

# Informing the audit risk assessment for Rother District Council 2021/22



The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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## Purpose

The purpose of this report is to contribute towards the effective two-way communication between Rother District Council's external auditors and Rother District Council's 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 the 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 Rother District Council's oversight of the following areas:

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

## Purpose

This report includes a series of questions on each of these areas and the response we have received from Rother District 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
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2021/22?	They will be mainly Covid grants which again affected our cashflows and will require reconciliations and additional accounting entries (RDC as principal or agent). Another thing will be significantly increased activity within the capital programme as well as capital grant receipts
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? If so, what are they?	Yes, they are deemed appropriate, although we have made some changes around leases as well as clarification of our approach to componentisation of assets. We also reviewed and widened the range of the estimated Useful Economic Lives of assets New accounting policies will be introduced in 2022-23 and subsequent financial years with the adoption of new IFRS and introduction of group accounts as a result of consolidation with the council's housebuilding company
3. Is there any use of financial instruments, including derivatives? If so, please explain	Yes, PWLB borrowing and continued investments in property funds, but no derivatives (no change since last year)
4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?	Covid grants, increased capital expenditure

## 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? If so, what are they?	Property investment and regeneration manager has highlighted to external valuers 11 properties which may be subject to impairment - we are awaiting the outcome.
6. Are you aware of any guarantee contracts? If so, please provide further details	No
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details	No
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?	<p>We mainly use Wealden Legal Services as our 'in-house' provider who themselves use various external counsel services</p> <p>We have also used Bevan Brittan for advice on property purchases and property development deals.</p> <p>We have used Surrey Hills for advice in creating the new Bexhill Town Council.</p> <p>We have used Trowers for advice on matters affecting the Council's housing company.</p>

## General Enquiries of Management

Question	Management response
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? If so, please provide further details	No
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	Link Asset Services – Treasury Management PS Tax – VAT advice
11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details	No, this will be done as part of the work on financial statements 21-22



# Fraud

## 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 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. Has 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>Yes.</p> <p>The Internal Audit Team undertake regular audits on related matters, which are reported to Audit &amp; Standards committee throughout the year.</p> <p>Risks identified in the risk register are identified as part of the Medium Term Financial Planning process. The Risk Register is reported to, and managed by, the Corporate Management Team.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>All Covid-19 grants schemes</p> <p>Council Tax Reduction scheme</p> <p>Housing Benefit payments</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 2021? If so, please provide details</p>	<p>Yes, limited instances of Covid 19 business grant fraud.</p>

## Fraud risk assessment

Question	Management response
<p>4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>We would communicate them to Internal Audit, if suspected. See also (1) above re: risk management and CMT.</p>
<p>5. Have you identified any specific fraud risks? If so, please provide details</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>See answer 2 above.</p> <p>None specifically.</p> <p>They would be most likely to occur within Revenues and Benefits but these are scrutinized by Internal Audit</p>
<p>6. What processes do the Council have in place to identify and respond to risks of fraud?</p>	<p>Internal Audit team</p> <p>Various internal control processes covering all areas of the Council's operation.</p> <p>The Council operates a whistleblowing policy, details of which can be accessed on the Council's website.</p>

# Fraud risk assessment

Question	Management response
<p>7. How do you assess the overall control environment for the Council, including:</p> <ul style="list-style-type: none"> <li>the existence of internal controls, including segregation of duties; and</li> <li>the process for reviewing the effectiveness the system of internal control?</li> </ul> <p>If internal controls are not in place or not effective 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)? If so, please provide details</p>	<p>The Internal Audit team perform regular audits and areas deemed to be at a higher risk are audited more often. Recommendations with greater urgency are prioritised to be addressed more quickly.</p> <p>N/A</p> <p>We operate a scheme of delegation upon which segregation of duties is based.</p> <p>No. The Principal Accountant had systems administrator access due to sickness but this has now been removed now that the team is properly resourced.</p>
<p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p>	<p>No.</p>

## Fraud risk assessment

Question	Management response
<p>9. How does the Council communicate and encourage ethical behaviours and business processes of its staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud? Have any significant issues been reported? If so, please provide details</p>	<p>HR policies Procurement contracts.</p> <p>We have a whistleblowing policy.</p> <p>Any suspicions of fraudulent activity.</p> <p>Not that I am aware of.</p>
<p>10. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>Any post dealing with banking, cash handling, payment and payroll activities.</p> <p>See previous responses on scheme of delegation and separation of duties.</p>
<p>11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>No.</p> <p>As part of the Statement of Accounts we are required to compile a list of such relationships and transactions for Senior Officers and Members. Members of committees are also required to announce formally any declarations of interests prior to the commencement of all Committee meetings.</p>

## Fraud risk assessment

Question	Management response
<p>12. What arrangements are in place to report fraud issues and risks to the Audit Committee?</p> <p>How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>See previous response re: reporting to Audit &amp; Standards Committee.</p> <p>Via Internal Audit reports.</p> <p>Any issues of concern are raised by Members and Officers respond accordingly.</p>
<p>13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>Not that I am aware of.</p>
<p>14. Have any reports been made under the Bribery Act? If so, please provide details</p>	<p>Not that I am aware of.</p>

# Law and regulations

## 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 body is in compliance with laws and regulations. Where we become aware 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>WDC Legal Services, East Sussex Procurement Hub (based at WDC) and Democratic Services ensure compliance. Also The Information Officer regarding Data Protection</p> <p>See above response.</p> <p>No</p>
<p>2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>Reports to Audit &amp; Standards committee have mandatory sections on legal and financial implications, which must be reviewed/completed by the relevant professional officers. Also, all reports have to be cleared by the Corporate Management Team before going to the committee.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2021 with an on-going impact on the 2021/22 financial statements? If so, please provide details</p>	<p>No</p>
<p>4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details</p>	<p>Not that I am aware of, but a separate communication with Legal services will take place to confirm</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?	We refer such cases to WDC Legal Services.
6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details	No.

# Related Parties

## Matters in relation to Related Parties

The Council is required to 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 of 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's 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.

## Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in the Council's 2020/21 financial statements?</p> <p>If so please summarise:</p> <ul style="list-style-type: none"> <li>the nature of the relationship between these related parties and the Council</li> <li>whether the Council has entered into or plans to enter into any transactions with these related parties</li> <li>the type and purpose of these transactions</li> </ul>	<p>No major changes have been identified at this stage, but the data is subject to review during the closedown process</p>
<p>2. What controls <b>does the Council have</b> in place to identify, account for and disclose related party transactions and relationships?</p>	<p>Members and senior officers are approached to disclose their interests in third parties and a report is run and data analysed to show payments to those</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>A scheme of delegation function of the ERP system (Unit 4) ensures only authorised persons are allowed to approve requisitions, dual authorisation on online direct payments from the bank account</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>As above</p>

# Going Concern

## Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the body's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for local government bodies presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.

## Going Concern

Question	Management response
<p>1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by the Council will no longer continue?</p>	<p>There are monthly CMT meetings reviewing and monitoring the budgetary situation. Any issues or events would be raised there and reported quarterly to Members. Also Medium Term Financial Strategy has been prepared and reviewed alongside a Financial Stability Programme.</p> <p>The Chief Finance Officer has at their discretion to issue a s114 notice should they deem it necessary in order to control expenditure levels.</p>
<p>2. Are management aware of any factors which may mean for the Council that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?</p>	<p>No</p>
<p>3. With regard to the statutory services currently provided by the Council, does the Council expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for the Council to cease to exist?</p>	<p>The Council will continue to provide statutory services but the Financial Stability Programme may identify lower levels of service provision should the requirement arise in order to match expenditure plans with available resources.</p>
<p>4. Are management satisfied that the financial reporting framework permits the Council to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements?</p>	<p>Yes and Yes</p>

# Accounting estimates

## Matters in relation to accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess a body's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the body's risk management process identifies and addresses risks relating to accounting estimates;
- The body's information system as it relates to accounting estimates;
- The body's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

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

# Accounting Estimates - General Enquiries of Management

Question	Management response
<p>1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?</p>	<p>Fixed asset valuations/Impairments            Pension fund asset/liabilities (RDC share only)            NNDR Appeals – reported to Audit &amp; Standards Committee as part of the critical judgements report            Investments (Fair Value adjustment)            Accruals</p>
<p>2. How does the Council's risk management process identify and addresses risks relating to accounting estimates?</p>	<p>Risk Management is monitored and managed at CMT level. The Chief Finance Officer would identify any such risks and advise CMT accordingly.</p>
<p>3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?</p>	<p>Accountants use actual and extrapolate from historical data, they use POs, advice from departments and their own judgement. They are explained in the working papers</p>
<p>4. How do management review the outcomes of previous accounting estimates?</p>	<p>Actuals from previous years are compared with estimates by individual accountants to inform methodology going forward. We will continue with this approach this year.</p>
<p>5. Were any changes made to the estimation processes in 2021/22 and, if so, what was the reason for these?</p>	<p>For accruals we continued using a report with expenditure transactions reviewed by individual accountants and processed by one of them coordinating the process. We will restrict this activity to the middle of April and further accruals will be done by individual accountants based on historical data, existing Purchase orders and their judgement. Accruals below £100 would not normally be processed unless they resulted from actual transactions analysed already and processed semi-automatically early in April. Low value manual/individual ones would not generally be done.</p>

## Accounting Estimates - General Enquiries of Management

Question	Management response
<p>6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?</p>	<p>If there is no internal expertise, we would use the skills of external consultants (LINK) who in turn use the actual new loan rates from the DMO.</p> <p>We use WHE for Property valuations.</p> <p>Staff attend specific professional training events organized by CIPFA and others.</p>
<p>7. How does the Council determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?</p>	<p>As above, the information provided would be reviewed and challenged if appropriate</p>
<p>8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?</p>	<p>As above</p>
<p>9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including:</p> <ul style="list-style-type: none"> <li>- Management's process for making significant accounting estimates</li> <li>- The methods and models used</li> <li>- The resultant accounting estimates included in the financial statements.</li> </ul>	<p>Methods are agreed with accountants prior to closedown, working papers are required, journals require management's approval before being posted.</p>



## Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of any 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)? If so, what are they?	We would review and amend our assumptions and estimates made on NNDR Appeals and Impairment of doubtful debts. We would consider any other issues in due course for inclusion
11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?	As above, we would review them in the process.
12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	Accounting Policies are approved every year by Audit & Standards committee.

## 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?
Land and buildings valuations	Wilks, Head & Eves undertake annual cycle of valuations	Output reviewed by ATRS and Finance	Yes	Review by ATRS and Finance	No
Investment property valuations	Wilks, Head & Eves undertake annual cycle of valuations These are 100% revalued each year	Output reviewed by ATRS and Finance	Yes	Review by ATRS and Finance	No
Depreciation	Straight Line method	Output reviewed by Senior Finance Officers	No	Asset lives reviewed for suitability.	Yes, possible UELs of Assets reviewed

## 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?
Valuation of pension liability	Report from East Sussex local government pension scheme	Output reviewed by Senior Finance Officer	Yes	Review of actuaries report.	No
Fair value of loans	Report from external consultants Link Treasury Services	Output reviewed by Senior Finance Officers	Yes	Review of the Fair Value Report from Link	No

## 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?
NNDR Appeals provision	Use data provided by Analyse Local	Review by Senior Finance Officers	Yes	Data taken from Analyse Local portal	No
Significant accruals	Year on year comparisons/analytical reviews carried out by Accountants	Year end instructions communicated to Accountants and monitored during weekly closedown meetings.	No	Accruals based on actual invoices, raised Purchase Orders and/or estimated values agreed with Service Managers.	No
Credit loss allowance	Per Council's accounting policies.	Year end instructions produced by year end Accountant.	No	Estimates based on professional judgement of the Year End accountant.	No



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