KENT AND MEDWAY FIRE AND RESCUE AUTHORITY

Meeting of the Audit and Governance Committee

Monday 29 January 2024

2pm

AGENDA

KENT AND MEDWAY FIRE AND RESCUE AUTHORITY

AUDIT AND GOVERNANCE COMMITTEE

Monday 29 January 2024 at 2pm Kent Fire and Rescue Service Headquarters, The Godlands, Straw Mill Hill Tovil, Maidstone, ME15 6XB	Ask for: Telephone:	Marie Curry (01622) 692121

UNRESTRICTED ITEMS

(During these items the meeting is likely to be open to the public)

A Routine Business

A1. Chair's Announcements *(if any)*

A2. Membership Changes and Apologies for Absence

A3. Declarations of Interest in Items on this Agenda

A4. Minutes of the Audit and Governance Meeting held on Wednesday 27 September 2023 *(for approval)*

B For Decision

B1. Corporate Risk Register Update

B2. Treasury Management and Investment Strategy 2024/25 – 2027/28

B3. External Auditors Audit Findings Report for 2022/23

C For Information

C1. Internal Audit Progress Update 2023/24

C2. External Auditors Audit Findings Report for 2021/22

D Urgent Business *(Other Items which the Chair decides are Urgent)*

E Exempt Items *(At the time of preparing this agenda there were no exempt items. During any such items which may arise the meeting is likely NOT to be open to the public).*

Marie Curry
Clerk to the Authority
19 January 2024

Please note that any background papers referred to in the accompanying reports may be inspected by arrangement with the Lead/Contact Officer named on each report.

KENT AND MEDWAY FIRE AND RESCUE AUTHORITY

MINUTES of the Meeting of the Audit and Governance Committee held on Wednesday, 27 September 2023 at 2pm, Kent Fire and Rescue Service Headquarters, The Godlands, Straw Mill Hill, Tovil, Maidstone ME15 6XB.

PRESENT: - Mr A Brady, Mr P Cole, Mr N Collor, Mr D Crow-Brown, Mr M Hood, Mr B Kemp, Mr V Maple, Mr C Simkins and Mrs J Waterman (Independent Member).

APOLOGIES: - Mr A Booth and Mr J McInroy.

OFFICERS:- The Chief Executive, Miss A Millington, OBE, QFSM; the Director, Finance and Corporate Services, Mrs A Hartley; Director Prevention, Protection, Customer Engagement and Safety, Mr J Quinn; Director, Response and Resilience, Mr M Rist; Head of Finance, Treasury and Pensions, Mrs N Walker; Head of Finance, Treasury and Pensions, Barrie Fullbrook, Head of Policy, Dr O Thompson and the Clerk to the Authority, Mrs M Curry.

ALSO IN ATTENDANCE: - Ms F Smith and Ms L Taylor, KCC Internal Audit.

UNRESTRICTED ITEMS

1. Election of Chair for 2023/24
(Item A1)

(1) Mr Kemp moved, Mr Brady seconded, that Mr Maple be elected Chair of the Committee.

(2) There being no other nominations, Mr V Maple was declared Chair of the Audit and Governance Committee for 2023/24.

2. Election of Vice-Chair for 2023/24
(Item A2)

(1) Mr Maple moved, Mr Simkins seconded, that Mr Kemp be elected Vice-Chair of the Committee.

(2) There being no other nominations, Mr B Kemp was elected as Vice-Chair of the Audit and Governance Committee for 2023/24.

3. Chair's Announcements
(Item A3)

(1) The Chair thanked Richard Bason from Link Asset Group for providing Members with training on Treasury Management prior to the meeting.

(2) The Chair welcomed the new Members who had been appointed to the Committee following the Authority's AGM.

(3) The Chair welcomed Jenny Waterman to her first Committee as the Independent Member.

(4) The Chair welcomed Frankie Smith and Louise Taylor from KCC Internal Audit to the meeting.

4. Membership
(Item A5)

(1) The list of Members appointed to serve on the Committee for 2023/24 was noted.

5. Minutes – 20 April 2023
(Item A6)

(1) RESOLVED that: -

(a) the minutes of the Audit and Governance Committee meeting held on Thursday 20 April 2023, be approved and signed by the Chair as a correct record.

6. Provisional Final Outturn for 2022/23
(Item B1 – Report by Director, Finance and Corporate Services)

(1) The Committee received a detailed report on the provisional final outturn for 2022/23 which is part of a suite of papers for Members to review in order to gain sufficient assurance to formally approve the Statement of Accounts for 2022/23.

(2) The Committee also received a summary of the key points from the report that were presented and agreed by the Authority at its meeting in June 2023.

(3) Members were provided with an update on the delay in the External Auditors review and conclusion of the 2021/22 final accounts for this Authority. The delay is due to a national issue in relation to actuarial pension figures.

(4) Mrs J Waterman asked if the Authority has compared the position of our External Auditor against other organisations and whether these were in a similar situation. The Director for Finance and Corporate Services responded by saying this is an issue across the board, not just for this Authority's External Auditors.

(5) In response to discussions relating to Pension Fund contributions, Mr Maple asked for a training session to be provided, prior to the next Committee meeting, on the changes in legislation for Pensions which is due to be released in October 2023.

(6) The Chair thanked the Director of Finance and her team for the well written, clear and concise reports.

(7) RESOLVED that: -

(a) the final provisional revenue budget overspend of £818k against an approved budget of £77.429m, be noted.

(b) the final capital outturn of £4.235m against the revised capital budget of £5.359m, be noted.

(c) the remaining contents of the report be considered and noted.

7. Internal Audit Annual Report for 2022/23
(Item B2 – Report by Director, Finance and Corporate Services)

(1) The Committee considered the Internal Audit Annual Report for 2022/23.

(2) Ms Frankie Smith, KCC Internal Audit, introduced the Annual Report which contained the Head of Internal Audit's opinion of the overall effectiveness of the Authority's framework of governance, risk management and control systems. The annual opinion is largely informed by the work undertaken as part of the Internal Audit Plan for the 2022/23 financial year. It also considers the result of audits for the previous two financial years and any subsequent follow up work undertaken.

(3) Mrs J Waterman asked whether the outcomes of the audit were as expected and whether there were any areas that were more challenging. The Head of Internal Audit said that she has personally worked with Kent Fire and Rescue Service for the past three years and it's clear that officers are very aware of where their risks are. It is unusual to see a limited opinion, but the Service is very prompt to respond to ensure that robust procedures are put in place.

(4) The Chair, on behalf of Members, gave thanks to Internal Audit for the work they undertake on behalf of the Authority.

(5) RESOLVED that: -

(a) the Internal Audit Annual Report for 2022/23, attached as Appendix 1 to the report, be approved.

8. Annual Governance Statement 2022/23
(Item B3 – Report by Director, Finance and Corporate Services)

(1) The Committee considered the Authority's Annual Governance Statement for 2022/23, the preparation of which followed completion of the annual internal self-assessment process.

(2) The Annual Governance Statement provides an analysis of the governance arrangements and systems of internal control along with the assessment of the Authority's effectiveness. The Statement is reviewed by the External Auditors and published alongside the Statement of Accounts each year.

(3) Mr Hood asked whether Government funded grants are reviewed to support the Authority's pledge to become carbon neutral by 2030. The Director of Finance and Corporate Services assured Members that a periodic review does take place to look at all available grants to identify if any would be relevant to the work of this Authority.

(4) The Director of Operations added that both the Service's Estates and Fleet teams regularly look at options around reducing the Service's carbon footprint. The Service already has hybrid vehicles in terms of our pool fleet. However heavy appliances are more of an issue, but lower carbon options are being researched. He added that the Service is also working closely with the Environment Agency when it comes to fighting fires and the potential impact that may have on the environment.

(5) Mrs J Waterman asked that in light of the Government's announcement on a revised date for reaching Net Zero Carbon, does the Service still plan to work towards 2030. The Director of Operations responded by saying that this would still be the aim and a considerable amount of work is being undertaken to reach that target.

(6) RESOLVED that: -

(a) the Annual Governance Statement for 2022/23, as detailed in Appendix 1 to the report, be approved.

9. Treasury Management Annual Report for 2022/23
(Item B4 – Report by Director, Finance and Corporate Services)

(1) The Committee consider a report on Treasury Management activities during 2022/23.

(2) Mr Kemp asked whether there was any additional training planned for the new Members of the Committee on Treasury Management. The Director of Finance and Corporate Services said that Richard Bason from Link Asset Group, regularly provides the Committee with briefing sessions on Treasury Management as part of a Members training programme but she is more than happy to arrange any further training sessions for Members if they feel more support is needed.

(3) RESOLVED that: -

(a) the year-end report on Treasury Management activities for 2022/23, be approved.

10. Annual Statement of Accounts for 2022/23
(Item B5 – Report by Director, Finance and Corporate Services)

(1) The Committee considered the draft Statement of Accounts for 2022/23, which are awaiting review by the Authority's External Auditors.

(2) The Committee was also given a presentation on the Authority's Financial Statements that provided more detail on the Comprehensive Income and Expenditure Statement (CIES), which represents the income and expenditure associated with the 2022/23 financial year; the Movement in Reserves Statement which shows the changes to resources available to the Authority over the year; the balance sheet as well as the Cash Flow Statement showing the cash payments and receipts during the year.

(3) Mr Maple thanked Mrs Walker for the presentation.

(4) RESOLVED that: -

(a) the draft Statement of Accounts for 2022/23, be approved.

(b) the remaining contents of the report be noted.

11. Chair of Audit and Governance Committee's Report to the Authority
(Item B6 – Report by Chair of Audit and Governance/Director, Finance and Corporate Services)

(1) Members considered a report which provided a detailed summary of the activities undertaken by the Audit and Governance Committee during the last year.

(2) The report demonstrates to the Authority the effectiveness of this Committee's work in assessing and maintain the organisation's internal control environment and governance arrangements.

(3) The Chair gave his thanks to Members, officers and external partners for their continued support and commitment to the work of the Committee.

(4) RESOLVED that: -

(a) the contents of the report, which will be presented to the Authority at its meeting in October 2023, be approved.

12. Mid-Year Treasury Management and Investment Update for 2023/24
(Item C1 – Report by Director, Finance and Corporate Services)

(1) THE CIPFA Code of Practice on Treasury Management and the Prudential Code requires the Authority to determine and set the Treasury Management Strategy for the financial year ahead. This was agreed by the Authority at its meeting on 21 February 2023.

(2) As a requirement of the Strategy, this Committee received a mid-year update on treasury activity undertaken and the extent of the compliance with the agreed prudential indicators.

(3) RESOLVED that: -

(a) the contents of the report be noted.

At the close of the formal business, Members passed on their best wishes for a speedy recovery to Ms A Millington, Chief Executive, following a recent ankle operation.

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Item Number: B1

By:	Director Finance and Corporate Services
To:	Audit and Governance Committee – 29 January 2024
Subject:	CORPORATE RISK REGISTER UPDATE
Classification:	Unrestricted

FOR DECISION

SUMMARY

Audit and Governance Committee last received an update on the Corporate Risk Register at the April 2023 meeting. This report provides an update of progress made against action plans and any changes to risk likelihood or impact on the Corporate Risk Register since that meeting.

Members can be assured that good progress continues to be made on a number of action plans, which will help mitigate or reduce respective potential risks.

RECOMMENDATIONS

Members are requested to:

1. Agree amendments to the Corporate Risk Register as shown in **Appendix 1** (paragraphs 4 to 20 refers).

2. Note the content of the report.

LEAD/CONTACT OFFICER: Head of Finance, Treasury and Pensions – Nicola Walker
TELEPHONE NUMBER: 01622 692121 ext 6122
EMAIL: nicola.walker@kent.fire-uk.org
BACKGROUND PAPERS: None

COMMENTS

Background

1. Members last received an update on the Corporate Risk Register at the April 2023 Audit and Governance meeting. Since then, good progress has been made on a number of action plans, which will help mitigate or reduce the respective potential risks going forward. Corporate Management Board regularly monitor and review the Risk Register to ensure it is up to date and relevant.

2. A Corporate Risk Register update is presented to this committee twice a year, usually to the April and the November/December meeting. However, the Risk Register is held under regular review and if new risks or significant changes are identified then an update will be provided to Members at the next meeting of this committee.

3. However, as the current risk management approach has been in operation for a few years, we are taking the opportunity, over the next few months to enhance our approach to managing risk, in part by developing a risk appetite statement. Consequently, we will be presenting the proposed updated and enhanced approach to either the April or September meeting of this committee.

4. Detailed below in the following paragraphs are the changes that have been applied to the Risk Register, alongside where relevant, an update on the action plans to mitigate the risk, since Audit and Governance last reviewed it in April 2023. A full Risk Register is attached at **Appendix 1** for Members' information and approval.

Summary of Progress

5. **Risk 1 –** It was reported in April 2023 that the likelihood of industrial action had been adjusted down to 'fairly unlikely' following the latest pay offer made in the national pay negotiations. The likelihood of this action has not changed however, we continue to mitigate for any potential industrial action through our Industrial Action Business Continuity planning arrangements and degradation procedures. The Industrial Action Plan is regularly reviewed in line with National Fire Chiefs Council's (NFCC) guidance. Home Office Assurance Surveys are also regularly submitted, and officer refresher training is ongoing in order to align with National Operational Guidance (NOG).

6. **Risk 2** – The annual supplier audit is due to take place in November/ December 2023 with a further review to be carried out in the early part of 2024. Regular supplier meetings and the monitoring of Government guidance is also carried out. The Procurement team continue to track our supply chains for any significant interruptions or impacts and are also monitoring Government guidance on supply chain impacts.

7. **Risk 3** – A joint evacuation exercise of Fire Control with Kent Police colleagues was successfully completed in July 2023; weekly checks of our 'fallback' facility are carried out and an Exercise Power App is in place to update with exercise information. A further joint evacuation will be planned once Fire Control relocate to their new premises at Coldharbour and it is intended that regular evacuation tests will be carried out thereafter. Additional purchasing cards have also been issued to Operational Officers and Fire Control colleagues in order to support operational cover at peaks times.

8. **Risk 4** – We continue to model funding scenarios as part of the Medium-Term Financial Plan (MTFP). Whilst the provisional financial settlement was announced just before Christmas, we are still awaiting confirmation of all the pensions grants and S31 grant allocations for the 2024/25 financial year. There is the likelihood that there may need to be some draw down from earmarked reserves to bridge a short-term funding gap, until such time as base budget savings are identified.

9. **Risk 5** – A review of our Operational Information Note (OIN) regarding our response to a serious injury or fatality of a KFRS colleague has been completed and the guidance will be tested in early 2024. Additionally, grab packs including 'How to Respond' guidance has been issued to all Directors and this information is stored within the Significant Events site.

10. **Risk 6 –** Funding is considered and reviewed as part of the annual budget build and regular reviews of the MTFP. We continue to model funding scenarios until we receive confirmation of the provisional funding settlement. We continue to participate in responding to all consultation documents issued and regularly monitor Government funding plan proposals. The ongoing economic and political changes increase the uncertainty around the Authority's medium-term funding which is reflected in a likelihood of 'highly likely' on the risk register.

11. **Risk 7** – Current economic issues have seen the Government prioritise the need to stabilise the economy and it appears, that local government reforms have been put back to future years, to sometime after the up-and-coming election. The Authority continues to maintain earmarked reserves to cover the initial budgetary shortfall for unfunded losses or costs, although longer term savings would need to be identified in the MTFP if these losses/costs were ongoing. To obtain a better understanding of utility usage across the estate a Laser Bureau Management System to monitor utility costs has been procured and implemented and the Property team will closely monitor utility usage and drive energy reduction initiatives.

12. **Risk 8** – The CRM/PRM project addresses this issue. A benefits workshop was held in the summer and the Dynamics roll out to companion devices was completed in August 2023. A station based read only access to the latest RAV-SSRI for site specific risk

information has been implemented. A Dynamics Exercise Planning Power App workshop was also completed in October 2023 which now paves the way for phase 3 (station activity review and a system update of Building Safety Regulations) of the project to commence. The project completion date remains as December 2024.

13. **Risk 9** – We continue to ensure that delivery arrangements are in line with contracts and that Partners and Stakeholders expectations are defined at the outset of a contractual arrangement.

14. **Risk 10** – We recently participated in the 'Mighty Oak' Tier 1 National Exercise where seventy-eight national recommendations were made. We are currently working with UK Fire Services and Kent Resilience Forum to consider those recommendations and embed into our planning where appropriate. A review of the impacts of a National Power Outage (NPO) on KFRS has also been completed via a Power Outage workshop with key stakeholders. A test of our planning arrangements and current mitigation measures have been undertaken to ensure continued delivery of our mission critical services.

15. **Risk 11** - The Fire Safety England Regulations 2022 came into effect in January 2023. We continue to monitor the legislation and work with the National Fire Chiefs Council, the Health and Safety Executive and Local Authority Housing Teams on the implementation of the new legislation. This includes mapping out our processes, consulting with stakeholders, reviewing resources and increasing training requirements to enable compliance to be achieved in line with the guidelines. The next review of the guidance and associated processes is planned for April 2024.

16. **Risk 12** – The economic environment continues to experience high inflation resulting from price increases for many goods and services. The Authority continues to monitor the outcomes of legislative changes to determine possible financial impacts and the potential use of reserves to fund any in-year budget pressures arising from those legislative changes.

17. **Risk 13** – The McCloud Pension Case Technical Guidance has now been issued and work progresses with our pension administrators to implement the changes. Local Pension Partnership (LPP) have provided KFRS with a detailed McCloud project plan to ensure the outcomes of the McCloud remedy can be delivered within the prescribed time limits. The ill health reassessments have been submitted and are awaiting completion. LPP are still undertaking data collections following their initial requests for information which includes financial tax and contribution data. This risk will now be removed from the Corporate Risk Register but will be monitored at a local level.

18. **Risk 14** – Although the likelihood is still high, we have completed the following to reduce the impact: - Cyber Resilience Plan, IT Cyber recovery arrangements and

prevention strategies, review and assurance on Cyber Resilience sought through KFRS Internal Audit. We are reviewing our cyber security training materials and preparing to undertake a programme of work including running simulations across the organisation to raise awareness of some of the more common attacks. We are also working towards the NFCC Cyber Fire Standard 2023 to ensure this aligns with our own Cyber Incident Response plan. The Home Office have obtained funding for 3 years, to assess Fire and Rescue Services IT infrastructures. This involves an assurance test, identification of gaps and implement measures to mitigate. We were one of the Fire Services selected by the Home Office to complete their Cyber Assessment Framework (CAF) Survey which will help inform the direction to progress. As part of our data protection review, we have completed a comprehensive suite of Data Protection Impact Assessments (DPIA's), which are vital for business as usual processes and a DPIA Screening Form was introduced in July 2023 for all new major projects.

19. **Risk 15** – The CTS Vehicle Services fleet maintenance function was brought inhouse on 1 April 2023. Workshop issues and resulting actions have been completed or are on schedule for completion in the coming months. Body repairs and fire pump repairs are being outsourced to the original manufacturers and / or converters due to their specialism but any delays in repair completion by the manufacturer are being closely monitored. This risk will now be removed from the Corporate Risk Register and monitored at a local level.

New Risk

20. **Risk 16** – A new risk has been identified and recently been added to the Corporate Risk Register. This is due to reduced water pressure in the water networks resulting in limited pressure of water extracted via fire hydrants. This is a national issue that impacts on a number of geographical areas within Kent and therefore has been identified as a fairly likely but critical risk. A national meeting was arranged to discuss this issue and engagement with local water companies has increased. The risk was also escalated to NFCC in late November 2023.

IMPACT ASSESSMENT

21. Officers regularly review the action plans that underpin each corporate risk to ensure wherever possible the risk is either minimised or mitigated. The risks are regularly reviewed and overseen by Corporate Management Board. This report shows that the Authority considers the assessment of risk as a key part of the governance of the Authority.

RECOMMENDATIONS

22. Members are requested to:

22.1 Agree amendments to the Corporate Risk Register as shown in **Appendix 1** (paragraphs 4 to 20 refer).

22.2 Note the content of the report.

Summary Risk Register for Authority Reports

Risk No	Risk	Potential Consequences	Owner	Likelihood	Impact	Current Rating	Direction of Travel	Planned Risk Management Actions	Status
1	**IF** the Authority is affected by prolonged industrial action **THEN** an effective emergency response wouldn't be maintained	Major Loss of life or property	AD Resilience	Faily unlikely	Significant	Material	~~Significant Reduction~~ No Change	Review Industrial action BC plan and update	Completed
		Fines or claims against the Authority						Provide refresher training to officers in appliance equipment etc.	Completed
		Increased financial costs						Fortnightly Industrial Action Working Group meetings to ensure mission critical functions are protected	~~In Progress~~ Completed
		Public and media condemnation of the Service						Industrial Action BC Plan scenario walk through	Completed
		Government intervention in the management of the Service						Review Industrial Action Plan in line with current guidance	New Action
2	**IF** sufficient firefighting equipment PPE and vehicles of the required standard was unavailable as required **THEN** an effective emergency response could not be provided	Major Loss of life or property	AD Response	Very Unlikely	Catastrophic	Material	No change	Review and test Disaster Recovery arrangements for current contract	Completed
		Fines or claims against the Authority							
		Increased financial costs						Annual Audit Held and regular meetings established with incumbent supplier, with regard to operational continuity of supply of good and services.	In Progress
		Public and media condemnation of the Service						Monitor and respond to govt guidance with regard to the monitoring of supply chain impact	In Progress
		Government intervention in the management of the Service							

Risk No	Risk	Potential Consequences	Owner	Likelihood	Impact	Current Rating	Direction of Travel	Planned Risk Management Actions	Status
3	**IF** the arrangements for mobilising emergency resources failed **THEN** an effective emergency response couldn't be maintained	Several levels of fail over/back up processes in place	Dir Resp & Res	Fairly Unlikely	Critical	Material	No Change	Test system failure plans	Completed
								Identify key person weaknesses and address skill deficiency	Completed
		Joint systems development board to agree IT work						No notice evacuation exercise to include invite to Kent Police	Completed
								Carry out regular, scheduled evacuation exercises to provide further confidence in the resilience around secondary mobilising systems.	In Progress
		Emergency service have preferential access to systems in event of wide scale failure.						Increase Purchasing Cards during emergencies at peak times	Completed
4	**IF** Finance for externally funded services is withdrawn **THEN** the Authority will have to absorb existing staff over a short period	Industrial unrest	AD Response, AD Resilience	Highly Likely	Significant	Material	No change	Consider possibility of utilising earmarked reserves in short term. In the longer term establishment levels will be considered against recruitment needs.	In Progress
		Staff Redundancies							
		Adverse media comments						Review overhead costs and scale back accordingly	In Progress
		Overspending							
5	**IF** an employee is seriously injured/killed in any area of activity **THEN** a series of formal investigations will be instigated	Disruption at senior management level	All Directors	Fairly Unlikely	Critical	Material	No Change	Review of service guidance on Serious Injury or Death in Service and how this links to our Health & Safety Framework	~~In progress~~ Completed
		Enforcement action against the Authority							
		Claims against the Authority						Exercise a significant safety event/injury scenario	In Progress
		Resignation or dismissal of senior staff							

Risk No	Risk	Potential Consequences	Owner	Likelihood	Impact	Current Rating	Direction of Travel	Planned Risk Management Actions	Status
6	IF the government's funding plans (funding formula/Spending Review) disadvantage KFRS **THEN** its MTFP will be compromised	Further savings would be required	Dir Finance & Corp Serv	Highly Likely	Significant	Material	No Change	Regular reviews of the MTFP	In Progress
								Respond to any consultation document issued.	In Progress
7	**IF** the Authority suffers a major unfunded loss/cost THEN additional in year savings would be required	A reduction in reserves	Dir Finance & Corp Serv	Fairly Likely	Significant	Material	No Change	Explore the potential use or earmarked reserves in the short term. Establish if new in year savings could be generated.	In Progress
		Delay in delivering projects and investments							
		Further savings required						Explore the potential of utilising Smart Meter data to monitor utility usage across KFRS estate	In Progress
8	**IF** customer and premises information cannot be made available to operational staff **THEN** there is an increased risk that an inappropriate response to an emergency might be delivered	Increased health and safety risk to staff and customers	Dir Resp & Res	Fairly Unlikely	Significant	Material	No Change	CRM/PRM project in progress to address this	In Progress
		Adverse comments from public and media							
		Legal action against the authority						MDT replacement project in progress	Completed
		Intervention by HSE or other agencies							
9	**IF** a Kent run major procurement arrangement fails to meet expectations **THEN** partners' trust and reliance of the Authority will be damaged	Credibility affected, which may have an impact in future on leading other national collaborative procurement projects	Dir Finance & Corp Serv	Fairly Unlikely	Significant	Material	No Change	Clarify expectations at the outset with partners/ stakeholders	In Progress
		Higher procurement costs						Establish clear mechanisms to monitor delivery of arrangements	Completed
		Legal action against the Authority						Review and improve standard terms and conditions	Completed

Risk No	Risk	Potential Consequences	Owner	Likelihood	Impact	Current Rating	Direction of Travel	Planned Risk Management Actions	Status
10	**IF** the Authority is unable to maintain mission critical services following an external disruption **THEN** the Authority could fail to meet its statutory duties	Loss Of Staff - Short or Long Term	AD Resilience	Fairly Unlikely	Significant	Material	No Change	Transport disruption planning to be completed as part of EU exit preparation	Completed
		Loss of Premises - Including access to site(s)							
		Loss of Information and Communication Technology (ICT) services						Annual exercise completed and learning identified	Completed
		Loss of utilities						Review section business impact analysis	Completed
		Loss of critical suppliers/ contractors							
		Loss of vehicles and essential equipment						Review impacts of National Power Outage (NPO) on KFRS	In Progress
		Transport disruption - including severe weather							
		Shortage of fuel supply							
11	**IF** changes to the Fire Safety Order and the creation of the Building Safety Regulator require changes **THEN** the Authority will need to review working practices and staffing levels.	Increased financial costs	Dir Prev, Protec	Fairly Likely	Significant	Material	No Change	Monitor the ~~progress~~ impacts of the Fire Safety England Regulations, the Fire Safety Act 2022 and Building Safety Bill 2022 and associated guidance	In Progress
		Public dissatisfaction with the Service						Work with the NFCC and HSE on the implementation of the new legislation	
12	**IF** costs increase as a result of legislative changes **THEN** the Authority's MTFP will be compromised.	Increased financial costs	Dir Finance & Corp Serv	Highly Likely	Significant	Material	No Change	Consider possibility of utilising earmarked reserves in short term. In the longer term a higher level of savings will need to be identified.	In Progress
		Further savings would be required						Keep a watching brief for legislation changes	In Progress
		A reduction in reserves						Request a revised pension report to understand the increased pension liability	Completed

Risk No	Risk	Potential Consequences	Owner	Likelihood	Impact	Current Rating	Direction of Travel	Planned Risk Management Actions	Status
14	**IF** the Authority suffers a cyber-attack **THEN** it may not be able to perform its statutory duties and recovery may be protracted	Major Loss of life or property	Dir Finance & Corp Serv	Fairly Likely	Significant	Material	No change	Started at level 2 BC issue and small working team to monitor	Completed
								Implemented additional Cyber Protection measures	Completed
								Agree Cyber SPOC	Completed
		Loss of Information and Communication Technology (ICT) services						Communicate to all users about cyber security	Completed
								Draft a new cyber security incident response plan	Completed
								Review IT related mission critical activities	Completed
		Increased financial costs						Check we are in line with published KRF cyber-attack response plans	Completed
								Carry out a Cyber Attack Critical scenario walkthrough	Completed
		Public dissatisfaction with the Service						Identify a summary of actions and work to be completed	Completed
								Future programme of data and cyber security reminders to be released periodically for 6 months commencing 1 March 2022	In Progress
								Complete Data Protection impact assessments where necessary	Completed
								Work to NFCC Cyber fire Standard 2023	In Progress

Risk No	Risk	Potential Consequences	Owner	Likelihood	Impact	Current Rating	Direction of Travel	Planned Risk Management Actions	Status
16	**IF** the water pressure in the water network (via fire hydrants) is low THEN an effective emergency response cannot be maintained	Major Loss of property	AD Response, Operational Response	Fairly likely	Critical	Severe	New Risk	R&R local project set up & work through all affected areas of risk	In Progress
		Major Loss of life (internal & external customers)						National Meeting at Surrey FRS 24/11/24	In Progress
		Public dissatisfaction with the Service						Risk escalated through to NFCC Chiefs (29 November 2024)	In Progress
		Public /union and staff dissatisfaction with the service.						Presentation delivered to all key KFRS teams – (CMB, R&R, Building Safety, Fire Engineering and Stations Leaders).	No Started
		Legal action against the Authority						Increase engagement with local Water Companies.	In Progress

Summary of Risks Removed From Register for Authority Reports

Risk No	Risk	Potential Consequences	Owner	Likelihood	Impact	Current Rating	Direction of Travel	Planned Risk Management Actions	Status
13	**IF** there is a delay in the release of the technical guidance to support the recent legal ruling in relation to the McCloud pension case **THEN** the Authority could be subject to legal challenge.	Public/union and staff dissatisfaction with the service.	Dir Finance & Corp Serv	Fairly Likely	Minor	Material	No change	Remain engaged and maintain awareness of progress by the Scheme Advisory Board	Completed
		The exit of significant staff and loss of expertise						Engage with other FRS' to consider necessary approach	Completed
								Ensure communication takes place to all those affected	Completed
		Legal action against the Authority						Ensure we are fully prepared to deliver outcomes when the guidance is available	Completed
15	**IF** the contracted fleet workshop provision is not available**THEN** it may not be possible to maintain frontline heavy fleet (fire engines) to a working and legally compliant standard.	Major Loss of life or property	AD Response, Operational Response	Fairly unlikely	Critical	Material	No change	Consider options to outsource the capability to another supplier/ suppliers	Completed
		Unable to attend incidents with appropriate vehicles							
		Failure to meet legal obligations						Bring the capability in house	Completed
								Identify workshop issues and action list as a result of transfer in house	In Progress
		Public dissatisfaction with the Service						Resolve primary gaps in body repairs and fire pump repairs	In Progress

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Item Number: B2

By: Director, Finance and Corporate Services

To: Audit and Governance Committee - 29 January 2024

Subject: TREASURY MANAGEMENT AND INVESTMENT STRATEGY 2024/25 - 2027/28

Classification: Unrestricted

FOR DECISION

SUMMARY

The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management and the CIPFA Prudential Code require the Authority to determine and set the Treasury Management Strategy for the financial year ahead as part of the annual budget papers in February of each year. Part of the Terms of Reference of the Audit and Governance Committee is to review the Treasury Management Strategy and Investment Strategy and agree the draft 'in principle' prior to it being presented to the full Authority in February each year as part of the suite of budget papers.

The capital and reserve figures detailed within the draft strategy provide a current estimate of forecast spend but may be subject to refinement prior to the February Authority meeting, as projects progress or slip and more detailed work in costing and profiling is undertaken, to ensure affordability.

The Authority continues to prioritise security and liquidity over potential yield in line with CIPFA guidance, whilst ensuring that the treasury activity undertaken complies with the agreed strategy.

RECOMMENDATION

Members are requested to:

1. Agree 'in principle', the Treasury Management and Investment Strategy for 2024/25 (paragraphs 9 to 60 refer).

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BACKGROUND PAPERS:

ANNUAL TREASURY MANAGEMENT AND INVESTMENT STRATEGY 2024/25

Introduction

1. Treasury management is defined by the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management Code of Practice as:

   "the management of the Authority's borrowings, investments and cash flows, its banking, money market and capital market transactions; the effective control of risks associated with those activities; and the pursuit of optimum performance consistent with those risks".

2. There are two parts to the treasury management operations, the first is to ensure that the Authority's cash flow is adequately planned, with cash being available when it is needed to support business and service objectives. Surplus monies are placed in low-risk counterparties or instruments in line with the Authority's low risk appetite, providing adequate liquidity initially before considering investment return. The second main function of treasury management is the funding of the Authority's capital plans. The Capital Strategy provides a guide to the borrowing need of the Authority, essentially the longer-term cash flow planning to ensure that the Authority can meet its capital spending obligations.

3. The CIPFA Code of Practice on Treasury Management (TM) and the CIPFA Prudential Code require local authorities to determine and set the Authority's Treasury Management Strategy, its Strategy relating to investment activity, and Prudential Indicators on an annual basis. The Authority currently has cash backed reserves and balances of circa £34.3m, so it is important that robust and appropriate processes are in place to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund. Set out below are the key elements of the Strategy covering the borrowing requirements and investment arrangements.

4. The Authority's Investment Strategy has regard to the TM Code and the Guidance. It has two objectives: the first is security, in order to ensure that the capital sum is protected from loss, ensuring that the Authority's money is returned; and the second is portfolio liquidity, in order to ensure that cash is available when needed. Only when the proper levels of security and liquidity have been determined can the Authority then consider the yield that can be obtained within these parameters.

5. This Strategy has been created based on the CIPFA 2021 Prudential and Treasury Management Codes, which requires the Authority to prepare a Capital Strategy. The Capital Strategy is a document in its own right which will is reported seperately to the Authority as part of the February budget papers. This Authority does not envisage any commercial investments and has no non-treasury investments.

Policy Statement

6. The Authority regards the successful identification, monitoring and control of risk to be the main criteria by which the effectiveness of its treasury management activities will be

measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.

7. The Authority acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives including its Customer and Risk Management Plan and long term Capital Strategy. It is therefore committed to the principles of achieving value for money in treasury management and to employing suitable comprehensive performance measurements, within the framework of effective risk management.

National Guidance and Governance

8. This Strategy complies with the CIPFA Treasury Management in Public Services Code of Practice and Cross-Sectoral Guidance Notes ("the TM Code"), and guidance on Local Government Investments issued by the Secretary of State for Communities and Local Government under section 15(1)(a) of the Local Government Act 2003 ("the Guidance"). Specific decisions on the timing and amount of any borrowing will be made by the Authority's Director, Finance and Corporate Services in line with the agreed Strategy.

9. **Governance:** The Authority is required to receive and review a number of financial reports each year, which cover the following:

    (a) **An Annual Treasury Management and Investment Strategy:** This Strategy forms part of the February 2024 budget report to Authority. This Strategy therefore includes: -

    - the Capital Programme together with the appropriate prudential indicators.
    - the Minimum Revenue Provision (MRP) policy, which details how residual capital expenditure is charged to revenue over time.
    - the Treasury Management Strategy, which defines not only how the investments and borrowings are to be organised, but also sets out the appropriate treasury indicators; and
    - an Investment Strategy which sets out the parameters on how deposits are to be managed.

    (b) **A Mid-year Treasury Management Report:** This will usually be presented to Members of Audit and Governance for review in the autumn prior to submission to the Authority meeting and provides an update on the Capital Programme, amending prudential indicators and/or the Strategy, if necessary.

    (c) **A Year-end Annual Report:** This provides the final outturn position for the year in relation to investments and deposits made during the year, prudential and treasury indicators, and a summary of the actual treasury activity during the year.

10. A quarterly review by Corporate Management Board (CMB) monitors the treasury management and prudential indicators as part of the Authority's general revenue and capital monitoring reporting.

External Support

11. **Treasury Management Advisor:** The Authority uses Link Group (previously known as Capita Asset Services) as its external Treasury Management Advisor. The Authority recognises that the responsibility for treasury management decisions remains with itself and will ensure that undue reliance is not placed upon the external advisor. The current contract expires at the end of September 2024.

THE CAPITAL PRUDENTIAL INDICATORS 2024/25-2027/28 AND THE MINIMUM REVENUE PROVISION (MRP) STATEMENT

12. The Authority's capital expenditure plans are the key driver of treasury management activity. The output of the Capital/Infrastructure Plan is reflected in the Prudential Indicators, which are designed to assist Members' overview and confirm capital expenditure plans.

13. **Capital Expenditure:** This can be funded from a variety of sources such as directly from the revenue budget, capital receipts (money received for the sale of the Authority's assets) capital grants or from borrowing. The Authority's Capital Plan, and the revenue and capital resources being used to finance it, are shown in **Table 1** below. Where there is a difference between planned expenditure and cash resources, this will result in an increase in the net financing need and hence the potential need to consider external borrowing. The Authority will only ever borrow to fund capital expenditure. Given that interest rates remain high, it is prudent to consider internal borrowing as opposed to external borrowing until such time as interest rates reduce.

Table 1 **Capital Expenditure**	**2023/24** **Forecast** **£'000**	**2024/25** **Estimate** **£'000**	**2025/26** **Estimate** **£'000**	**2026/27** **Estimate** **£'000**	**2027/28** **Estimate** **£'000**
Capital Expenditure	**6,552**	**12,752**	**4,386**	**12,217**	**7,127**
Funded By:					
Revenue / Infrastructure funding	-2,592	-2,368	-2,592	-5,872	-7,127
Capital Receipts	-2,097	0	-1,783	-6,345	0
One off Capital Funding	0	0	0	0	0
Borrowing	0	0	0	0	0
Net Financing Need (Borrowing) for the Year	**1,863**	**10,384**	**11**	**0**	**0**

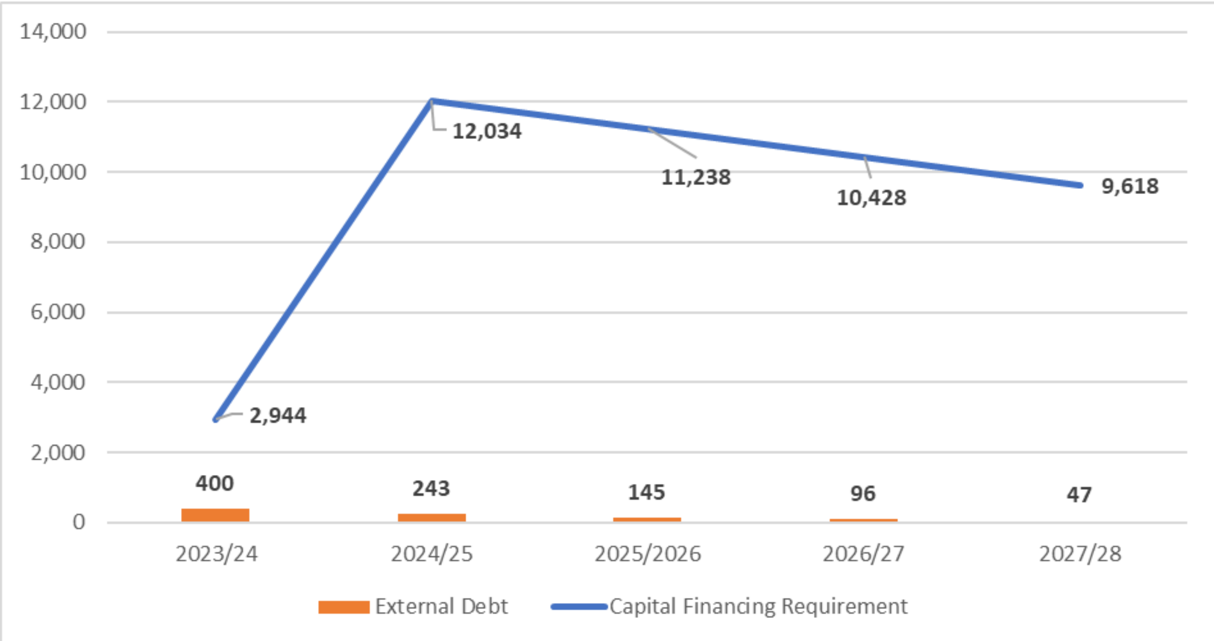
14. **The Authority's Borrowing Need [the Capital Financing Requirement (CFR)]:** The CFR is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Authority's

indebtedness and its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through revenue or capital resource will increase the CFR. The CFR projections are shown in **Table 2.**

Table 2 **Capital Financing Requirement**	**2023/24 Forecast £'000**	**2024/25 Estimate £'000**	**2025/26 Estimate £'000**	**2026/27 Estimate £'000**	**2027/28 Estimate £'000**
Opening CFR	1,654	2,944	12,034	11,238	10,428
Movement in CFR	1,290	9,090	-796	-810	-810
Closing CFR	**2,944**	**12,034**	**11,238**	**10,428**	**9,618**
Movement in CFR represented by					
Net Financing Need (Borrowing) for the Year	1,863	10,384	11	0	0
Less: Provision for Principal	-573	-1,294	-807	-810	-810
Movement in CFR	**1,290**	**9,090**	**-796**	**-810**	**-810**

*The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which reduces the indebtedness in line with each asset's life.

Capital Financing Requirement Profile vs External Debt Profile (year-end position)



Note: External Debt includes other long-term liabilities such as leases

15. **Core Funds and Expected Investment Balances:** The application of resources (capital receipts, reserves, etc.) to finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments/deposits. Detailed below in **Table 3** are estimates of the year-end balances for each cash-backed

resource, working balances and the net amount of capital expenditure funded from internal resources (historical under-borrowing). The sum of these balances is the amount estimated as available for investment.

16. Working balances comprise of the estimated net difference between amounts owed to or by the Authority (debtors and creditors and other amounts paid or received but not yet charged to the accounts). The amount under-borrowed in this table relates to historical capital expenditure that was identified as needing to be funded from borrowing in earlier years, but where a decision was made to use internal cash balances instead of external debt (this is shown calculated in **Table 2** above), less the actual amount of external debt at the end of each year. **Table 7** further below details how the under-borrowing is then calculated.

Table 3 **Reserves and Balances**	**2023/24** **Forecast** **£'000**	**2024/25** **Estimate** **£'000**	**2025/26** **Estimate** **£'000**	**2026/27** **Estimate** **£'000**	**2027/28** **Estimate** **£'000**
General reserve	4,260	4,680	4,700	4,820	4,920
Earmarked reserves	25,562	20,110	18,675	13,418	6,336
Insurance Provision	60	60	60	60	60
Capital grants unapplied	0	0	0	0	0
Capital Receipts	7,894	8,128	6,345	0	0
Total Core Funds	**37,776**	**32,978**	**29,780**	**18,298**	**11,316**
Working Capital Deficit	-887	-887	-887	-887	-887
Under borrowing	-2,544	-11,791	-11,063	-10,289	-9,516
Expected Investments	**34,345**	**20,300**	**17,830**	**7,122**	**913**

17. **Financing Cost to Net Revenue Stream:** This indicator shows the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs. It is an indication of how affordable the borrowing required to fund the capital programme is and shows the trend in the cost of capital, (borrowing and other long-term obligation costs), against the net revenue stream.

Table 4 **Financing Costs to Net Revenue Stream**	**2023/24** **Forecast**	**2024/25** **Estimate**	**2025/26** **Estimate**	**2026/27** **Estimate**	**2027/28** **Estimate**
Ratio of Financing Costs	0.70%	1.44%	0.89%	0.89%	0.89%

18. **Minimum Revenue Provision (MRP) Policy Statement:** The Prudential Code sets out the regulations around determining the annual charge that must be made to the revenue account in order to repay what has been borrowed to fund capital expenditure. This charge is called the Minimum Revenue Provision (MRP). As explained above the MRP calculation has an impact on the year end value of the CFR and the Code is clear that the outstanding debt cannot be greater than the CFR. The Policy for MRP is detailed below:

(a) **Borrowing for capital expenditure incurred before 1 April 2008 -** The MRP is calculated as 4% of the opening CFR balance for the year.

(b) **Borrowing for capital expenditure (including lease agreements on balance sheet) post 2008** - The Authority will calculate the MRP for all new borrowing (internal or external) using the Asset Life method. This method uses the estimated life of the asset to calculate a yearly revenue charge which ensures sufficient provision is set aside to reduce the borrowing need over the life of the asset. Repayments for leases on the balance sheet are applied as MRP.

If the Authority were to undertake no new external borrowing, the outstanding external debt will be cleared by 2025. At this moment in time, it is prudent that future borrowing undertaken will be through internal borrowing against the Authority's available balances for investment.

19. **MRP Overpayments:** As defined in the Code the Authority has always set aside additional funding, on top of the regulated MRP, to repay the borrowing of money to fund capital. This additional funding that is set aside is called a Voluntary Revenue Provision (VRP). A change introduced by the revised DLUHC MRP Guidance, allows for any charges made over the statutory minimum revenue provision (MRP), to be reclaimed for use in the budget. Up until the 31 March 2023 the total VRP overpayments were £6.7m. These overpayments have allowed for prudent voluntary repayments to reduce the indebtedness of the Authority within a shorter timescale providing greater financial stability in the long term.

20. **Forecast for Bank Rate:** Forecasts on the Bank rate are constantly being reviewed given the current economy and political climate. As at 6 November the Bank Rate is thought to have peaked at the current 5.25%, however as inflation remains above the Bank of England target rate of 2%, the interest rate is not forecast to fall until Sept 2024. There are a number of risks that could require these forecasts to be revised, such as supply routes being disrupted by the conflict in the middle east, renewed rising utility prices, continued wage growth. With the high level of uncertainty prevailing on several different fronts, these forecasts will need to be kept under regular review.

21.

Link Group Interest Rate View	08.01.24												
	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00

22. **Limits on External Debt:** The Treasury Indicators set limits for interest rate exposures in relation to borrowing, deposits and the maturity structure of long-term borrowing. The objective of these indicators is to restrain the activity of the treasury function within certain limits, thereby managing the risk of re-financing and adverse movements in interest rates.

23. **Interest Rate Exposures for Borrowing:** All the borrowing undertaken by the Authority has been on a fixed rate of interest with the Public Works Loans Board (PWLB). Currently the Authority is not looking to borrow externally due to high borrowing rates, however as

capital projects progress and their figures are finalised within the capital strategy this requirement will be reviewed and reported. It is likely that any external borrowing undertaken would be on a fixed rate of interest due to the level of security over future payments.

24. **Interest Rate Exposures for Deposits:** The Authority primarily deposits its cash balances on a fixed rate basis and therefore limits its exposure to any reductions in interest rates. Whilst security of the deposit still remains a prerequisite, interest rates are forecast to remain at a higher level for a while yet and therefore a greater degree of flexibility is still required to gain improved market returns on deposits with up to 100% of deposits on a variable interest basis. The Authority defines fixed rate investments as those where the interest rate does not fluctuate during the period of the investment.

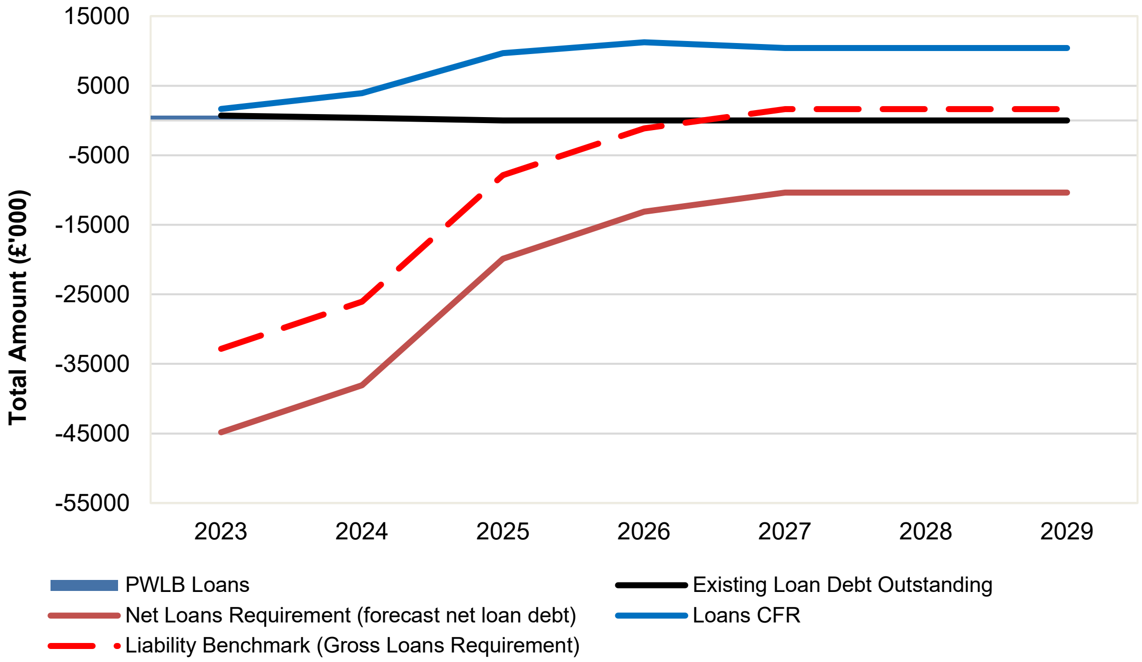
Table 5 Limit of Deposit Exposure	**2023/24 Limit**	**2024/25 Limit**	**2025/26 Limit**	**2026/27 Limit**	**2027/28 Limit**
Fixed Interest Rates	100%	100%	100%	100%	100%
Variable Interest Rates	100%	100%	100%	100%	100%

25. **Maturity Structure of Borrowing:** The current maturity profile of the Authority's existing loans, as at 31 March 2024 is set out in **Table 6** below.

Table 6 Existing Loan Profile	**Amount £'000**	**Percentage Maturing**
2024/25	400	100%
Total borrowing to be repaid	**400**	**100%**

26. **Debt Liability Benchmark:** the liability benchmark indicator is a projection of the optimum amount of loan debt outstanding which the Authority needs each year into the future, in order to fund its existing debt liabilities, planned prudential borrowing and other cash flows.

27. As the Authority is currently operating with a net cash surplus, the indicator is a measure of the forecast net investment requirement and guides the appropriate size and maturity of investments needed – there is currently no need to borrow externally for capital financing purposes.



1. **Existing loan debt outstanding**: the Authority's existing loans that are still outstanding in future years.
2. **Loans CFR**: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.
3. **Net loans requirement**: this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
4. **Liability benchmark** (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.

BORROWING

28. **Borrowing Arrangements**: The Authority has been actively trying to reduce its cash balances by deferring long term borrowing. The Authority will continue with this prudent strategy which has resulted in savings in borrowing interest costs, and thus has minimised the risk of counterparty loss. The Authority is currently under-borrowed by £2,544k and, based on current interest rates has saved approximately £150k per annum by not borrowing this money.

29. **Timing of Borrowing:** Officers engaged in treasury management monitor interest rates on a daily basis and receive advice from the Authority's Treasury Management Advisor on changes to market conditions, so that borrowing and investing activity can be undertaken at the most advantageous time. It is not anticipated that the Authority will undertake any new external borrowing in 2024/25. If borrowing is required, given the high borrowing rates and the Authority's high cash balances, it is proposed to undertake internal borrowing in the interim.

30. **Volatility to Inflation:** The Authority will keep under review the sensitivity of its treasury liabilities to inflation and will seek to manage the risk accordingly in the context of the whole organisation's inflation exposures.

31. **Periods of Borrowing:** In general, the period of borrowing is linked to the life of the assets acquired, although regard is also given to the maturity profile of debt to mitigate the risks that might arise on any re-financing. However, on occasions, borrowing decisions may be taken to borrow over shorter or longer periods where this is considered to be the cheapest option in the long term.

32. **Sources of Borrowing:** The Authority could borrow from the Public Works Loan Board (PWLB), other Local Authorities, the money markets, the Municipal Bonds Agency or through Finance Leasing depending on which terms are the most favourable overall.

33. **External Debt:** The Authority's current debt portfolio position for the next five years is detailed in **Table 7** below. It shows the actual external debt against the underlying capital borrowing need (the CFR) highlighting any over or under-borrowing.

Table 7 **Current Debt Portfolio**	**2023/24** **Forecast** **£'000**	**2024/25** **Estimate** **£'000**	**2025/26** **Estimate** **£'000**	**2026/27** **Estimate** **£'000**	**2027/28** **Estimate** **£'000**
Borrowing as at 1 April	**701**	**400**	**0**	**0**	**0**
New Borrowing	0	0	0	0	0
Other Long-term liabilities (OLTL)	0	243	209	174	138
Expected change in OLTL	0	0	-34	-35	-36
Loans Repaid	-301	-400	0	0	0
Borrowing as at 31 March	**400**	**243**	**175**	**139**	**102**
Less closing CFR	-2,944	-12,034	-11,238	-10,428	-9,618
Under borrowing	**-2,544**	**-11,791**	**-11,063**	**-10,289**	**-9,516**

34. The Authority's debt should not, except in the short term, exceed the total of the Capital Financing Requirement (CFR) for the current year and the next two financial years. This allows the Authority the flexibility to borrow for future years whilst ensuring that borrowing is not undertaken for revenue purposes. The level of actual borrowing and the CFR will often be different for a combination of reasons. It could be due to timing differences between amounts set aside for the repayment of debt and the actual timing of loan repayments, but it could also be due to a decision to defer the borrowing relating to capital expenditure that has already been incurred.

35. **The Director, Finance and Corporate Service** reports that the Authority complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view considers current commitments, existing plans and the proposals within the budget report.

36. **The Operational Boundary for External Debt:** This is the limit which external debt is not normally expected to exceed. The proposed Operational Boundary for external debt is based on the Authority's plans for capital expenditure and financing, and is consistent with its treasury management policy, statement and practices to provide sufficient headroom to switch funding for capital projects from reserves, receipts and revenue contributions to external borrowing.

37. The Authority has some projects where there is the potential to lease rather than buy, and so the limit recognises that such leases may be classified as finance leases. Accounting changes with regard to leases (IFRS16) mean that some existing lease arrangements, that in the past have been accounted for within the revenue budget, may now be reflected on the Authority's balance sheet as a liability for the commitment of the contract so this now needs to be considered as part of the Treasury Strategy under the other long-term liabilities heading. Risk analysis and risk management strategies have been considered, as have estimates of the Capital Financing Requirement and estimates of cash flow requirements for all purposes when determining this limit.

38. **The Director, Finance and Corporate Services**, has confirmed that the Operational Boundary is based on expectations of the maximum external debt of the Authority according to probable - not simply possible - events and is consistent with the maximum level of external debt projected by estimates. This indicator is a key management tool for in-year monitoring and acts as an "alert" for the possibility of an imminent breach of the authorised limit. The Operational Boundary for external debt excluding investments is shown in **Table 8** below.

Table 8 **Operational Boundary**	**2023/24** **Forecast** **£'000**	**2024/25** **Esti** **mat** **£'000**	**2025/26** **Esti** **mat** **£'000**	**2026/27** **Esti** **mat** **£'000**	**2027/26** **Esti** **mat** **£'000**
Borrowing	10,000	20,000	35,000	35,000	35,000
Other long term finance liabilities	3,000	3,500	3,500	3,500	3,500
Total	**13,000**	**23,500**	**38,500**	**38,500**	**38,500**

39. **Authorised Limit for External Debt:** The Authorised Limit provides for additional headroom over and above the Operational Boundary to allow for unusual and unexpected cash movements. This represents a limit beyond which external debt is prohibited. The Authorised Limit for the Authority's total external debt, excluding

Table 9 **Authorised Limit**	**2023/24** **Estimate** **£'000**	**2024/25** **Estimate** **£'000**	**2025/26** **Estimate** **£'000**	**2026/27** **Estimate** **£'000**	**2027/28** **Estimate** **£'000**
Borrowing	14,000	24,000	39,000	39,000	39,000
Other long term finance liabilities	3,000	3,500	3,500	3,500	3,500
Total	**17,000**	**27,500**	**42,500**	**42,500**	**42,500**

investments, is shown in **Table 9** below.

40. **Borrowing in Advance of Need:** The Authority will not borrow in advance of its needs in order to profit from any short term interest rate advantage. Any decision to borrow in advance will be within the approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Authority can ensure the security of such funds. The risks associated with any borrowing in advance of activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual treasury reports.

41. **Debt Rescheduling:** Whilst short term interest rates may be cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of the debt repayment (premiums incurred). The reasons for rescheduling may include the generation of cash savings in annual interest payments or to amend the maturity profile of the portfolio. The premium now charged by the PWLB generally makes restructuring debt for interest rate reasons unattractive. Consideration would be given to debt restructuring if there was a significant change in the PWLB's policy. Any debt rescheduling will be reported to the Authority at the earliest opportunity following the rescheduling.

42. **Gearing:** Gearing is used as a measure of financial leverage and indicates how much of the Authority's activities are funded by debt. The higher the percentage, the more risk the Authority has, as it must continue to service this level of debt. Gearing is calculated as (total debt/total assets). The Authority's current gearing level is a very low 0.21%.

43. **Borrowing Strategy:** The Authority is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Authority's reserves, balances and cash flows has been used as a temporary measure. This strategy is prudent as borrowing rates are currently increasing and counterparty risk is still an issue that needs to be considered.

44. Against this background and the risks within the economic forecast, caution will be adopted with the 2024/25 treasury operations. The Director, Finance and Corporate Services will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances. Any decisions taken will be reported to the Authority at the next available opportunity.

ANNUAL INVESTMENT STRATEGY

45. **Investment Policy - Management of Risk:** The Authority's Investment Strategy has regard to the CIPFA Treasury Managment Code 2021 and the CIPFA Treasury Management Guidance Notes 2021. It has two main objectives: the first is security, in order to ensure that the capital sum is protected from loss; and the second is portfolio liquidity, in order to ensure that cash is available when needed. Only when the proper

levels of security and portfolio liquidity have been determined can the Authority then consider the yield that can be obtained within these parameters. Where appropriate the Authority will also consider the value available in periods up to 12 months with high credit rated financial institiutions. The Authority will ensure that robust due diligence procedures cover all external investment. This Strategy is reviewed and updated annually.

46. The Treasury Management Code of Practice details that the term “investments” used in the definition of treasury management activities also covers other non-financial assets which an organisation holds primarily for financial returns, such as investment property portfolios. The Authority does not hold non-financial assets primarily for financial returns, nor does it propose to do so.

47. The above guidance places a high priority on the management of risk. This Authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

- Minimum acceptable **credit criteria** are applied to generate a list of highly credit worthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

- **Other Information** - ratings will not be the sole determinant of the quality of an institution, it is important to continually assess and monitor the financial sector and take account of the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this the Authority engages with its Treasury Advisors.

- **Other Information sources** used will include the press and other such information pertaining to the banking sector to establish the most robust scrutiny process on the suitability of potential investment counterparties.

48. **Volatility to Inflation:** The Authority will keep under review the sensitivity of its treasury assets to inflation and will seek to manage the risk accordingly in the context of the whole Authority’s inflation exposures.

49. **Specified or Permitted Investments:** These are investments of not more than one-year maturity, or those which could be for a longer period but where the Authority has the right to be repaid within 12 months if it wishes. All such investments will be sterling denominated. These are considered low risk assets where the possibility of loss of principal or investment income is small and will include deposits with: -

- the UK Government (such as the Debt Management Account deposit facility, UK treasury bills or a gilt with less than one year to maturity).
- other local authorities.
- Money Market Funds (CNAV and LVNAV).
- banks, building societies and other financial institutions of **high credit quality**.

50. **High Credit Quality:** The Authority's Treasury Management Advisor provides a creditworthiness service which, taking into account the ratings provided by the credit agencies, market data, market information and information relating to government support for banks, provides a recommendation on counterparty, group and country limits as well as investment duration. Officers have considered this, together with other information available and views on risk, in order to produce a counterparty list. The Authority defines "high credit quality" as being: -

    - UK Banks
    - UK part-nationalised banks.
    - Institutions domiciled in the UK that have been classified by Link Group as being appropriate for deposit durations of between 100 days and one year; that have a minimum sovereign long-term rating of A- and have, as a minimum, the following credit rating from at least one of Fitch, Moody's and Standard and Poor's (where rated): -

        (a) Short term – F1 (or equivalent).

        (b) Long term – A- (or equivalent).

    - The Authority's own banker for transactional purposes, or except if the bank falls below the above criteria, in which case balances will be minimised in both monetary size and time.
    - Institutions domiciled in a foreign country where that country has a sovereign rating of AAA.

51. **The Monitoring of Investment Counterparties:** The credit rating of counterparties will be monitored regularly, based on credit rating information received from Link Group. On occasions ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list. If this requires revision of the Treasury Strategy then this will be reported to the Authority for approval.

52. **Investment Duration for Deposits:** The longest duration for any investment will be one year. The Authority will only use specified investments, the criteria for which are set out

in paragraphs 48 and 49 above and may restrict the period of investment to a period shorter than the maximum.

53. The Strategy for 2024/25 will be to use only those institutions detailed on the counterparty list, shown in **Table 10** below:

Table 10 – Investment Duration for Deposits

Permitted Forms of Investment 2024/25	Minimum Credit Criteria
Cash Deposits with the Debt Man. Office	N/A
UK Treasury Bills	N/A
Call Accounts/Notice Accounts	UK Banks, UK part-nationalised bank or an institution rated by Link Group as suitable for investment for 100 days or more
Term Deposits	
Certificates of Deposit	N/A
Money Market Funds CNAV	AAA
Money Market Funds LVNAV	AAA
Term Deposits with Other UK Local	**AAA**

Counterparty List 2024/25	Counterparty Limit
Debt Management Office (incl. Treasury	Unlimited
RBS Group: Royal Bank of Scotland/Nat West	£7m Group Limit
Lloyds Bank: Lloyds TSB/HBOS, Corporate Markets	£7m Group Limit
Barclays Bank plc	£5m
Coventry Building Society	£5m
HSBC Bank plc	£7m
Leeds Building Society	£5m
Nationwide Building Society	£5m
Skipton Building Society	£5m
Yorkshire Building Society	£5m
Santander UK plc	£7m
Close Brothers Ltd	£5m
Goldman Sachs International Bank	£5m
Standard Chartered Bank	£5m
Handelsbanken plc	£5m
SMBC Bank International plc	£5m
Al Rayan Bank plc	£5m
National Bank of Kuwait International plc	£5m
Australia and New Zealand Banking Group Commonwealth Bank of Australia National Australian Bank Ltd Westpac Banking Corporation Macquarie Bank Ltd.	£5m per institution but £5m Country Limit
Bank of Montreal Bank of Nova Scotia	£5m per institution but £5m Country Limit

Canadian Imperial Bank of Commerce National Bank of Canada Royal Bank of Canada Toronto Dominion Bank	
Danske A/S	£5m per institution but £5m Country Limit
Bayerische Landesbank	£5m per institution but £5m Country
Commerzbank AG	Limit
Deutsche Bank AG	
DZ BANK AG Deutsche Zentral-Genossenschaftsbank	
Landesbank Baden-Wuerttemberg	
Landesbank Berlin AG	
Landesbank Hessen-Thueringen	
Landwirtschaftliche Rentenbank	
Norddeutsche Landesbank Girozentrale	
NRW.BANK	
ING Bank N.V. ABN AMRO Bank N.V. BNG Bank N.V Cooperatieve Rabobank U.A. Nederlandse Waterschapsbank N.V.	£5m per institution but £5m Limit
DNB Bank ASA	£5m per institution but £5m
	Limit
DBS Bank Ltd United Overseas Bank Ltd Oversea-Chinese Banking Corp. Ltd.	£5m per institution but £5m Limit
Svenska Handelsbanken	£5m per institution but £5m Country Limit
Skandinaviska Enskilda Banken	Limit
Swedbank	
UBS AG	£5m per institution but £5m Limit
Bank of America N.A	£5m per institution but £5m
The Bank of New York Mellon	Limit
JP Morgan Chase Bank	
Wells Fargo Bank	
Citibank	
Other Local Authorities	£5m per Local Authority - £20m limit
Money Market Funds (CNAV and LVNAV)	£5m per fund - £25m limit

Banks that qualify using this credit criteria as at the date of this report are shown above. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

54. **Investment Returns Expectations:** The Authority is expecting investment income of approximately £2,424k for 2023/24, averaging a return of 5.06% for the year. With Interest rates not due to fall until September 24/25 it is likely that the forecast return will remain fairly stable. However, it should be noted that political and economic events around the economic recovery, supply shortages, rising gas prices, labour shortages could result in changes to these assumptions, consequently these will be regularly monitored and Members will be kept updated through the mid-year Treasury report.

55. Returns on Treasury bills have improved since last year. They offer a high degree of security and are currently returning an average rate of 5.64%. The Authority continues to make use of Money Market Funds (MMFs) which are included in the treasury strategy. They offer a high degree of security, being AAA-rated, with instant access and carry rates currently of circa 5.28%. The rates generally track the base rate. They are deemed to be a good way of diversifying cash and spreading risk as the credit rating agencies put strict limits on how much they can have in any one counterparty and what the average duration of the underlying portfolio can be.

56. There are three types of Money Market Funds, which are: -

- **Constant Net Asset Value (CNAV)** – Short term funds that have a high level of investment in government assets. Units in the fund are purchased or redeemed at a constant price.

- **Low Volatility Net Asset Value (LVNAV**) - Short term funds that are primarily invested in money market instruments, deposits and other short-term assets. Units in the fund are purchased or redeemed at a constant price so long as the value of the assets do not deviate by more than 0.2% (20bps) from par (i.e. 1.00)

- **Variable Net Asset Value (VNAV)** – Funds that are invested in money market instruments and deposits and other Money Market Funds. The funds are subject to looser liquidity rules and may invest in assets with a longer maturity than CNAV and LVNAV funds. Units in the funds are purchased or redeemed at a variable price.

57. A review has been undertaken of the available funds and the Authority will only invest in CNAV and LVNAV Money Market Funds as they are considered more appropriate for the Authority's investment risk appetite.

58. **Local Authority Loans:** As set out above, the Authority does make provision to allow loans to be made available to other Local Authorities, however the maximum duration for any loan will be one year, in line with the maximum timeframe for other deposits set out

in this Strategy. Prior to agreeing to any such loan, the Authority will undertake appropriate due diligence to establish the financial stability of the Authority that requires the loan. Reviews will be undertaken on issues such as past audit reports / opinions, balance sheet reviews, any adverse public reporting.

59. The maximum duration for investments suggested by Link Group can be revised at any time, which means that the Authority could find that the remaining duration of a fixed term investment is greater than the maximum suggested at that time. When there is a change to reduce the suggested duration downwards, and early redemption would cause a penalty or loss of interest, the investment will be allowed to run to maturity. If the suggested duration is changed to zero, the investment will be redeemed early regardless of the level of penalty incurred.

60. Some of the institutions on the Authority's counterparty list charge for transferring the investment income into the Authority's main bank account. Where such charges apply, it is not cost-effective to transfer the investment income out of these accounts on a monthly basis. For these institutions, therefore, investment income will be transferred annually. As a consequence, the counterparty limit may be exceeded during the year by up to the amount of the annual interest due for the year.

61. The Authority has a weighted maturity average of just under 70 days and therefore, as the closest available benchmark, uses the backward looking 3 month Compounded SONIA (Sterling Overnight Index Average) Index to compare itself. The reason the Authority chooses to look at the backward-looking Compound SONIA is that it is based on real data, and not a forecast rate like the forward-looking data is. Currently the portfolio is outperforming the benchmark with a rate of 5.46% against the SONIA rate of 5.22%.

62. **Training:** The Authority has processes in place to ensure that the appropriate level of training is delivered to both Members and staff who are involved in the delivery and scrutiny of the treasury management function. A training session on the latest economic forecast and changes to the Prudential Code and Treasury Management practices was provided by Link Group to the Audit and Governance members at the September 2022 meeting, with a subsequent update at the September 2023 meeting. Officers within the Finance team with direct responsibility, regularly attend seminars and conferences to ensure specialist Treasury and Investment knowledge is kept up to date and a number of them have also completed their CIPFA Treasury e-learning modules.

63. **Current Portfolio** - below sets out the investment portfolio of the Authority as at 20 December 2023.

Table 11 – Current Portfolio	Fixed Deposits	Call Account	Notice Call Account	Money Market Funds	**Total**	**Average Interest Rate**
	£'000	£'000	£'000	£'000	**£'000**	

Debt Management Office (including Treasury Bills)	9,730	0	0	0	**9,730**	**5.64%**
RBS Group: Royal Bank of Scotland/ Nat West	5,000	100	0	0	**5,100**	**5.55%**
Barclays Bank plc	0	0	5,000	0	**5,000**	**5.40%**
Santander UK plc	5,000	0	0	0	**5,000**	**5.50%**
HSBC	0	0	5,000	0	**5,000**	**5.15%**
Standard Chartered Bank	1,000	0	0	0	**1,000**	**4.79%**
Lloyds Bank	5,690	810	0	0	**6,500**	**5.60%**
Landesbanken	2,000	0	0	0	**2,000**	**5.49%**
Goldman Sachs International Bank	3,000	0	0	0	**3,000**	**5.67%**
Aviva Sterling Liquidity Fund	0	0	0	5,000	**5,000**	**5.36%**
Blackrock Sterling Liquidity Fund	0	0	0	5,000	**5,000**	**5.24%**
Goldman Sachs Sterling Liquidity **Reserve**	0	0	0	3,835	**3,835**	**5.23%**
Total Per Deposit Type	31,420	910	10,000	13,835	**56,165**	**5.45%**
Average Interest Rate Per Deposit Type	5.55%	4.73%	5.28%	5.28%		

IMPACT ASSESSMENT

64. All financial implications associated with servicing the Authority's loans are able to be contained within the overall budget.

RECOMMENDATION

65. Members are requested to:

65.1 Review and agree 'in principle', the Treasury Management and Investment Strategy for 2024/25 (paragraphs 9 to 60 refer).

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Item Number: B3

By:	Director, Finance and Corporate Services
To:	Audit and Governance Committee– 29 January 2024
Subject:	EXTERNAL AUDITORS AUDIT FINDINGS REPORT FOR 2022/23 AND LETTER OF REPRESENTATION
Classification:	Unrestricted

FOR DECISION

SUMMARY

The reports' main purpose is to present the External Auditor's Audit Findings Report in relation to the 2022/23 financial year, in accordance with the requirements of the International Standard on Auditing (UK and Ireland) 260. The External Auditor's Findings report is attached at **Appendix 1** for Members' information and consideration. Members of the Audit and Governance Committee considered and approved Draft Financial Statements at the September meeting. This report highlights the findings that the External Auditors wish to raise having nearly concluded their audit. The External Auditors will attend the meeting to present their report.

However, they are not yet able to formally conclude the audit and issue the audit certificate until they have completed their work on the Authority's arrangements for Value for Money. As such their Annual Report will be delayed until they have completed their assessment, which is expected to be by no later than the end of January 2024.

RECOMMENDATIONS

Members are requested to:

1. Consider the matters raised in the Audit Findings Report for 2022/23 (paragraphs 1 to 4 and **Appendix 1** refer).

2. Agree the Letter of Representation (paragraph 6 and **Appendix 2** refers).

LEAD/CONTACT OFFICER: Director, Finance and Corporate Services - Alison Hartley
TELEPHONE NUMBER: 01622 692121 ext 8262
EMAIL: alison.hartley@kent.fire-uk.org
BACKGROUND PAPERS: None

COMMENTS

Audit Findings Report

1. The Accounts and Audit (Amendment) Regulation 2021 changed the date that the Audit of the Financial Statements needed to be signed off by, which was delayed from 30 September 2022 to 30 November 2022, for the 2021/22 financial statements. This was a one year only change and as such the 2022/23 financial statements are required to be signed off by 30 September 2023. However, due to the national shortage of Auditors, there is a backlog of financial statements that still need to be signed off for prior years nationally, which has impacted on the available resources to undertake the local audits for 2022/23. The initial Audit Plan submitted to Members at the April's Audit and Governance Committee suggested the Authority's Audit would take place during July, but subsequently Grant Thornton advised that the Audit had to be re-scheduled to a later date in the year, post September 30 due to their resourcing issues.

2. Having now virtually concluded the audit of the accounts for 2022/23, the External Auditors' Audit Findings Report for 2022/23 is attached at **Appendix 1**. This report provides a summary of the work that has been carried out by the External Auditors in relation to the financial year 2022/23 and highlights an overview of their audit findings to date. It also details the assessment that they expect to give having assessed the Accounts for 2022/23.

3. However, at the time of drafting this report, there are still several areas that are yet to be concluded in their review, and these are detailed on page 3 of **Appendix 1**. As External Audit will present the Audit Findings Report to this meeting, they will update Members on their findings in relation to these remaining issues, at the meeting.

4. In discharging the External Auditors' statutory responsibility to those charged with governance, the report highlights the following key points: -

    (a) The External Auditors, subject to completing the outstanding work, expect to issue an unqualified audit report in respect of the Financial Statements for 2022/23 (**Appendix 1**, page 3).

    (b) At the current point in time, there is one main audit adjustment. The amendment referred to in the Findings report is in relation to pensions, and this has arisen as a result of the national issue that was identified during the 2021/22 audit. The financial statements for 2022/23 were already published, when it was identified that a revised pensions report in relation to the 2021/22 accounts would be required. This provided further information in relation to the pension fund assumptions that ultimately resulted in the 2021/22 accounts needing to be re-opened and an adjustment made to pension figures. This resulted in the opening balances of the published, but unaudited 2022/23 financial statements, having to be adjusted and some in year movements accounted for in the final version of the financial statements. The second adjustment is a minor disclosure note change in relation to the Audit fees.

(c) The External Auditors Code of Audit Practice was updated on 1 April 2020 and one of the biggest areas of change is in relation to Value for Money. External Auditors are required to assess against a revised criteria to ensure that the Authority has proper arrangements for financial sustainability, governance and securing economy, efficiency, and effectiveness in its use of resources. Audit work in relation to this was undertaken during the autumn months and the final report is expected to be presented to the Authority at the February 2024 meeting. (**Appendix 1**, page 4, 15 and 16).

5. **Audit Fees** - The Public Sector Audit Appointments published fee for the work in relation to the 2022/23 financial year is £33,669. However, due to the increased audit work required following changes to accounting treatments in previous years since the fee was set the Auditors have set out their proposed fee at page 21 of the Audit Findings Report (**Appendix 1**).

6. **Letter of Representation** – Formal signing of the Accounts and the issuing of the opinion by the External Auditors will take place once the Accounts have been approved by Members and the Letter of Representation (a draft copy of which is attached at **Appendix 2** for Members' approval) has been issued to the Auditors by the Director, Finance and Corporate Services. This Letter of Representation is a formal statement sent to the External Auditors, the intention of which is to provide assurances as to the robustness of the Authority's approach to the preparation and audit of its Accounts.

7. **Summary** - Despite the unprecedented challenges of having two financial years of accounts audited in the same year, the Finance Team and the External Auditors have worked well together during the whole closedown process. All work was successfully completed remotely by both parties, and we are appreciative of the timely turnaround of information by the External Auditors.

RECOMMENDATIONS

8. Members are requested to:

8.1 Consider the matters raised in the annual Audit Findings Report for 2022/23 (paragraphs 1 to 4 and **Appendix 1** refer).

8.2 Agree the letter of Representation (paragraph 6 and **Appendix 2** refers).

Grant Thornton

The Audit Findings for Kent and Medway Fire and Rescue Authority

Year ended 31 March 2023

January 2024

Contents

Your key Grant Thornton team members are:

Paul Cuttle
Key Audit Partner
E paul.cuttle@uk.gt.com

Lucy Nutley
Senior Audit Manager
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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 planning 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 the Authority or all 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.

This Audit Findings 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. Its contents have been discussed with management and the Audit Committee.

Name: Paul Cuttle
For Grant Thornton UK LLP

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Kent and Medway Fire and Rescue Authority ('the Authority') and the preparation of the Authority's financial statements for the year ended 31 March 2023 for the attention of those charged with governance.

Financial Statements

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 Authority's financial statements give a true and fair view of the financial position of the Authority 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.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and the Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Our audit work was completed remotely during November 2023 – January 2024. Our findings are summarised on pages 5 to 15. We have identified two adjustments to the financial statements. Audit adjustments are detailed in Appendix B.

Our work is substantially complete [and there are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements], subject to the following outstanding matters;

- Conclusion of audit testing on journals, payroll and pensions
- Completion of audit file review by engagement manager and engagement lead
- Receipt of management representation letter; and
- Review of the final set of financial statements

We have concluded the other information to be published with the financial statements, is consistent with our knowledge of the organisation and the financial statements we have audited.

Our anticipated financial statements audit report opinion will be unqualified. Our work on the Authority's value for money (VFM) arrangements is not yet complete. The outcome of our VFM work will be reported in our commentary on the Authority's arrangements in our Auditor's Annual Report (AAR). We are satisfied this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2023.

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are required to report in more detail on the Authority's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit. Auditors are required to report their commentary on the Authority's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. We expect this report to be finalised with management in January 2024 and presented to the February 2024 Authority meeting.

As part of our work, we considered whether there were any risks of significant weakness in the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. No risks were identified.

1. Headlines

Statutory duties	
The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • to certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We expect to certify the completion of the audit upon the completion of our work on the Authority's VFM arrangements, which will be reported in our Annual Auditor's report in February 2023

Significant matters
We did not encounter any significant difficulties or identify any significant matters arising during our audit.

2. Financial Statements

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 Governance Committee.

As auditor 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 Authority's business and is risk based, and in particular included:

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

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 Governance Committee meeting on 29 January 2024. These outstanding items include:

- Conclusion of audit testing on journals, payroll and pensions
- Completion of audit file review by engagement manager and engagement lead
- Receipt of management representation letter; and
- Review of the final set of financial statements

Acknowledgements

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

2. Financial Statements

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.

In our audit plan we reported a materiality level of £1.95m. Based on the total expenditure reported in the draft financial statements we updated our materiality to £2.0m.

	Authority Amount (£)	Qualitative factors considered
Materiality for the financial statements	2,000,000	This is approximately 2% of gross expenditure
Performance materiality	1,500,000	Calculated as 75% of headline materiality. This is a measure used in audit testing based upon our assessment of the likelihood of a material misstatement in the financial statements.
Trivial matters	100,000	Calculated as 5% of materiality.

2. Financial Statements: Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
Management override of controls 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. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk.	To address this risk we; • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determined the criteria for selecting high risk or unusual journals; • identified and tested high risk and unusual journals for appropriateness and corroboration; • gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness. Our work to test a selection of journals is still in progress. Our work to date has not identified any other issues in respect of this risk.
ISA240 revenue recognition 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.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of Fire and Rescue Authorities mean that all forms of fraud are seen as unacceptable. Our audit work has not identified any issues to change our strategy towards revenue recognition.
Fraud in expenditure recognition As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure recognition may be greater than the risk of fraud related to revenue recognition. There is a risk the Authority may manipulate expenditure to budgets and set targets and we had regard to this when planning and performing our audit procedures. Management could defer recognition of expenditure by under-accruing for expenses that have been incurred during the period but which were not paid until after the year-end or not record expenses accurately in order to improve the financial results.	To address this risk we; • inspected transactions around the end of the financial year to assess whether they had been included in the correct accounting period. • inspected a sample of accruals made at year end for expenditure not yet invoiced to assess whether the valuation of the accrual was consistent with the value billed after the year. We also compared listings of accruals to the previous year to ensure completeness of accrued items. Our audit work has not identified any issues in respect of this risk.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of the pension fund net liability The Authority's net defined benefit liability represents a significant estimate in the financial statements. The estimate is complex given the large number of scheme members and the sensitivity of the estimate to key assumptions.	To address this risk we : • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated, and evaluated the design of the associated controls; • evaluated the instructions issued by management to the actuary as management's expert, and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary; • assessed the accuracy and completeness of the information provided by the Authority to the actuary; • tested the consistency of the pension fund disclosures in the financial statements with the actuary's report; • confirmed the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • obtained assurances from the auditor of Kent Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. Our audit work in this area remains in progress as we perform a final review on the updated financial statements to reflect the correct opening balances as at 1 April 2022. Our audit work to date has not identified any issues in respect of this risk.
Valuation of land and buildings The valuation of the Authority's land and building assets represents a significant estimate by management in the financial statements. We designed our work to address the risk that the valuation of land and building assets was materially misstated.	To address this risk we; • evaluated management's processes and assumptions for the calculation of the estimate, including the instructions issued to the Authority's external valuer and the scope of their work; • evaluated the competence, capabilities and objectivity of the external valuer; • challenged the information and assumptions used by the valuer; and • tested, on a sample basis, revaluations made during the year to ensure they had been input correctly into the Authority's asset register. Our work in this area is substantially complete and remains subject to review. Our audit work to date has not identified any issues in respect of this risk.

2. Financial Statements: key judgements and estimates

This section provides commentary on key estimates and judgements in line with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £107.814m	The Authority's asset base largely comprises specialised assets such as fire stations and training facilities. These are valued at Depreciated Replacement Cost (DRC). The valuations are based on the cost of a modern equivalent asset delivering the same service provision. The remaining land and building assets are not specialised in nature and are valued at Existing Use Value (EUV) . Full valuations including physical inspections are performed; -for all material assets annually ; and -for 25% of the remaining assets on a four year cyclical basis. For these assets desktop valuations are completed in other years to ensure that the carrying value of assets is not materially misstated. The Authority engaged an external valuer, Avison Young, to complete the valuation of properties as at 31 March 2023. All assets are assessed annually for evidence of impairment.	The information disclosed in the financial statements was consistent with the information provided by the external valuer. We confirmed that the updated area measurement information, obtained for the 2021/22 audit, was appropriately used in the March 2023 valuations. Our work in this area is substantially complete, there is no indication that the value of land and buildings in the financial statements are materially misstated.	● Light Purple

Assessment

- [Dark Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptionswe consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Net pension liability LGPS £0.242m surplus Firefighters scheme £643.301m IFRIC 14 addresses the extent to which an IAS 19 surplus can be recognised on the balance sheet and whether any additional liabilities are required in respect of onerous funding commitments. Where the value of the surplus is significant, IFRIC 14 limits the measurement of the defined benefit asset to the 'present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The limitation was not applied to the LGPS due to the size of surplus.	At 31 March 2023 the Authority has a net pension liability of £643.301m relating to the Firefighters Pension Schemes and a £0.137m surplus relating to the Local Government Pension Scheme as administered by Kent County Council. The Authority uses an external actuary, Barnett Waddingham, to provide an actuarial valuation of the Authority's assets and liabilities deriving from these schemes. A full valuation is required every three years. A roll forward approach is used in intervening periods. The valuations are based on key assumptions such as life expectancy, discount rates, salary growth and investment return. Given the significant value of the net pension fund liability small changes in assumptions can result in significant valuation movements. For 2022/23 contribution rates for the LGPS scheme were based on the triennial valuation as at 31 March 2022. The latest actuarial valuation for the Firefighters schemes was at 31 March 2016.	We engage an auditor's actuary to assess the work of management's actuary and the reasonableness of the approach used. The auditors' actuary has provided us with indicative ranges for assumptions, which we report below. Our work to review the Authority's net pension liability is substantially complete, although our sample testing of transactions relating to the Firefighters' pension scheme is still in progress. We have agreed minor changes to the disclosure note on the Firefighter's pension scheme. Our work to date has not identified any other issues.	Light Purple

Assumption	Actuary Value	PwC range	Within range?
Discount rate	4.80%	4.80% – 4.85%	●
Pension increase rate	2.90%	2.65% - 2.95%	●
Salary growth – LGPS Salary growth – FFPS	3.90% 3.90%	CPI + 1% CPI + 1%	●
Life expectancy – Males currently aged 45 LGPS FFPS aged 65 LGPS FFPS	 22.3 21.9 21.1 20.6	 20.9 – 23.4 21.8 – 22.4 19.5 – 22.1 20.5 – 21.1	●
Life expectancy – Females currently aged 45 LGPS FFPS aged 65 LGPS FFPS	 25.0 24.4 23.5 22.9	 24.3 – 25.9 22.9 – 24.5 22.9 – 24.5 21.2 – 23.5	●

Assessment

- [Dark Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptionswe consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Net pension liability LGPS £0.242m surplus Firefighters scheme £643.301m		**Triennial revaluation of the Kent Pension Fund (LGPS)** The latest triennial valuation for the Kent Pension Fund was published in late 2022. This valuation, which is at 31 March 2022, provides updated information for the net pension liability (LGPS) on the Authority's balance sheet, particularly in respect of membership data and demographic assumptions. The delay to the audit of the 2021/22 financial statements means updated triennial valuation containing more recent information better reflecting the conditions that existed as at 31 March 2022 was available. We therefore requested management to obtain a revised report from the Authority's actuary, detailing what impact this updated information had on the Authority's net pension liability disclosures at 31 March 2022. A revised report was obtained by management in July 2023. The report clarified that the impact of the triennial valuation was to reduce the Authority's net pension liability by £153,000. However, the impact on individual disclosure lines in the financial statements was material, for example with liabilities arising from "experience items" increasing by £5,775,000 and liabilities arising from changes to demographic assumptions reducing by £2,729,000. Management therefore amended the 2021-22 financial statements to reflect the impact of the March 2022 Triennial revaluation. This work was not completed by the point that the 2022-23 financial statements required to be published and subsequently, the Authority have had to adjust the opening balances in the 2022-23 accounts to match the closing balances in the 2021-22 accounts. A summary of those changes is included in Appendix B.	● Light Purple

Assessment

- [Dark Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements: 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
Matters in relation to fraud	We have previously discussed the risk of fraud with management. We have not been made aware of any significant incidents in the period. No other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
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.
Written representations	A letter of representation has been requested from the Authority.
Confirmation requests from third parties	We seek external confirmations from relevant banks and financial institutions to support our review of the Authority's year end cash and investment balances. We have received positive confirmations for all other balances.
Accounting practices	We have evaluated the appropriateness of the Authority's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations / significant difficulties	We not experienced any difficulties obtaining audit evidence during the audit.

2. Financial Statements: other communication requirements

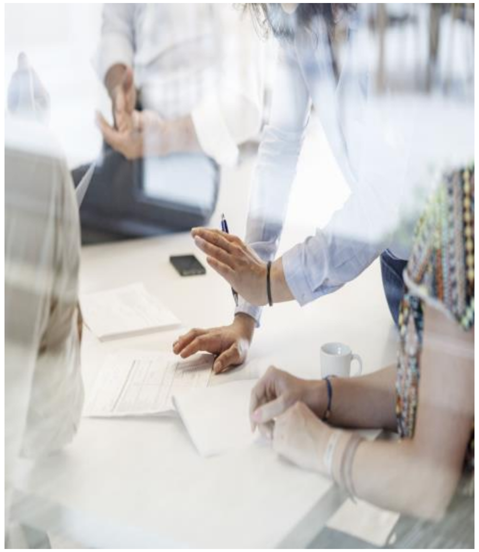
Our responsibility

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).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • 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 entity'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, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Authority's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Authority meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Authority and the environment in which it operates • the Authority's financial reporting framework • the Authority's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements: other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements, including the Annual Governance Statement and the Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. Our work to date has not identified any inconsistencies.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported a significant weakness. We have nothing to report on these matters. Our work on VFM is not yet completed and we are unable to conclude on VFM
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. Detailed work is not required as the Authority does not exceed the threshold specified by NAO.
Certification of closure of the audit	We intend to delay the certification of the closure of the 2022/23 audit as our VFM work is not yet complete. We will certify the closure of the audit after our VFM conclusion is reported.



3. Value for Money arrangements (VFM)

Approach to Value for Money work for 2022/23

The National Audit Office issued its guidance for auditors in April 2020. The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3–5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. We expect this report to be finalised with management in January 2024 and presented to the February 2024 Authority meeting.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We have not identified any significant weaknesses from our initial planning work or the work completed to date.

4. 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 and consider that an objective reasonable and informed third party would take the same view. 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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix C.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Grant Thornton International Transparency report 2023.

Appendices

A. Communication of audit matters to those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.

Distribution of this Audit Findings report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

B. 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.

Impact of adjusted 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 2023.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000	Impact on general fund £'000
Pension Liability		153		
Pensions Reserve *Being the correction of the opening pension liability balance following the updated IAS19 report for the triennial valuation of the LGPS.*	153	(153)	153	0
An adjustment to reflect the correction of the closing pension asset balance following the updated IAS19 report for the triennial valuation of the LGPS is being agreed with management.				
Overall impact	153	0	153	0

B. 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.

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 issues	Adjusted?
Note 25: Defined Benefit Pension Scheme A number of disclosure changes were required following receipt of the updated IAS19 report for as at 31 March 2023, taking into account the triennial valuation of the LGPS as at 31 March 2022 that impacted opening balances and therefore in-year movements.	✓
Note 19: External Audit Costs Disclosure changes were required to report the audit fees payable by the Authority	✓

Unadjusted misstatements

There are no unadjusted misstatements to report to those charged with governance.

C. Fees

We confirm below our final fees charged for the audit.

Audit fees	2021/22 Fee	2022/23 Fee
Scale fee	29,818	33,679
Ongoing increases to scale fee – agreed in prior years by PSAA but to be approved through formal variation process.	15,500	14,000
Additional pension liability work for triennial valuation	5,000	
Total audit fees (excluding VAT)	£50,318	£47,669

We confirm that we have not undertaken, or charged fees for non-audit services

D. Auditing developments

Revised ISAs

There are changes to the following ISA (UK):

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'

This impacts audits of financial statement for periods commencing on or after 15 December 2021.

ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'

ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

A summary of the impact of the key changes on various aspects of the audit is included below:

These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.

Area of change	Impact of changes
Risk assessment	The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of: • the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures • the identification and extent of work effort needed for indirect and direct controls in the system of internal control • the controls for which design and implementation needs to be assess and how that impacts sampling • the considerations for using automated tools and techniques.
Direction, supervision and review of the engagement	Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures.
Professional scepticism	The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: • increased emphasis on the exercise of professional judgement and professional scepticism • an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence • increased guidance on management and auditor bias • additional focus on the authenticity of information used as audit evidence • a focus on response to inquiries that appear implausible
Definition of engagement team	The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor. • Consideration is also being given to the potential impacts on confidentiality and independence.
Fraud	The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: • clarification of the requirements relating to understanding fraud risk factors • additional communications with management or those charged with governance
Documentation	The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.

Grant Thornton

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E enquiries@kent.fire-uk.org

Kent Fire & Rescue Service | together

To
Grant Thornton UK LLP
30 Finsbury Square
London
EC2A 1AG

Contact
Alison Hartley
Direct line
01622 692 121
Email

Our ref

Your ref

Date

Dear Grant Thornton UK LLP

Kent and Medway Fire and Rescue Authority
Financial Statements for the year ended 31 March 2023

This representation letter is provided in connection with the audit of the financial statements of Kent and Medway Fire and Rescue Authority (the Authority) for the year ended 31 March 2023 for the purpose of expressing an opinion as to whether the Authority financial statements give a true and fair view in accordance with International Financial Reporting Standards, and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the Authority's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the Authority and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Authority has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include the valuation of property, plant and equipment. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

vii. Except as disclosed in the financial statements:

  a. there are no unrecorded liabilities, actual or contingent
  b. none of the assets of the Authority has been assigned, pledged or mortgaged
  c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The Authority's financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

xi. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xiii. We have updated our going concern assessment. We continue to believe that the Authority's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that:

  a. the nature of the Authority means that, notwithstanding any intention to cease its operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements
  b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and

c. the Authority's system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the Authority's ability to continue as a going concern need to be made in the financial statements.

xiv. The Authority has complied with all aspects of ring-fenced grants that could have a material effect on the Authority's financial statements in the event of non-compliance.

Information Provided

xv. We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the Authority's financial statements such as records, documentation and other matters.

b. additional information that you have requested from us for the purpose of your audit; and

c. access to persons within the Authority via remote arrangements from whom you determined it necessary to obtain audit evidence.

xvi. We have communicated to you all deficiencies in internal control of which management is aware.

xvii. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xviii. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xix. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Authority and involves:

a. management

b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the financial statements.

xx. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xxi. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxii. We have disclosed to you the identity of the Authority's related parties and all the related party relationships and transactions of which we are aware.

xxiii. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

xxiv. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Authority's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

xxv. The disclosures within the Narrative Report fairly reflect our understanding of the Authority's financial and operating performance over the period covered by the Authority's financial statements.

Approval

The approval of this letter of representation was minuted by the Authority's Audit and Governance Committee at its meeting on 29 January 2024.

Yours faithfully

Name……………………………

Position………………………….

Date…………………………….

Name……………………………

Position………………………….

Date…………………………….

Signed on behalf of the Kent and Medway Fire and Rescue Authority

Item Number: C1

By:	Director, Finance and Corporate Services
To:	Audit and Governance Committee – 29 January 2024
Subject:	INTERNAL AUDIT PROGRESS UPDATE 2023/24
Classification:	Unrestricted

FOR INFORMATION

SUMMARY

The work undertaken by the Internal Audit Service provides management and those charged with Governance, with assurance that the Authority's corporate governance, risk management and internal control arrangements are effective, as required by the Accounts and Audit Regulations (England) 2015.

This report provides an update by Internal Audit of the progress undertaken to date in relation to the 2023/24 Audit Plan agreed by Members in April 2023. The report also provides a summary of recent Internal Audit follow up work.

CONCLUSION

Members are requested to:

1. Consider and note the content of the report.

Lead/ Contact Officer: Head of Finance, Treasury and Pensions – Nicola Walker
Telephone Number: 01622 692121 ext. 6122
Email: nicola.walker@kent.fire-uk.org

Background papers: None

COMMENTS

Background

1. There were eight internal audits agreed at the Audit and Governance meeting (20 April 2023) which are set out in the Internal Audit Plan 2023/24. This comprises of seven assurance audits focusing on Health and Safety, Operational Response Competency Training, Operational Response Welfare, Project Management, Compliance with Code of Ethics, Climate Change (Carbon Neutral) and Prevention- Anti-Social Behaviour / Fire Setters. A further advisory audit was also planned to review the Authority's preparedness against the outcomes from the Kerslake report. Since agreement of the 2023/24 plan an additional advisory review on the use of Purchasing Cards has also been included.

Progress Against Internal Audit Plan 2023/24

2. To date one advisory and three assurance audits have been completed which are Purchasing Card Review (Advisory), Health and Safety, Operational Response - Welfare and Project Management. Those assurance audits completed so far, have resulted in one audit opinion of high and two of substantial, with all audits identified as 'good' or 'very good' prospects for improvement. A summary report for the three recently completed audits and the purchasing card review is attached **Appendix 1, Annex A** for Members information.

3. A further two assurance audits (Operational Response - Competency Training and Compliance with Code of Ethics) have been undertaken and are now at draft report stage.

4. The two remaining assurance audits (Climate Change (Carbon Neutral) and Prevention- Anti-Social Behaviour / Fire Setters) and the remaining advisory audit (KFRS Response to Manchester Arena Bombings) are now at the fieldwork stage. The Head of Internal Audit is anticipating that all audits will be at draft or final report stage by the end of the current financial year.

Outstanding Management Actions from Previous Years Audit Reviews

5. Attached at **Appendix 1**, Table 2, is a summary of the outstanding management actions relating to four previous years audits (Contract Management, Equality, Diversity and Inclusion, IT helpdesk and Clinical Governance) and the Health and Safety audit completed in Quarter 1 of this year. One action has now been completed with the remaining actions now being in progress or not yet due for completion, enabling Internal Audit to be satisfied with the progress made so far. Once the outstanding actions have been completed, Members will be updated at the next appropriate Committee meeting.

Counter Fraud

6. The potential risk of fraudulent activity still remains a very real risk across the Authority. As such regular reviews of our processes are carried out to ensure adequate controls remain in place to mitigate as many potential risks as possible. Fraud awareness updates are regularly provided to staff and additional material was made available to all staff during International Fraud Awareness week in November. The Kent County Council (KCC) Fraud Team produced a suite of Fraud Awareness videos that were made available to all colleagues.

IMPACT ASSESSMENT

7. The audit update provides assurance to Members that the Authority is undertaking annual reviews across a broad range of areas to ensure adequate controls and procedures are in place. Sufficient funding resources are set aside in the budget each year to resource the cost of this audit service.

CONCLUSION

8. Members are requested to:

8.1 Consider and note the content of the report.

PROGRESS REPORT
Kent and Medway Fire and Rescue Authority

Internal Audit Progress Report

29 January 2024

Author	Frankie Smith KMFRS Head of Internal Audit frankie.smith@kent.gov.uk Telephone: 03000 419434
QA	Jonathan Idle – KCC Head of Internal Audit & Counter Fraud

INTERNAL AUDIT PROGRESS REPORT – 29 January 2024

1. Purpose of this report

1.1 This report provides an update on the work that the Kent County Council (KCC) Internal Audit service has undertaken on behalf of the Kent and Medway Fire and Rescue Authority (KMFRA) since 01 April 2023, against the 2023/24 Internal Audit Plan.

1.2 The report also provides a summary of our recent follow up work.

2. Progress Against 2023/24 Audit Plan

2.1 **Table 1** below provides an update on our progress against the 2023/24 Audit Plan:

Table 1 – 2023/24 Audit Plan

Audit		Quarter	Status	Assurance Opinion	Prospects for Improvement	Reported to Members
FS01	Health & Safety	Q1	Complete			January 2024
FS02	Operational Response – Competency Training Programme	Q3	Draft Report			
FS03	Operational Response – Welfare	Q1	Complete			January 2024
FS04	Project Management	Q2	Complete			January 2024
FS05	Compliance with Code of Ethics	~~Q2~~ Q3	Draft Report			
FS06	Climate Change (Carbon Neutral)	Q3	Fieldwork			
FS07	KFRS Response to Manchester Arena Bombings	Q4	Draft Report			
FS08	Prevention – Anti-Social Behaviour	Q4	Fieldwork			
FS09	Purchasing Review	Q1	Complete			January 2024

2.2 **FS05-2024 Code of Ethics** audit was originally scheduled to be completed during Q2. However, this has been delayed to Q3 to allow for client and auditor availability.

2.3 The following audit summaries are included at **ANNEX A:**

- FS01-2024 Health & Safety
- FS03-2024 Operational Response – Welfare
- FS04-2024 Project Management
- FS09-2024 Purchasing Review

2.4 It is anticipated that all audits will be at final or draft report stage by 31 March 2024.

2.5 **ANNEX B** provides the definitions for the risk ratings, audit opinions and prospects for improvements.

3. Implementation of Agreed Management Actions

3.1 All High and Medium priority issues raised within Internal Audit reviews are the subject of a formal follow-up process. The Head of Internal Audit (HoIA) is responsible for co-ordinating and overseeing this follow-up process, which is completed as a joint exercise between KFRS and Internal Audit.

3.2 **Table 2** below provides an overview of the follow up work completed on the implementation of agreed management actions since 01 April 2023

Table 2 – Implementation of Agreed Management Actions

Audit		Audit Date	Assurance Opinion	Summary of Agreed Actions	Status
FS03-2021	Contract Management	September 2021	Substantial	(1) Medium	In progress
FS05-2022	Equalities, Diversity & Inclusion	December 2021	Substantial	(1) Medium	Not yet due
FS06-2022	IT Help Desk	January 2022	Substantial	(2) Medium	Completed
FS03-2023	Clinical Governance	April 2023	Limited	(1) Medium	In progress
FS01-2024	Health & Safety	August 2023	Substantial	(3) Medium	In progress

3.3 Based on the follow up work completed to-date, we are satisfied that good progress has been made to implement all agreed issues and outstanding issues are being appropriately managed and mitigated.

4. Counter Fraud

4.1 There have been no reported frauds or irregularities since 01 April 2023.

5. Resources

5.1 The Internal Audit Team is currently fully resourced, and all of the 2023/24 Audit Plan has been allocated to specific Auditors.

6. Performance Indicators

6.1 As part of the Service Level Agreement between KCC and KFRS, Performance Indicators are in place to measure both the performance of Internal Audit and the timeliness of officers' responses to audit plans and reports. Current performance in relation to the performance indicators is given in **ANNEX C**. Two performance indicators (% completion of Annual Plan and % completion of actions due) are reported at year end only. There are no significant concerns arising from the performance indicators to date.

7. Conclusion

7.1 Audit plan delivery is on track to be delivered by 31 March 2024. As an indication, the overall opinion on systems of risk management, governance and control at this stage continues to be '**Substantial**' in line with the assurance provided in the 2022/23 Annual Report. This is, however, subject to change as further audits are completed.

FS01-2024 HEALTH & SAFETY	
ENGAGEMENT OBJECTIVE	**OPINION & NUMBER OF ISSUES RAISED**
As part of the 2023-24 Audit Plan, it was agreed that Internal Audit would undertake a review of Health and Safety. The aim of the audit was to provide assurance on the controls in place for health and safety risk assessments and accident reporting, including policies and procedures.	See opinion table and text below
KEY STRENGTHS	**AREAS FOR DEVELOPMENT**
• There is an adequate Health and Safety Framework in place, comprising of a comprehensive suite of up-to-date policies and procedures. • Sample testing of 15 generic risk assessments confirmed sufficient hazards had been identified, with appropriate controls measure in place. • Robust processes are in place to conduct dynamic and analytical risk assessments to constantly assess risks and hazards. • Compare and contrast exercises are undertaken to monitor the return rate and quality of analytical risk assessments, where appropriate actions are raised. • Robust controls are in place to ensure identified actions arising from Incident/Accident Reports (IAR's) are implemented, with all closed actions undergoing a quality assurance (QA) check. • Sample testing of closed actions arising from IAR's confirmed that sufficient evidence and records were retained by way of an action tracker log. • There is sufficient monitoring and reporting of accident data to inform Senior Management of H&S performance.	• Analysis of data provided identified 22 generic risk assessments and 12 external training assessments were overdue for review, some by several years- **ISSUE 1 (MEDIUM)** • There is a lack of evidence to verify that trade union health and safety representatives are consulted on risk assessments **- ISSUE 2 (MEDIUM)** • Display Screen Equipment (DSE) assessments are not consistently being completed when required **- ISSUE 3 (MEDIUM)** • Currently the SharePoint database used for recording health and safety tasks is heavily reliant on manual intervention. – **ISSUE 4 (LOW)**

Opinion & number of issues raised:

Assurance Opinion	Prospect for Improvement	High	Medium	Low
Substantial	**Good**	**0**	**3**	**1**

Internal Audit's opinion of **Substantial** is based on the fact that on the whole controls tested were found to be operating effectively, with no significant issues raised. However, some areas for development were identified.
The review highlighted that generic risk assessments do not record completed actions. We advised the service that it would be good practice, in-line with HSE guidance to consider but currently the approach is tied into a regionally agreed risk assessment template.
A list of equipment requiring a risk assessment is currently in development.
Based on the management response to address the issues prospects for improvements are considered good.

FS03-2024 OPERATIONAL RESPONSE – WELFARE

ENGAGEMENT OBJECTIVE

As part of the 2023/24 Audit Plan, it was agreed that Internal Audit would undertake a review of Operational Response – Welfare.

The aim of the audit was to provide assurance on the controls in place for welfare including, but not limited to, governance and oversight arrangements, review of welfare issues reported, and the arrangements put in place for Operational Response Crews during incident response and post-incident.

OPINION & NUMBER OF ISSUES RAISED

Assurance Opinion	Prospect for Improvement	High	Medium	Low
SUBSTANTIAL	VERY GOOD	0	0	2

This audit has been allocated a **Substantial** audit opinion on the basis that no significant issues have been identified.

KEY STRENGTHS

- A service-wide review of welfare expectations, provisions and arrangements was completed during the review period.
- Welfare issues raised are recorded on the Operational Learning action tracker which is regularly reviewed and updated to reflect progress made against issues raised.
- Management effectively and promptly addresses welfare issues and complaints raised.
- Staff have access to welfare guidance documentation on the intranet including Summer Guidance - Operational Information Note and Severe Weather Response Plan.

AREAS FOR DEVELOPMENT

- There is no formal welfare strategy / records in place of the welfare arrangements required / provided during and post incident. **ISSUE 1 (LOW)**
- Welfare matters and issues at KFRS are discussed at five forums (Joint Health & Safety Cttee, Critical Incident Review Board, Response & Resilience Strategy Board, Health & Safety Management Group and Response & Resilience Delivery Board) however, governance arrangements require improvement. This relates to either the establishment of terms of reference (ToR) or updating of ToR. **ISSUE 2 (LOW)**

FS04-2024 PROJECT MANAGEMENT

ENGAGEMENT OBJECTIVE

Kent and Medway Fire and Rescue Service (KFRS) defines projects as unique activities that are undertaken to deliver products or services that bring about change. Although they can span several years, projects have a defined start and end date. They also have specific costs, clear scope, acceptance criteria, risks and uncertainty, and are run by dynamic, transient teams with specialist roles as and when required. Projects are different to day-to-day work which is often referred to as “business as usual” (BAU).

As at the time of this review, there are approximately 25 projects in the KFRS Project Plan that have been started of which 3 are near completion.

As part of the 2023/24 Audit Plan, Internal Audit has undertaken a review of the Authority’s project management arrangements and tested the achievements of expected benefits of projects to KFRS.

KEY STRENGTHS

- In accordance with good practice project management methodology, a business case is made to provide justification to Senior Management about the project to be undertaken, and Senior Management's approval is obtained before starting a project.
- The scope of project business cases were found in-line with good practice, they contain adequate and sufficient information (e.g. strategic case, costs, alternatives, risks etc.) to support effective decision making.
- The expected benefits of a project to KFRS are set out from the outset.
- Project governance arrangements are proportionate and are based on the level of complexity and risk of the project.
- Portfolio and project board(s) are in place with overall responsibility to govern projects. The composition of the portfolio board and individual project boards were found to be adequate to provide critical and effective oversight.
- There is regular progress reporting that allows Senior Management to monitor and evaluate project progress, performance, and risks.
- Actions are developed and taken where significant risks to the project are identified.
- Post project reviews are undertaken to assess the project performance and identify learning opportunities for continuous improvement.
- Benefit realisation reviews are carried out to ascertain if the expected benefits have been realised, this review process is also used to identify learning opportunities.

  There is auditable information/evidence to substantiate the achievement of expected benefits.

AREAS FOR DEVELOPMENT

- The expected benefits of 1 out of the 5 projects in our sample has not been defined in a manner that is measurable. **Issue 1** LOW

OPINION & ISSUES RAISED

Assurance Opinion	Prospect for Improvement	High	Medium	Low
HIGH	VERY GOOD	0	0	1

FS09-2024 PURCHASING REVIEW	
ENGAGEMENT OBJECTIVE	
A lesson learned consultancy review was requested from Internal Audit following the purchase of 5 outboard motor trolleys, bought using a purchase card in February 2023. Only 2 trolleys were delivered which were not fit for purpose and a refund was received via the Chargeback Scheme.	
KEY STRENGTHS	**AREAS FOR DEVELOPMENT**
• The banking chargeback facility enabled the Authority to recover all money. • There is a Procurement Card Policy. • There is a Procurement Policy.	• Procurement cards are not a suitable method of payment for operational equipment to be used at emergency situations, as a purchase order is not required, and payment is made before goods are received. • Current Procurement card guidance should include guidance on due diligence checks that should be undertaken prior to purchase. • A review of the Procurement Policy and Procurement Card Policy should be undertaken to provide one single concise document that outlines the procurement and payment routes available to ensure consistency, completeness and ease of use for colleagues. • There is not currently a suitable procurement route for purchasing low value operational equipment that would be used at an emergency incident, with a quality evaluation and authorisation process robust enough to ensure products are fit for purpose.

Risk Ratings	
High	There is a gap in the control framework or a failure of existing internal controls that results in a significant risk that service or system objectives will not be achieved.
Medium	There are weaknesses in internal control arrangements which lead to a moderate risk of non-achievement of service or system objectives.
Low	There is scope to improve the quality and/or efficiency of the control framework, although the risk to overall service or system objectives is low.

Audit Opinions	
High	Internal control, Governance and the management of risk are at a high standard. The arrangements to secure governance, risk management and internal controls are extremely well designed and applied effectively. Processes are robust and well-established. There is a sound system of control operating effectively and consistently applied to achieve service/system objectives. There are examples of best practice. No significant weaknesses have been identified.
Substantial	Internal Control, Governance and management of risk are sound overall. The arrangements to secure governance, risk management and internal controls are largely suitably designed and applied effectively. Whilst there is a largely sound system of controls there are few matters requiring attention. These do not have a significant impact on residual risk exposure but need to be addressed within a reasonable timescale.
Adequate	Internal control, Governance and management of risk is adequate overall however, there were areas of concern identified where elements of residual risk or weakness with some of the controls may put some of the system objectives at risk. There are some significant matters that require management attention with moderate impact on residual risk exposure until resolved.
Limited	Internal Control, Governance and the management of risk are inadequate and result in an unacceptable level of residual risk. Effective controls are not in place to meet all the system/service objectives and/or controls are not being consistently applied. Certain weaknesses require immediate management attention as there is a high risk that objectives are not achieved.
No Assurance	Internal Control, Governance and management of risk is poor. For many risk areas there are significant gaps in the procedures and controls. Due to the absence of effective controls and procedures no reliance can be placed on their operation. Immediate action is required to address the whole control framework before serious issues are realised in this area with high impact on residual risk exposure until resolved.

Prospects for Improvement	
Very Good	There are strong building blocks in place for future improvement with clear leadership, direction of travel and capacity. External factors, where relevant, support achievement of objectives.
Good	There are satisfactory building blocks in place for future improvement with reasonable leadership, direction of travel and capacity in place. External factors, where relevant, do not impede achievement of objectives.
Adequate	Building blocks for future improvement could be enhanced, with areas for improvement identified in leadership, direction of travel and/or capacity. External factors, where relevant, may not support achievement of objectives.
Uncertain	Building blocks for future improvement are unclear, with concerns identified during the audit around leadership, direction of travel and/or capacity. External factors, where relevant, impede achievement of objectives.

INTERNAL AUDIT & COUNTER FRAUD (IACF)			
	Indicator	**Target Performance**	**Performance to date**
1.	Engagement Plan to be issued 2 weeks prior to commencement of audit fieldwork	90%	100%
2.	Verbal feedback to be provided within one week of completion of audit fieldwork	100%	100%
3.	Draft Reports to be issued by the date specified in the Engagement Plan	90%	100%
4.	Final Report to be issued within 5 working days of receiving management response	90%	100%
5.	% Completion of Annual Internal Audit Plan @ 31 March 2024	90%	N/A

KFRS			
	Indicator	**Target Performance**	**Performance to date**
1.	Agreement of Engagement Plan to be provided prior to fieldwork start date	100%	100%
2.	Response to Draft Report and Action Plan to be provided within 10 working days of issue	90%	100%
3.	Actions plans in response to High and Medium Priority issues raised to be implemented within agreed timescales	90%	N/A

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Item Number: C2

By:	Director, Finance and Corporate Services
To:	Audit and Governance Committee - 29 January 2024
Subject:	EXTERNAL AUDITOR'S AUDIT FINDINGS REPORT FOR 2021/22
Classification:	Unrestricted

FOR INFORMATION

SUMMARY

The purpose of this report is to present the External Auditor's Audit Findings Report in relation to the 2021/22 financial year, in accordance with the requirements of the International Standard on Auditing (UK and Ireland) 260. Members will be aware of the pension revaluation issues that have caused delays in concluding the audit review of the accounts for 2021/22.

However, I am now pleased to report that the External Auditors, on 27 November 2023, formally concluded their review of the Financial Statements and signed off the accounts for 2021/22, so they are now closed. The Audit Findings Report, attached at **Appendix 1**, in relation to the financial Statements for 2021/22, is now attached to this report for Members to note. Paul Cuttle, the Director from Grant Thornton, will be present at this meeting to present this report.

CONCLUSION

Members are requested to:

1. Note the Audit Findings Report for 2021/22 as attached at **Appendix 1**.

LEAD/CONTACT OFFICER: Director, Finance and Corporate Services - Alison Hartley
TELEPHONE NUMBER: 01622 692121 ext 8262
EMAIL: alison.hartley@kent.fire-uk.org
BACKGROUND PAPERS: None

COMMENTS

Audit Findings Report

1. An initial Audit Findings Report in relation to the Financial Statements for 2021/22 was presented to the meeting of this Committee on 28 November 2022. Whilst a large part of the audit review had been undertaken at that stage, it had not been concluded as the External Auditor's had raised a number of questions in relation to pension valuations.

2. Unfortunately, the pension valuation issues became a national issue, affecting many local authorities, and as such it took some considerable time to resolve. Pages 3, 10,11 and 12 of **Appendix 1** provide a summary overview of the outcome of the External Auditor's review.

3. Ultimately there was a requirement to reduce the Authority's pension liability by £153k, and whilst this was not deemed a material change there were material movements on individual disclosure lines within the Financial Statements. Consequently, the final version of the Financial Statements for 2021/22 were updated to reflect the latest valuation figures provided by the actuary.

4. In discharging the External Auditors' statutory responsibility to those charged with governance, the External Auditor's Findings report highlights the following key points: -

   (a) That the Authority issued a management letter of representation on the 27 November 2023.

   (b) As a consequence, the External Auditors issued an unmodified opinion in respect of the Financial Statements for 2021/22 (**Appendix 1**, page 3).

   (c) In their overall Value for Money (VFM) assessment the External Auditors are satisfied that in all significant respects the Authority has put in place proper arrangements to ensure it delivered value for money in its use of resources, and they did not identify any significant weaknesses in the Authority's arrangements (**Appendix 1**, page 4).

5. In summary, we are pleased to report that the Financial Statements and VFM work is now concluded for the 2021/22 financial year.

CONCLUSION

6. Members are requested to:

6.1 Note the Audit Findings Report for 2021/22 as attached at **Appendix 1**.

Grant Thornton

The Audit Findings for Kent and Medway Fire and Rescue Authority

Year ended 31 March 2022

Updated version November 2023 – updates to the November 2022

Contents

Your key Grant Thornton team members are:

Paul Cuttle
Director
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Trevor Greenlee
Audit Manager
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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 planning 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 the Authority or all 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.

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Kent and Medway Fire and Rescue Authority ('the Authority') and the preparation of the Authority's financial statements for the year ended 31 March 2022 for those charged with governance.

Financial Statements	
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 Authority's financial statements give a true and fair view of the financial position of the Authority 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. We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and the Narrative Report) is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	The findings from our financial statements work are summarised at Section 2. Our work is substantially complete. The financial statements provided for audit were produced to a very high standard, with strong working paper trails. Our work is now complete. Subject to obtaining a management letter of representation we anticipate issuing an unmodified audit report. We have not identified any adjusted misstatements to the primary statements. The latest triennial valuation for the Kent Pension Fund was published in late 2022. We considered that the triennial valuation would contain information better reflecting the conditions that existed as at 31 March 2022. We therefore requested management to obtain a revised report from the Authority's actuary, detailing the impact of this updated information on the Authority's net pension liability disclosures for the Local Government Pension Scheme at 31 March 2022. A revised report was obtained by management in July 2023. The impact was to reduce the Authority's net pension liability by £153,000, but with material movements at individual disclosure lines. Management has therefore amended the 2021-22 financial statements. Further information is included at page 12 and Appendix A. The draft financial statements included an estimate of the income from Non-Domestic Rates based on information provided by billing authorities. Final information received from billing authorities indicated that this estimate had been overstated by £450,000. Any amendment to the CIES would also involve an off-setting adjustment through the MIRS to the Collection Fund Adjustment Account and therefore the issue has no impact on the General Fund balance. As the amount was not material management have decided not to amend the accounts. We concluded that the issue was not material for our opinion. Audit testing subsequently identified an error in the Authority's calculations to estimate the income from Non-Domestic Rates. As a result the estimate had been overstated by £7,000 rather than £450,000. The issue is not material for our opinion. We have agreed some minor amendments to disclosure notes. Our audit opinion is subject to finalisation of work in the following areas; • completion of work on PPE revaluations, where we are currently seeking additional information from the Authority's external valuer on the source data used in calculations and on the assumptions supporting the valuations; Our work requires us to test that the area measurement information (m2) used in valuation calculations agree to supporting

1. Headlines

Financial Statements (continued)	
	records such as floor plans. However, almost all of the measurements used in the Authority's land and building valuations date from many years ago, and for some of the assets selected for audit testing management was unable to provide supporting plans with measurement information. Management therefore employed an external surveyor to provide remeasurement information for these assets. We considered the remeasurement information provided by management, and the differences between this information and the measurements used in valuation calculations. We concluded that the total valuation for land and buildings included in the financial statements was not materially misstated. Further information is included at page 10. • conclusion sample testing in relation to journals and transactions relating to the Firefighters' pension scheme; • review of a final set of the financial statements; and • obtaining a management letter of representation. We have concluded that the other information to be published with the financial statements is consistent with our knowledge of the Authority and the financial statements we have audited. Subject to the completion of outstanding work we anticipate issuing an unmodified audit report. Our work is now complete. Subject to obtaining a management letter of representation we anticipate issuing an unmodified audit report.
Value for Money (VFM) arrangements	
Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Authority's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit. Auditors are required to report their commentary on the Authority's arrangements under the following specified criteria; - Improving economy, efficiency and effectiveness; - Financial sustainability; and - Governance	We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. We expect to issue our Auditor's Annual Report by 28 February 2023. This is in line with the deadline specified in the Auditor Guidance issued by the National Audit Office. Our VFM work is now complete. The findings from our work were reported in our 2021/22 Auditor's Annual Report, which was presented to the 20 June 2023 meeting of the Authority. Our work did not identify any significant weaknesses in the Authority's arrangements.

1. Headlines

Statutory duties	
The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • to certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We have completed the majority of work under the Code. We expect to certify the completion of the audit upon the completion of our work on the Authority's VFM arrangements. Our VFM work is now complete. We intend to certify the closure of the 2021/22 audit when we give our opinion on the financial statements.
Significant Matters	We did not encounter any significant difficulties or identify any significant matters arising during our audit.

2. Financial Statements

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.

As auditor 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 Authority's business and is risk based, and in particular included:

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

Conclusion

We have substantially completed our audit of the financial statements. Subject to the finalisation of outstanding work we anticipate issuing an unmodified audit report.

Our work is now complete. Subject to obtaining a management letter of representation we anticipate issuing an unmodified audit report.

Acknowledgements

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

2. Financial Statements

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.

In our audit plan we reported a materiality level of £1.7m. Based on the total expenditure reported in the draft financial statements we updated our materiality to £1.9m.

	Authority Amount (£)	Qualitative factors considered
Materiality for the financial statements	1,900,000	This is approximately 2% of gross revenue expenditure.
Performance materiality	1,425,000	Calculated as 75% of headline materiality. This is a measure used in audit testing based upon our assessment of the likelihood of a material misstatement in the financial statements.
Trivial matters	95,000	Calculated as 5% of materiality.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Management override of controls 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. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk.	To address this risk we; • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determined the criteria for selecting high risk or unusual journals; • identified and tested high risk and unusual journals for appropriateness and corroboration; • gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness. Our work to test a selection of journals is still in progress. We are also discussing amendments To Note 3 (Critical Judgements in Applying Accounting Policies) and Note 4 (Assumptions made about the future and other major sources of estimation uncertainty) with management. Our work to date has not identified any other issues in respect of this risk. Our work is now complete. We agreed a minor amendment to the disclosure at Note 4 .Our audit work has not identified any issues in respect of this risk
The revenue cycle includes fraudulent transactions (rebutted) 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.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of Fire and Rescue Authorities mean that all forms of fraud are seen as unacceptable. Our audit work has not identified any issues to change our strategy towards revenue recognition.
Fraud in expenditure recognition As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure recognition may be greater than the risk of fraud related to revenue recognition. There is a risk the Authority may manipulate expenditure to budgets and set targets and we had regard to this when planning and performing our audit procedures. Management could defer recognition of expenditure by under-accruing for expenses that have been incurred during the period but which were not paid until after the year-end or not record expenses accurately in order to improve the financial results.	To address this risk we; • inspected transactions around the end of the financial year to assess whether they had been included in the correct accounting period. • inspected a sample of accruals made at year end for expenditure not yet invoiced to assess whether the valuation of the accrual was consistent with the value billed after the year. We also compared listings of accruals to the previous year to ensure completeness of accrued items. Our audit work has not identified any issues in respect of this risk.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of the pension fund net liability The Authority's net defined benefit liability represents a significant estimate in the financial statements. The estimate is complex given the large number of scheme members and the sensitivity of the estimate to key assumptions.	To address this risk we : • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated, and evaluated the design of the associated controls; • evaluated the instructions issued by management to the actuary as management's expert, and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary; • assessed the accuracy and completeness of the information provided by the Authority to the actuary; • tested the consistency of the pension fund disclosures in the financial statements with the actuary's report; • confirmed the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • obtained assurances from the auditor of Kent Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. Our audit work to date has not identified any issues in respect of this risk. Our work in this area is now complete. Our findings are reported at "Financial Statements – key judgements and estimates".
Valuation of land and buildings The valuation of the Authority's land and building assets represents a significant estimate by management in the financial statements. We designed our work to address the risk that the valuation of land and building assets was materially misstated.	To address this risk we; • evaluated management's processes and assumptions for the calculation of the estimate, including the instructions issued to the Authority's external valuer and the scope of their work; • evaluated the competence, capabilities and objectivity of the external valuer; • challenged the information and assumptions used by the valuer; and • tested, on a sample basis, revaluations made during the year to ensure they had been input correctly into the Authority's asset register. Our work in this area is still in progress. We have selected a sample of items for testing but are currently seeking additional information from the Authority's external valuer on the source data used in calculations and on the assumptions supporting the valuations. Our work in this area is now complete. Our findings are reported at "Financial Statements – key judgements and estimates".

2. Financial Statements – key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Valuations Land and Buildings: £98.485m Assets Held for Sale: £0.52m Surplus assets: £0.924m	The Authority's asset base largely comprises specialised assets such as fire stations and training facilities. These are valued at Depreciated Replacement Cost (DRC). The valuations are based on the cost of a modern equivalent asset delivering the same service provision. The remaining land and building assets are not specialised in nature and are valued at Existing Use Value (EUV) . Full valuations including physical inspections are performed; -for all material assets annually ; and -for 25% of the remaining assets on a four year cyclical basis. For these assets desktop valuations are completed in other years to ensure that the carrying value of assets is not materially misstated. The Authority engaged an external valuer, Avison Young, to complete the valuation of properties as at 31 March 2022. All assets are assessed annually for evidence of impairment.	The information disclosed in the financial statements was consistent with the information provided by the external valuer. Our work in other areas relating to property valuations is still in progress. We have requested additional information from the Authority's external valuer to support the valuations in the financial statements. Our work requires us to test that the area measurement information (m2) used in valuation calculations agree to supporting records such as floor plans. in practice almost all of the measurements used in the Authority's land and building valuations date from many years ago. For fire station land areas and out-buildings such as smoke houses neither management nor the external valuer could provide plans to support the measurements used. For the main fire station buildings floor plans were available, but some measurements could not easily be agreed to those used in calculations. Management therefore employed an external surveyor to provide remeasurements of the relevant land and building assets required to support audit testing. We considered the remeasurement information provided by management, and the differences between this information and the measurements used in valuation calculations. We concluded that the total valuation for land and buildings included in the financial statements was not materially misstated.	Light purple

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Net pension liability – LGPS £43.944m Firefighters' scheme £967.519m	At 31 March 2022 the Authority has a net pension liability of £967.519m relating to the Firefighters Pension Schemes and £43.944m relating to the Local Government Pension Scheme as administered by Kent County Council. The Authority uses an external actuary, Barnett Waddingham, to provide an actuarial valuation of the Authority's assets and liabilities deriving from these schemes. A full valuation is required every three years. A roll forward approach is used in intervening periods. The valuations are based on key assumptions such as life expectancy, discount rates, salary growth and investment return. Given the significant value of the net pension fund liability small changes in assumptions can result in significant valuation movements For 2021/22 contribution rates for the LGPS scheme continue to be based on the triennial revaluation as at 31 March 2019. A full revaluation has been performed as at 31 March 2022. The latest full actuarial valuation for the Firefighters' scheme was as at 31 March 2021.	We engage an auditor's actuary to assess the work of management's actuary and the reasonableness of the approach used. The auditors' actuary has provided us with indicative ranges for assumptions, which we report below. Our work to review the Authority's net pension liability is substantially complete, although our sample testing of transactions relating to the Firefighters' pension scheme is still in progress. We have agreed minor changes to the disclosure note on the Firefighter's pension scheme. Our work to date has not identified any other issues.	

Assumption	Actuary Value	PwC range	Within range?
Discount rate	2.6%	2.55 -2.60%	✓
Pension increase rate	3.2%	3.05 -3.45%	✓
Salary growth LGPS FFS	 4.2% 4.3%	 CPI + 1% CPI + 1%	 ✓ ✓
Life expectancy – Males currently aged 45 LGPS FFS aged 65 LGPS FFS	 23.0 21.8 21.6 20.5	 21.9 - 24.4 21.8 - 22.4 20.5 – 23.1 20.5 - 21.1	 ✓ ✓ ✓ ✓
Life expectancy – Females currently aged 45 LGPS FFS aged 65 LGPS FFS	 25.1 24.3 23.7 22.8	 24.9 - 26.4 24.3 - 24.9 23.4 – 25.0 22.8 - 23.4	 ✓ ✓ ✓ ✓

Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Audit Comments	Assessment
Net pension liability – LGPS £43.944m Firefighters' scheme £967.519m	Our work to review the Authority's net pension liability, including our sample testing of transactions relating to the Firefighters' pension scheme, is now complete. Other than for the issues relating to the triennial revaluation of the Kent Pension Fund reported below there are no other matters to bring to your attention. **Triennial revaluation of the Kent Pension Fund (LGPS)** The latest triennial valuation for the Kent Pension Fund was published in late 2022. This valuation, which is at 31 March 2022, provides updated information for the net pension liability (LGPS) on the Authority's balance sheet, particularly in respect of membership data and demographic assumptions We considered that the triennial valuation would contain information better reflecting the conditions that existed as at 31 March 2022. We therefore requested management to obtain a revised report from the Authority's actuary, detailing what impact this updated information had on the Authority's net pension liability disclosures at 31 March 2022. A revised report was obtained by management in July 2023. The report clarified that the impact of the triennial valuation was to reduce the Authority's net pension liability by £153,000. However, the impact on individual disclosure lines in the financial statements was material, for example with liabilities arising from "experience items" increasing by £5,775,000 and liabilities arising from changes to demographic assumptions reducing by £2,729,000. Management has therefore amended the 2021-22 financial statements to reflect the impact of the March 2022 Triennial revaluation. Additional audit work has been required to: • obtain assurance in respect of the updated membership data; • consider the reasonableness of the actuary's revised assumptions and estimates; and • check the accuracy of management's adjustments to the financial statements. We have now completed our work to review the updated actuary's report and the amendments to the accounts. We have concluded that there are no material issues for our opinion.	Light purple

Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Income from Non – Domestic Rates	The Authority precepts on billing authorities for Non-Domestic Rates. The draft 2021/22 financial statements reflect the estimated income as advised by billing authorities. Final information from billing authorities was received in July 2022. This indicated that the income from Non-Domestic Rates included on the CIES had been overstated by £450,000. As there would be an off-setting adjustment through the MIRS to the Collection Fund Adjustment Account this issue has no impact on the General Fund balance. As the amount was not material, management have decided not to adjust the accounts.	We concluded that the issue was not material for our opinion. Audit testing subsequently identified an error in the Authority's calculations to estimate the income from Non-Domestic Rates. As a result the estimate had been overstated by £7,000 rather than £450,000. The issue is not material for our opinion.	Light purple

Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - 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
Matters in relation to fraud	We have previously discussed the risk of fraud with management. We have not been made aware of any significant incidents in the period. No other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
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.
Written representations	A letter of representation has been requested from the Authority.
Confirmation requests from third parties	We seek external confirmations from relevant banks and financial institutions to support our review of the Authority's yearend cash and investment balances. For one balance where a confirmation has not been received we will place reliance on alternative audit procedures. We have received positive confirmations for all other balances.
Accounting practices	We have evaluated the appropriateness of the Authority's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	Our audit work is still in progress. For the work completed to date all information requested from management has been provided. Our audit work is now complete. All information requested from management has been provided.

2. Financial Statements - other communication requirements

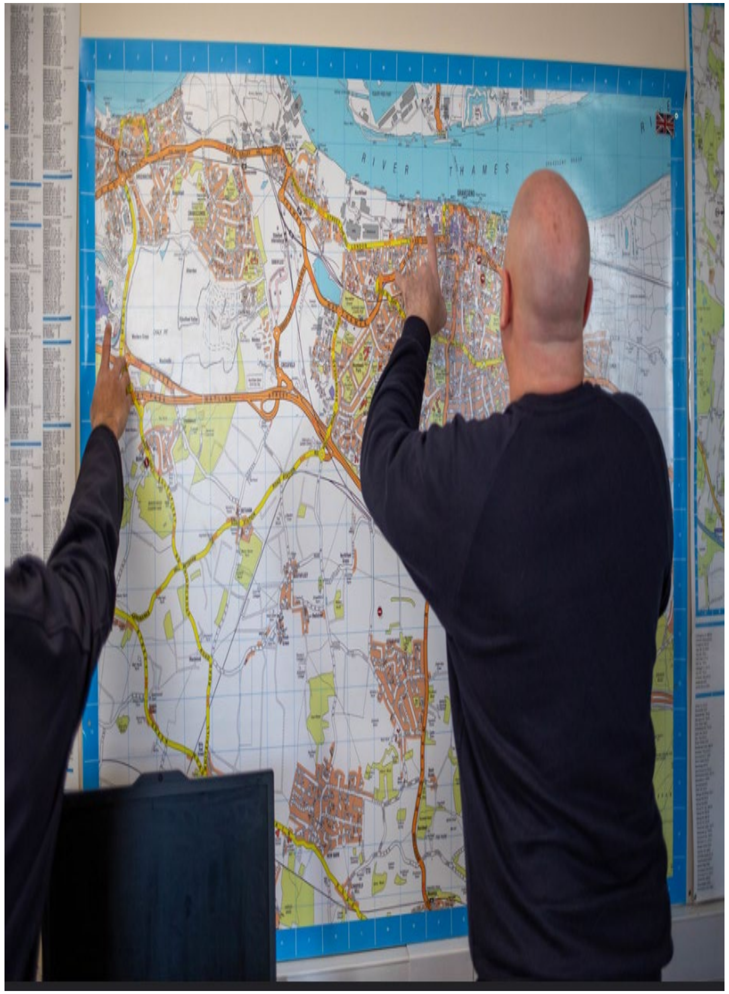
Our responsibility

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).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • 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 entity'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, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Authority's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Authority meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Authority and the environment in which it operates • the Authority's financial reporting framework • the Authority's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements, including the Annual Governance Statement and the Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. Our work to date has not identified any inconsistencies. Our work is now complete. There are no issues to report.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • If the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit. • We have applied any of our statutory powers or duties. We have nothing to report on these matters. • where we are not satisfied in respect of arrangements to secure value for money and have reported a significant weakness. Our conclusion in this area is outstanding as we have not yet completed our VFM work. Our VFM work is now complete. We have not identified any significant weaknesses in arrangements. There are no matters to report by exception.
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. Detailed work is not required as the Authority does not exceed the threshold specified by NAO.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2021/22 audit as our VFM work is not yet complete. Our VFM work is now complete. We intend to certify the closure of the 2021/22 audit when we give our opinion on the financial statements.



3. Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office issued its guidance for auditors in April 2020. The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

3. VFM - our procedures and conclusions

We have not yet completed our VFM work and so are not in a position to issue our Auditor's Annual Report. We expect to issue our Auditor's Annual Report by 28 February 2023. This is in line with the deadline specified in the Auditor Guidance issued by the National Audit Office.

As part of our work we will consider whether there are any risks of significant weakness in the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. We have not identified any significant weaknesses from our initial planning work as reported in our March 2022 Audit Plan.

Our VFM work is now complete. The findings from our work were reported in our 2021/22 Auditor's Annual Report, which was presented to the 20 June 2023 meeting of the Authority. Our work did not identify any significant weaknesses in the Authority's arrangements.

4. 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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix B.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

Appendices

A. 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.

Impact of adjusted 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 2022.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Net pension liability Pensions Reserve		153 (153)	
	153		153
Management obtained a revised report from the Authority's actuary detailing the impact of the triennial revaluation of the Kent Pension Fund at 31.3.22 on the Authority's net pension liability (LGPS). The impact was to reduce the net pension liability by £153,000.			
Overall impact	153	0	153

A. 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.

Impact of unadjusted misstatements

We noted that the income from Non-Domestic Rates included on the CIES had been overstated by £450,000. Any amendment to the CIES would also involve an off-setting adjustment through the MIRS to the Collection Fund Adjustment Account and therefore the issue has no impact on the General Fund balance. As the amount was not material, management have decided not to adjust the accounts.

Audit testing subsequently identified an error in the Authority's calculations to estimate the income from Non-Domestic Rates. As a result the estimate had been overstated by £7,000 rather than £450,000. Management have decided not to adjust the accounts.

We have not identified any other unadjusted misstatements above the triviality level (£95,000) which we are required to report to Those Charged With Governance.

Impact of prior year unadjusted misstatements

There are no prior year unadjusted misstatements.

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 issues	Adjusted?
Note 13: Creditors An amount of £507,000 for long term Collection Fund creditors was included at the line for "Other local authorities" but should have been disclosed at the line for "Collection Fund creditor".	✓
Note 25: Defined Benefit Pension Schemes This disclosure note includes a table showing the amounts charged against the General Fund Balance for pensions in the financial year. The amounts disclosed at this line were incorrect as they included amounts, including benefits payable from the Firefighters' Pension Fund, which did not impact on the General Fund.	✓
A number of other minor changes to disclosure notes.	✓

B. Fees

We set out below our fees charged for the audit.

Audit fees	2020/21 fee	2021/22
Scale fee published by PSAA (some previous variations relating to pensions and PPE were baked into the scale fee in 2021/22	£27,418	£29,818
Ongoing increases to scale fee in agreed in prior years by PSAA *For 21/22 these are (£988 pensions, £987 PPE, £5,500 VFM, £3,100 ISA340, £1,900 Journals, FRC challenge £1,875).*	£15,500	£14,350
IAS19 restatement work (as per letter to management dated 3 July 2023)	-	£5,000
Total audit fees (excluding VAT)	£42,918	£49,168

The 2021/22 audit fee will require approval by the PSAA.

For 2020/21 the Authority received a grant to support the additional work required to implement new accounting standards and changes to the Code of Audit Practice and the additional costs arising from auditing these. The Authority's share of the £15m pot identified by DLUHC for 2020/21 was £14,134. On the 22 March DLUHC announced the same value of grant would be distributed.