

## CCG Board

Date of meeting		25 July 2019	
Agenda Item	7	Paper No	WHCCG19/077

### CCG Annual Report and Accounts, and Annual Audit Letter 2018/19

Key issues	<p>This paper updates the Board formally on the approval of the CCG's Annual Report and Accounts for 2018/19, which was completed since the last meeting held in public:</p> <ul style="list-style-type: none"> <li>• The CCG submitted its draft annual report, excluding accounts information to NHS England by Thursday 18 April 2019, and draft accounts and supporting information by Wednesday 24 April 2019, and made the same information available to its appointed external auditors (Grant Thornton).</li> <li>• The audit commenced the week commencing 29 April 2019. The auditors were required to report on the CCG's annual accounts to NHS England by 12.00 noon on Tuesday 28 May 2019.</li> <li>• As delegated by the Board, West Hampshire CCG's Audit Committee reviewed and approved the final version of the Annual Report and Accounts of the CCG on 22 May 2019, for submission to NHS England by this deadline.</li> <li>• CCGs were required to publish their Annual Report and Accounts in full on their public website by 10 June 2019. This was completed on 24 May 2019.</li> <li>• A public meeting must then be held prior to 30 September 2019 at which the Annual Report and Audited Accounts must be presented. These will be presented at the Annual General Meetings on 25 July 2019 in Winchester and 26 September 2019 in Lyndhurst.</li> </ul> <p>Attached is the annual audit letter for West Hampshire Clinical Commissioning Group (CCG), the purpose of which is to communicate to the Members and external stakeholders, including members of the public, the key issues arising from the auditor's work covering the 2018/19 financial year.</p> <p>The key findings are summarised as follows:</p> <ul style="list-style-type: none"> <li>• The auditors gave <b>an unqualified opinion</b> on the CCG's financial statements on 23 May 2019.</li> </ul>
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	<ul style="list-style-type: none"> <li>• The auditors issued <b>an unqualified regularity opinion</b> as the CCG's expenditure was incurred as intended by Parliament.</li> <li>• The auditors also reported on the consistency of the accounts consolidation template provided to NHS England with the audited financial statements. They concluded that these were <b>consistent</b>.</li> <li>• The auditors <b>did not identify any matters</b> which required them to exercise their statutory powers.</li> <li>• The auditors were <b>satisfied that the CCG put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources</b> (value for money arrangements).</li> </ul>
<b>Actions requested / Recommendation</b>	<p><b>The West Hampshire Clinical Commissioning Group Board is asked to:</b></p> <ul style="list-style-type: none"> <li>• <b>Note the publication of the audited CCG Annual Report and Accounts 2018/19, as approved by the Audit Committee</b></li> <li>• <b>Receive and review the Annual Audit Letter 2018/19</b></li> </ul>
<b>Principal risk(s) relating to this paper</b>	Failure to achieve financial targets will impact on opportunities to maintain and improve healthcare for the local population.
<b>Other committees / groups where evidence supporting this paper has been considered.</b>	Audit Committee
<b>Financial and resource implications / impact</b>	This paper supports the Board to monitor delivery against the CCG's statutory financial duties.
<b>Legal implications / impact</b>	There is a requirement for all health bodies to have clear external audit arrangements.
<b>Public involvement – activity taken or planned</b>	The CCG's Annual Report 2018/19 will be presented at the Annual General Meetings on 25 July 2019 in Winchester and 26 September 2019 in Lyndhurst.
<b>Equality and Diversity – implications / impact</b>	This paper does not request decisions that impact on equality and diversity.
<b>Report Author</b>	Peter Barber, Engagement Lead, Grant Thornton Ian Corless, Board Secretary
<b>Sponsoring Director</b>	Mike Fulford, Chief Finance Officer and Deputy Chief Officer Simon Garlick, Lay Member (Governance) and Audit Committee Chair
<b>Date of paper</b>	17 July 2019



# The Annual Audit Letter for NHS West Hampshire CCG

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**Year ended 31 March 2019**

**June 2019**



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# Executive Summary

## Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at NHS West Hampshire Clinical Commissioning Group (the CCG) for the year ended 31 March 2019.

This Letter is intended to provide a commentary on the results of our work to the CCG and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the CCG's Audit Committee as those charged with governance in our Audit Findings Report on 22 May 2019.

## Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the CCG's financial statements and regularity assertion (section two)
- assess the CCG's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the CCG's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

## Our work

<b>Materiality</b>	We determined materiality for the audit of the CCG's financial statements to be £14,820 million, which is 1.9% of the CCG's gross revenue expenditure.
<b>Financial Statements opinion</b>	<p>We gave an unqualified opinion on the CCG's financial statements on 23 May 2019.</p> <p>As well as an opinion on the financial statements, we are required to give a regularity opinion on whether expenditure has been incurred 'as intended by Parliament'. Failure to meet statutory financial targets automatically results in a qualified regularity opinion.</p> <p>Based on our review of the CCG's expenditure we gave an unqualified regularity opinion.</p>
<b>NHS Group consolidation template (WGA)</b>	We also reported on the consistency of the financial statements consolidation template provided to NHS England with the audited financial statements. We concluded that these were consistent.
<b>Use of statutory powers</b>	We did not identify any matters which required us to exercise our statutory powers.

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# Executive Summary

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<b>Value for Money arrangements</b>	We were satisfied that the CCG put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Audit Committee on 22 May 2019.
<b>Certificate</b>	We certified that we have completed the audit of the financial statements of NHS West Hampshire in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice on 23 May 2019.

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## Working with the CCG

During the year we have delivered a number of successful outcomes with you:

- An efficient audit – we delivered an efficient audit with you in May, delivering the financial statements 6 days before the deadline, releasing your finance team for other work.
- Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness.

- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports
- Providing training – we provided your teams with training on financial statements and annual reporting
- Supporting networking– we hosted Audit Committee Chair events to facilitate networking and discussion of topical issues.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the CCG's staff.

**Grant Thornton UK LLP**  
**June 2019**

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# Audit of the Financial Statements

## Our audit approach

### Materiality

In our audit of the CCG's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the CCG's financial statements to be £14.820 million which is 1.9% of the CCG's gross revenue expenditure. We used this benchmark as, in our view, users of the CCG's financial statements are most interested in where the CCG has spent its allocation in the year.

We also set a lower level of specific materiality for senior officer remuneration.

We set a lower threshold of £20,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

### The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give sufficient assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and are adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Annual Report to check it is consistent with our understanding of the CCG and with the financial statements included in the Annual Report on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the CCG's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

# Audit of the Financial Statements

## Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Management override of internal controls</b></p> <p>ISA (UK) 240 there is a non-rebuttal presumed risk that the risk of management over-ride of controls is present in all entities. The CCG faces external pressure to meet external targets, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We identified management over-ride of controls, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work we completed;</p> <ul style="list-style-type: none"> <li>• evaluated the design effectiveness of management controls over journals</li> <li>• analysed the journals listing and determined the criteria for selecting high risk unusual journals</li> <li>• tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration</li> <li>• gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness</li> <li>• reviewed of unusual significant transactions; and</li> <li>• reviewed of significant related party transactions outside the normal course of business</li> </ul>	<p>As in the prior year we identified a system function that allows the CFO to post journals. From our review, we confirmed that no journals were posted by the CFO in 2018/19. However, in line with best practice, we again reported this issue to the Audit Committee.</p> <p>Our audit work has not identified any other issues in respect of management override of controls</p>

# Audit of the Financial Statements

## Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Operating expenses – purchase of secondary healthcare</b></p> <p>A significant percentage of the CCG’s expenditure is on contracts for healthcare with NHS providers, such as operations and hospital care. The expenditure is primarily derived through block contracts that are agreed up front for a pre-determined cost or level of activity. Contract variations are agreed with the supplier throughout the year to recognise demand and price adjustments against the agreed contracts. Costs related to contract variations are recognised when the adjustment has been agreed with the provider, with accruals raised at the year-end for completed activity for which an invoice has not been issued.</p> <p>We identified the accuracy and occurrence of secondary healthcare expenditure – contract variations, and the existence of associated payables and accruals, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• Performed a walkthrough of the key systems to confirm our understanding</li> <li>• agreement of significant contracts and contract variances</li> <li>• tested the residual balance to ensure that variations and non-contracted activity has been treated correctly</li> <li>• Reviewed the agreement of balances reports.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p> <p>We did however note that the CCG did not have formally signed contract variations for 2018-19 in place for activity with Southern Health Foundation Trust (Community contract) and South Central Ambulance Service as at the end of the 2018-19 financial year. We undertook alternative procedures to gain assurance over these contract variations and have raised a recommendation to management regarding this. We also note that the South Central Ambulance Service contract variation was signed in May 2019.</p>

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# Audit of the Financial Statements

## **Audit opinion**

We gave an unqualified opinion on the CCG's financial statements on 23 May 2019.

As well as an opinion on the financial statements, we are required to give a regularity opinion on whether expenditure has been incurred 'as intended by Parliament'. Failure to meet statutory financial targets automatically results in a qualified regularity opinion.

Based on our review of the CCG's expenditure we gave an unqualified regularity opinion.

## **Preparation of the financial statements**

The CCG presented us with draft financial statements in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

## **Issues arising from the audit of the financial statements**

We reported the key issues from our audit to the CCG's Audit Committee on 22 May 2019.

## **Annual Report, including the Governance Statement**

We are also required to review the CCG's Annual Report and the Governance Statement included within the Annual Report. It provided these on a timely basis with the draft financial statements with supporting evidence.

## **Whole of Government Accounts (WGA)**

We issued a group return to the National Audit Office in respect of Whole of Government Accounts, which did not identify any issues for the group auditor to consider.

## **Certificate of closure of the audit**

We certified that we have completed the audit of the financial statements of NHS West Hampshire in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice on 23 May 2019.

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# Value for Money arrangements

## **Background**

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

*In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.*

## **Key findings**

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

## **Overall Value for Money conclusion**

We are satisfied that in all significant respects the CCG put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2019.

# Value for Money arrangements

## Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>In our Audit Plan dated December 2018 we commented that:</b></p> <p>Finances in the health sector remain challenging. NHS England reported a collective overspend of £690 million for CCGs in 2017/18. Last year you experienced a deterioration in your financial position and although remaining in a cumulative surplus position, delivered an in year deficit of £5.6 million.</p> <p>The CCG has agreed a deficit financial control total for 2018/19 of £2.2 million. As the brought forward surplus of £1.5 million is included in the resource allocation for 2018/19, the CCG will potentially have access to £0.7million of CSF should the deficit budget be delivered and this in turn will enable a break even position to be achieved.</p> <p>However significant risks to delivery remain. These include delivery of savings plans, excess growth in activity or pricing of acute PBR contracts leading to over performance, excess growth in CHC, volatility in national pricing and supply issues in medicines management. The areas of risk identified are not wholly within your control, many requiring actions to be taken by partner organisations.</p>	<p>As part of our work we have:</p> <ul style="list-style-type: none"> <li>• reviewed the CCGs outturn position;</li> <li>• considered arrangements to develop the 2019/20 financial plan;</li> </ul>	<p><b>2017/18 Outturn position and delivery of QIPP</b></p> <p>Last year we reported a deteriorating financial position reflecting the significant financial challenges inherent in a demand led service. Although slippage was identified at an early stage and the CCG put in place measures to address the financial position, including a review of arrangements, the year end outturn was an overspend of £5.6 million against a planned surplus of £1.8 million. From this position, the current year has seen the CCG strengthen its arrangements to bring its finances back onto a sustainable footing.</p> <p><b>2018/19 Outturn position and delivery of QIPP</b></p> <p>For 2018/19 the CCG planned to deliver a deficit financial control total of £2.2 million. In addition, the CCG was able to drawdown its historic cumulative surplus of £1.5 million reducing this net cumulative budget deficit to £0.7 million. Income, including this cumulative surplus for the year, was planned to be £778.8 million and expenditure planned at £779.5 million. Delivering against these financial targets would entitle the CCG to access the Commissioner Sustainability Fund (CSF) of £0.7 million enabling a final break-even position for 2018/19 to be achieved.</p> <p>The overall closing position for 2018/19 was a small underspend of £46,000 against the target giving the CCG access to the CSF and enabling it to deliver against all its key financial targets for the year.</p>

# Value for Money arrangements

## Value for Money Risks

### Acute Contract Delivery

This positive outcome for 2018/19 masks another very challenging year for the CCG. Over performance by the CCG's main provider, University Hospitals Southampton Foundation Trust, placed significant pressure on the budget. Despite ongoing contract management intervention and the CCG taking corrective action where possible these overspends continued throughout the year and reflect the wider increase in demand for acute services across the sector. The total overperformance of this contract for the year was £10.1 million. In addition, non-contract activity and the performance of independent providers also exceeded budget by just under £3 million.

As part of the 2018/19 Internal Audit plan, management sought assurance over the effectiveness of contract management arrangements at the CCG. This Phase 1 review completed in August 2018 gave a substantial assurance rating, with no significant weaknesses in the CCG's arrangements.

### Non-Acute Contracts and other areas of spend

Continuing health care and high cost placements overspent in 2017/18 by £6 million. Addressing this overspend has been an area of focus for the CCG. Issues with high use of agency staff, a significant backlog of work and poor data quality were identified and the CCG has strengthened arrangements in this area. The overspend in 2018/19 has reduced to £3.8 million and the backlog of assessments has been cleared enabling the CCG to release provided costs of £1.3 million supporting the outturn position. Pressure in medicines management have decreased this year, resulting in an underspend of £2 million. The outturn position was further supported by the release of the 0.5% contingency reserve budget and other uncommitted reserves.

### Efficiency savings (QIPP)

The 2018/19 budget was predicated on the delivery of £27.4 million of savings equating to 3.5% of total spend. As with previous years the achievement of these savings, was reliant in part, on the actions of partner organisations, in particular the providers. Last year we noted a slippage against the CCG's savings plans with only 69% of the 2017/18 savings target being achieved. It is pleasing to note the improved performance in this area in 2018/19 with 99% of in year savings delivered the majority of which was recurring.

The CCG identified 86 savings schemes for 2018/19. Challenges with delivery of transformational schemes notably in acute care were offset by over delivery in other areas such as continuing health care. Schemes were supported by project plans and risk assessed.

Finance and the delivery of QIPP continues to have a high profile within the CCG. Arrangements are in place to report and monitor its financial position and QIPP delivery, through the Clinical Cabinet and the Finance and Performance Committee, there is monthly reporting to Board, and finance is an agenda item for the Audit Committee.

As part of the 2018/19 Internal Audit Plan, management sought assurance over the arrangements for delivering QIPP savings at the CCG. The report, issued in February 2019, building on work undertaken in 2017/18 gave a reasonable assurance conclusion and a number of further recommendations were made to support the CCG in further strengthening its processes.

# Value for Money arrangements

## Value for Money Risks

### 2019/20 Financial Planning

The CCG has submitted a plan for 2019/20 to deliver a break even position. The Plan is compliant with all of the CCG business rules with two exceptions. A break even control total replaces the requirement to deliver an underspend equivalent to 1% of the allocation in 2018/19 and the plan does not have zero unmitigated risk.

In order deliver this position, the CCG needs to deliver savings of £29.6 million, equivalent to 3.7% of its funding allocation. Although, the CCG has identified that delivery of its planned position is subject to a significant level of risk, it is below the 4-5% benchmark set by NHS England and the unmitigated risk this represents to the Plan is of a similar scale to 2018/19. At the time of submitting the Plan, £9.7 million of savings had not been identified.

### Conclusion

Finances at the CCG remain very challenging. The CCG has moved back to an on plan position during 2018/19 and delivered a small surplus on its control total. Delivery of the break even was, however, only achieved through the return of its prior year cumulative surplus and receipt of CSF. A number of further one-off measures were also utilised in the year. QIPP delivery has been achieved overall, although not all schemes identified fully realised in the year.

Overall we have concluded that you have good arrangements in place to set a realistic and achievable budget for 2019/20. We do, however, recognise that significant pressures remain both in terms of QIPP delivery and within the wider system. Continued close in year monitoring and timely corrective action will be required to ensure budgets are delivered and service redesign with partners implemented.

# Value for Money arrangements

## Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>From the Audit Plan</b></p> <p>It is recognised that there needs to be a more integrated approach to the delivery of health care. This is being effected nationally through Sustainability and Transformation Partnerships (STP) You are part of the Hampshire and Isle of Wight STP. The STP covers a large geographical area with a diverse range of patient need, locally transformation is being effected through local delivery systems.</p>	<p>As part of our work we have:</p> <ul style="list-style-type: none"> <li>considered arrangements to work effectively with partners.</li> </ul>	<p><b>Wider System Sustainability</b></p> <p>West Hampshire CCG is a member of the Hampshire and Isle of Wight (HIOW) Sustainability and Transformation Partnership (STP). The HIOW Sustainability and Transformation Plan, produced in October 2016, identified that if no action was taken to change the way services are delivered and address rising demand, NHS organisations across Hampshire and Isle of Wight would have a financial gap of £577 million by 2020/21. In addition, there is significant pressure on the local authority care system, further increasing pressure on NHS budgets.</p> <p>The STP has published a 2019/20 operating plan, that recognises that work to transform, deliver efficiencies and work towards sustainability is taking place at all three levels of the health and care system. At an individual organisation level, through Local Delivery Systems (LDS) and wider at an STP level. The CCG's operating plan is aligned with the wider aims of the STP and consistent with NHS England's planning requirements.</p> <p>West Hampshire CCG covers a large geographical area and STP aspirations are to be delivered through LDSs as well as at a wider STP level. The CCG is a partner in two LDSs. It is working with North Hampshire CCG as part of the North and Mid Hampshire LDS. The planning cycle has been used as an opportunity to work collaboratively on agreeing assumptions and forecasts to manage financial risk as well as improve access to care for patients.</p>

# Value for Money arrangements

## Value for Money Risks

The recent revised STP reform proposal now sets out a revised vision for delivering transformational change across the system. Continued efforts to work in partnership are needed to ensure the proposed aspirations are realised.

Plans are evolving to simplify the system, you will be part of two proposed new Integrated Care Partnerships (ICP) Southampton and South West Hampshire ICP and the Mid Hampshire ICP. Each ICP will consist of a number of clusters, to manage care at a more local level.

The CCG is also developing a closer working relationship with Southampton City CCG as part of the Southampton and South West Hampshire LDS. In both systems closer working with relevant local authority partners is being effected.

The CCG is also working at scale with other commissioners, through the STP to commission services collaboratively. These arrangements reflect the increasing emphasis of future NHS planning to be at the wider system level.

### Conclusion

We consider that the CCG has adequate arrangements in place to work with its partners. We do, however, note that more needs to be done to ensure that greater partnership working across the individual local delivery systems translates into genuine transformation in the way health and social care is provided, which is capable of returning the wider system to a sustainable footing.

# A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and provision of non-audit services.

## Reports issued

Report	Date issued
Audit Plan	February 2019
Audit Findings Report	May 2019
Annual Audit Letter	June 2019

## Fees

	Planned fees £	Actual fees £	2017/18 fees £
Statutory audit	48,000	48,000	48,000
Mental Health Investment Standard (estimated)	10,000	10,000	
<b>Total fees</b>	<b>58,000</b>	<b>58,000</b>	<b>48,000</b>

## Fees for non-audit services

Service	Fees £
	0

## Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the CCG. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the CCG's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the CCG's policy on the allotment of non-audit work to your auditor.



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