council's plans and programmes is substantial but there are no significant instances where this is impacting on the delivery of objectives.</p>
<p>7. Does the Council have procedures in place to assess their ability to continue as a going concern?</p>	<p>Yes. Financial budgeting and monitoring information is available on a regular basis providing the facility to review any early concerns with regard to going concern.</p>
<p>8. Is management aware of the existence of events or conditions that may cast doubt on the Council's ability to continue as a going concern?</p>	<p>Yes</p>

Going concern considerations

Question	Management response
<p>9. Are arrangements in place to report the going concern assessment to the Audit Committee ?</p> <p>How has the Audit Committee satisfied itself that it is appropriate to adopt the going concern basis in preparing financial statements?</p>	<p>Yes. The Council's going concern assessment is reported separately as part of the Narrative Statement within the Statement of Accounts reported to the Committee each year and is covered specifically within the Audit Finding Report.</p>

Related Parties

Issue

Matters in relation to Related Parties

the Council are required to comply with IAS 24 and disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the Council;
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over the Council;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees the Council, or of any entity that is a related party of the Council.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Council perspective but material from a related party viewpoint then the Council must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Relating Parties

Question	Management response
1. What controls does the Council have in place to identify, account for and disclose related party transactions and relationships ?	Related party transactions and relationships are reported within the statutory accounting process through analysis of existing disclosure records and a specific process to collect information on these relationships to reflect in the Accounts.

Accounting estimates

Issue

Matters in relation to Related Accounting estimates

the Council apply appropriate estimates in the preparation of their financial statements. ISA (UK) 540 sets out requirements for auditing accounting estimates. The objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate.

Under this standard we have to identify and assess the risks of material misstatement for accounting estimates by understanding how the Combined Authority identifies the transactions, events and conditions that may give rise to the need for an accounting estimate.

Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. We need to be aware of all estimates that the Combined Authority is using as part of its accounts preparation; these are detailed in appendix 1 to this report. The audit procedures we conduct on the accounting estimate will demonstrate that:

- the estimate is reasonable; and
- estimates have been calculated consistently with other accounting estimates within the financial statements.

We would ask the Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates

Question	Management response
1. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?	Not aware of any other than those identified.
2. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes. Where estimation is necessary, appropriate estimating methodology is utilised. Estimates will be prepared by those best qualified, e.g. pension fund actuary, professionally qualified asset valuer.
3. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	The Accounting Estimates and Judgements are reported to Audit and Risk Committee for their approval.

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Property, plant & equipment valuations	Fair value for land/buildings defined as 'existing use' by the Council.	Valuations are performed annually to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. For land and buildings all material assets will be considered in 2019/20.	Valuer used for PPE valuations.	Degree of uncertainty inherent with any revaluation. We employ professional valuers and rely on expert opinion.	No
Estimated remaining useful lives of PPE	Each part of an item of property, plant and equipment with a significant cost in relation to the total cost is depreciated separately. Depreciation methods, useful lives and residual values are reviewed each financial year and adjusted if appropriate.	See left box	Valuer used for PPE valuations.	Depreciation is calculated on a straight line basis as this reflects consumption of assets and is a reasonable assumption.	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation and Amortisation	See above	See above	See above	See above	No
Impairments	Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.	See left.	Valuer used for PPE valuations. Where appropriate	See above	No.

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions for liabilities	<p>Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the value.</p> <p>Provisions are charged as an expense to the appropriate service line in the CIES in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and</p>	Charged in the year that the Council becomes aware of the obligation. A calculation is made by the service and Accountant based upon information from third parties, e.g. insurers, solicitors.	As necessary on an individual basis	Each provision is assessed on an individual basis to ensure that it meets the criteria of a provision per IAS 37. The degree of uncertainty is assessed when determining whether a provision is the correct treatment for an item.	No.
Bad Debt Provision	A provision is estimated using a proportion basis of an aged debt listing.	Accountant in conjunction with service area	No	A consistent proportion of the aged debt listing is	No.

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Accruals	We use standard accruals accounting –accruals are based on expenses incurred that have not yet been paid.	Monthly management accounts provides rigorous analysis so that any accruals are highlighted and actioned throughout the year.	N/A.	N/A.	No.
Non Adjusting events – events after the balance sheet date	The S151 Officer makes the assessment. If the event is indicative of conditions that arose after the balance sheet date then this is a non-adjusting event. For these events, only a note to the accounts is included identifying the nature of the event and where possible estimates of the financial effect.	See left.	N/A.	N/A.	No.

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Pension Fund (LGPS) Actuarial gains/losses	The Council is an admitted body to the Local Government Pension Scheme. Information is passed from the Council to the Actuary upon which they base their assessment for the financial year	The Actuary's report is reviewed by Finance Staff for reasonableness.	the Council are provided with an actuarial report.	The nature of these figures forecasting into the future are based upon the best information held at the current time and are developed by experts in their field.	No.



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