

The Audit Findings for City of Westminster Council Pension Fund

Year ended 31 March 2019

2 May 2019



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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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Headlines

This table summarises the key findings and other matters arising from the statutory audit of City of Westminster Council Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2019 for those charged with governance.

Financial Statements	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Pension Fund's financial statements:</p> <ul style="list-style-type: none">• give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; and• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.	<p>Our audit work was completed on site during April 2019. Our findings are summarised on pages 4 to 10. We have identified one adjustment to the financial statements that resulted in a £5.6m increase to the Pension Fund's financial position. As the adjustment is not material, management have decided not to amend the financial statements.</p> <p>Audit adjustments are detailed in Appendix A.</p> <p>Our work is substantially complete and there are no matters of which we are aware of that would require modification of our audit opinion (Appendix C) or material changes to the financial statements, subject to the following outstanding matters;</p> <ul style="list-style-type: none">- receipt of Additional Voluntary Contributions from providers Aegon and Equitable Life Assurance Society;- receipt direct confirmations of year end asset valuations from Fund Managers (we have used the reports provided to the Council at this stage);- receipt and review of Pension Fund Annual Report;- receipt of the PWC review of IAS19/26 reporting at 31 March 2019;- receipt of management representation letter; and- review of the final set of financial statements. <p>Our anticipated audit report opinion will be unqualified.</p>
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Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Summary

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and the Audit and Performance Committee.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Pension Fund's business and is risk based, and in particular included:

- An evaluation of the Pension Fund's internal controls environment, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

We have not had to alter or change our audit plan, as communicated to you at the Audit and Performance Committee on 5 February 2019.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Performance Committee meeting on 17 June 2019, as detailed in Appendix C.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality calculations have been updated to take account of the Net Assets balance in your draft financial statements. We detail in the table below our determination of materiality for City of Westminster Council Pension Fund.

Pension Fund Amount (£)

Materiality for the financial statements	14,100,000
Performance materiality	9,870,000
Trivial matters	705,000
Materiality for specific transactions, balances or disclosures	We have not set any specific materiality limits, but we have reported any misstatements we identify in cash, related parties and key management personnel remuneration within this report.

Going concern

Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Going concern commentary

Management's assessment process

Management have reviewed the Fund's funding position and cash flows.

Auditor commentary

- The Pension Fund has more than sufficient assets to meet its liabilities as they fall due over the next 12 months. Local Government Pension schemes are effectively underwritten by the tax payer with deficits financed by increased contributions agreed with the actuary that are financed through Council, Admitted and Scheduled bodies contributions.
- There is no plan by the Ministry of Housing, Communities and Local Government to wind up the City of Westminster Council Pension Scheme.
- The Pension Fund continues to operate as usual in 2018/19. Contributions and investment income continue to be received as expected.
- **The** Council has approved at full Council, subject to the revised triennial figures, approval to pay off its entire Pension Fund deficit in April 2020 or an expected £150m. We are satisfied with the approach which has been developed with legal and actuarial advice.

Work performed

Detail audit work performed on management's assessment

Auditor commentary

- We have reviewed managements assessment that the financial statements are prepared on a going concern basis.
- We are satisfied that there are sufficient assets to meet liabilities as they fall due. The last triennial actuarial valuation also demonstrated an improvement in the funding level to 80%.
- The Council have paid £24.5m deficit funding contributions into the pension fund in 2018/19.
- The fund continues to operate as usual.

Concluding comments

Auditor commentary

- We are satisfied that the Pension Fund Financial Statements are prepared on a Going Concern basis.

Significant findings

	Risks identified in our Audit Plan	Commentary
<p>1</p> <p>Improper revenue recognition</p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Auditor commentary</p> <p>Having considered the risk factors set out in ISA240 and the nature of the Pension Fund's revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including the Council as the administering authority, mean that all forms of fraud are seen as unacceptable. <p>Therefore we do not consider this to be a significant risk.</p>	
<p>2</p> <p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Fund face external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk for the Fund.</p>	<p>Auditor commentary</p> <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • review of entity controls; • review of accounting estimates, judgements and decisions made by management; and • review of unusual significant transactions <p>Our audit work has not identified any issues in respect of management override of controls.</p>	

Significant findings

Risks identified in our Audit Plan

- 3 The valuation of Level 3 investments is incorrect**
By their nature, Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved (£77 million) and the sensitivity of this estimate to changes in key assumptions
- Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.
- Management utilise the services of investment managers as valuation experts to estimate the fair value as at 31 March 2019.
- We therefore identified valuation of Level 3 investments as a significant risk.

Commentary

Auditor commentary

We have undertaken the following work in relation to this risk:

- gained an understanding of the Fund's process for valuing level 3 investments and evaluated the design of the associated controls;
- reviewed the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investment;
- independently verified the Hermes Property Unit Trust valuation to independent market data;
- reviewed the custodian independent valuation of Hermes Property Unit Trust;
- considered the competence, expertise and objectivity of any management experts used;
- verified the investment balances to the fund manager and custodian reports; and
- the Pantheon valuation is currently held at cost as per the critical judgement in your accounting policies.

We are satisfied that the valuation of level 3 investments are not materially misstated.

- 4 Incomplete or inaccurate financial information transferred to the new general ledger**
In December 2018, the Council implemented a new general ledger system. When implementing a new significant accounting system, it is important to ensure that sufficient controls have been designed and operate to ensure the integrity of the data. There is also a risk over the completeness and accuracy of the data transfer from the previous ledger system.

We therefore identified the completeness and accuracy of the transfer of financial information to the new general ledger system as a significant risk.

Auditor commentary

We have undertaken the following work in relation to this risk:

- reviewed the Fund's arrangements and controls over the transfer of data from Agresso (legacy ledger) to SAP (new ledger);
- mapped the closing balances from Agresso to the opening balance position SAP to assess accuracy and completeness of the financial information, undertaking sample testing as appropriate; and
- completed an information technology (IT) environment review to document, and evaluate the IT controls operating within the new general ledger system.

We are satisfied that the data transfer from Agresso to SAP was accurate and complete.

Significant findings

Risks identified in our Audit Plan

5 Valuation of Level 2 Investments

While level 2 investments do not carry the same level of inherent risks associated with level 3 investments, there is still an element of judgement involved in their valuation as their very nature is such that they cannot be valued directly.

We therefore identified the valuation of the Fund's Level 2 investments as an other risk

Commentary

Auditor commentary




We have undertaken the following work in relation to this risk:

- gained an understanding of the Fund's process for valuing Level 2 investments and evaluate the design of the associated controls;
- evaluated the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments;
- reviewed the reconciliation of information provided by the pension fund's individual fund manager's custodian and the Pension Scheme's own records and sought explanations for variances; and
- we have reviewed the latest AAF 01/06 or ISAE 3402 audited reports on internal controls, published by the respective investment managers and Custodian.




The investment balances in the financial statements were based on the custodian's report. The custodian reported the valuation as at month 11 for investments in Standard Life, CQS and LGIM. The month 12 balances were subsequently £5,598k higher than the balances disclosed in the financial statements. As the adjustment is not material management have decided not to adjust the financial statements.

We are satisfied that the investments are are not materially misstated.

Significant findings - accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> Normal contributions, both from the members and from the employer, are accounted for on an accruals basis. Employer deficit funding contributions are accounted for on the due dates on which they are due under the schedule of contributions set by the actuary or on receipt if earlier than the due date. Employer's augmentation and pension strain contributions are accounted for in the period in which the liability arises. Individual transfers into the funds are accounted for when received. Investment income arising from the underlying investments of the Pooled Investment Vehicles is either reinvested within the Pooled Investment Vehicles and reflected in the unit price or taken as a cash dividend to support the Fund's outgoing cash flow requirements. Distributions from pooled funds are recognised at the date of issue. Interest income is recognised in the fund account as it accrues. 	The revenue recognition policy is consistent with the Code of Practice of Local Authority Accounting. Management have followed the policy in accounting for the funds revenue streams.	 Green
Judgements and estimates	<p>Key estimates and judgements include :</p> <ul style="list-style-type: none"> Valuation of level 3 investments The assumptions within the IAS26 calculation of the present value of future retirement benefits The assumptions within the triennial valuation 	<p>The policies adopted for material accounting estimates appear to be appropriate under the Code of Practice of Local Authority Accounting.</p> <p>Our testing indicates that the material estimates included in the financial statements have been calculated based on reasonable judgements and assumptions from experts.</p>	 Green
Other critical policies	<ul style="list-style-type: none"> The Pension Fund has adopted the standard accounting policies as set out in the Code. 	<p>We have reviewed the Pension Fund's policies against the requirements of the CIPFA Code of Practice. The Pension Fund's accounting policies are appropriate and consistent with previous years.</p> <p>We recommended that a disclosure was added to clarify that the Pantheon Investment of £14,403,000 has been valued at cost on the basis that fair value as at 31 March 2019 cannot be reliably estimated.</p>	 Green

Assessment

-  Marginal accounting policy which could potentially be open to challenge by regulators
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
① Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit and Performance Committee. We have not been made aware of any incidents in the period and no issues have been identified during the course of our audit procedures.
② Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
③ Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
④ Written representations	A letter of representation has been requested from the Pension Fund, which will be included in the June 17 Audit and Performance Committee papers.
⑤ Confirmation requests from third parties	We requested from management permission to send confirmation requests to your custodian, fund managers and banks. This permission was granted and the requests were sent. We have received a response from Longview fund managers, but we are still awaiting responses from all other fund managers.
⑥ Disclosures	Our review found no material omissions in the financial statements.
⑦ Audit evidence and explanations/significant difficulties	All information and explanations requested from management was provided.
⑧ Matters on which we report by exception	We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. We are awaiting the draft Pension Fund Annual report to review.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix C

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund. No audit and non audit related services were identified.

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. There were no adjusted misstatements.

Impact of unadjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

Detail	Pension Fund Account £'000	Net Asset Statement £' 000	Impact on total net assets £'000	Reason for not adjusting
1 The financial statements were based on the custodian's report. The custodian reported the month 11 investments in Standard Life, CQS and LGIM. The month 12 balances were £5,598k higher than the balances disclosed in the financial statements.	Credit (Profit) and loss on disposal of investments and changes in the market value of investments 5,598	Debit Investment assets pooled investment vehicles 5,598	Increased total net assets 5,598	The adjustment is not material
Overall impact	£5,598	£5,598	£5,598	

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Disclosure	In note 16 for assets exposed to interest rate risk the value on 1% increase should be £90,110k not £91,269k.	Management have made the required amendment	✓

Fees

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Audit Fees

	Proposed fee	Final fee
Pension Fund Audit	16,170	16,170
Total audit fees (excluding VAT)	£16,170	£16,170

- The fee of £16,170 agrees to the disclosed in the pension fund financial statements

There are no fees for non-audit or audited related services have been undertaken for the Pension Fund.

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA).

Audit opinion

We anticipate we will provide the Pension Fund with an unmodified audit report. This is a draft version that will be updated.

Independent auditor's report to the Members of City of Westminster council on the pension fund financial statements

Opinion

We have audited the pension fund financial statements of City of Westminster (the 'Authority') for the year ended 31 March 2019 which comprise the Fund Account, the Net Assets Statement for the year ended 31 March 2019 and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2019 and of the amount and disposition at that date of the fund's assets and liabilities;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the pension fund of the Authority in accordance with the ethical requirements that are relevant to our audit of the pension fund financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Section 151 Officer's use of the going concern basis of accounting in the preparation of the pension fund financial statements is not appropriate; or
- the Section 151 Officer has not disclosed in the pension fund financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the pension fund financial statements are authorised for issue.

Other information

The Section 151 Officer is responsible for the other information. The other information comprises the information included in the Annual, the Narrative Report and the Annual Governance Statement, other than the pension fund financial statements, our auditor's report thereon and our auditor's report on the Authority's financial statements. Our opinion on the pension fund financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Audit opinion

In connection with our audit of the pension fund financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension fund financial statements or our knowledge of the pension fund of the Authority obtained in the course of our work or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the pension fund financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the pension fund financial statements the other information published together with the pension fund financial statements in the Annual Accounts, the Narrative Report and the Annual Governance Statement for the financial year for which the pension fund financial statements are prepared is consistent with the pension fund financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice we are required to report to you if:

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Section 151 Officer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Section 151 Officer. The Section 151 officer is responsible for the preparation of the Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, which give a true and fair view, and for such internal control as the Section 151 Officer determines is necessary to enable the preparation of pension fund financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension fund financial statements, the Section 151 Officer is responsible for assessing the pension fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the pension fund lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the pension fund.

The Audit and Performance Committee is Those Charged with Governance.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the pension fund financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these pension fund financial statements.

Audit opinion

A further description of our responsibilities for the audit of the pension fund financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Paul Dossett
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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17 June 2019



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