



KENT AND MEDWAY FIRE AND RESCUE AUTHORITY

Meeting of the Audit and Governance Committee

Monday, 28 November 2022

10.30am

22 September 2022

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 Booth thanked Mrs Walker for the useful presentation and asked if Members of this Committee could receive a copy.
- (4) In response to a question raised by Mr Booth in relation to a line within the financial statements detailing the projected spend to maintain assets such as buildings, Mrs Walker responded by saying that this information is not captured under a separate heading but can be found across three main areas of the Statement of Accounts such as Response and Resilience; Building and Community Safety and Corporate Expenditure.
- (5) The Chief Executive said, in support of Mr Booth's question above, that the Capital Strategy is presented annually as a matter of course to Members at the Authority's Budget meeting.
- (6) Having served on various appeal hearing panels in relation to pension cases, Mr Maple wanted to put on record his thanks to Members and Officers who facilitate these panels for colleagues as part of the Internal Dispute Resolution Procedures (IDRP).
- (7) In response to a question raised by Mr Tranter around transparency of reserves, the Director of Finance and Corporate Services explained that the Reserve Strategy, alongside the Capital Strategy will be taken to the Authority's next budget meeting in February 2023.
- (8) RESOLVED that: -
 - (a) the draft Statement of Accounts for 2021/22, be approved.
 - (b) the remaining contents of the report be noted.

11. Treasury Management Practices

(Item B6 – Report by Director, Finance and Corporate Services)

- (1) The Committee received a report which presented an overview of the revised documentation that resides under the CIPFA Treasury Management Code and Prudential Code and highlights some changes for Members consideration before being presented to the full Authority meeting in October.
- (2) RESOLVED that:-
 - (a) the Senior Officer Delegations and Committee responsibilities in relation to Treasury Management, as detailed in Appendix 1 to the report, be approved for recommendation to the Authority for adoption.
 - (b) the reporting requirements for Treasury Management, as detailed in Appendix 2 to the report, be approved for recommendation to the Authority for adoption.

12. Chair of Audit and Governance Committee's Report to the Authority

(Item B7 – 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 in its first year of operation.
- (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 and Officers for their continued support and commitment to the work of the Committee.
- (4) Members expressed their thanks for the exceptional way in which reports are presented by Officers and their teams.
- (5) RESOLVED that: -
 - (a) the contents of the report, which will be presented to the Authority at its meeting in October 2022, be approved.

13. Mid-Year Treasury Management and Investment Update for 2022/23

(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 in February.
- (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.

Appointment of External Auditors

8. The Authority agreed at the February 2022 meeting to accept the Public Sector Audit Appointments' (PSAA) invitation to opt into the sector-led option for the appointment of external auditors for five financial years from 1 April 2023.
9. The procurement has since taken place within the challenging audit market that is facing unprecedented difficulties due to resources within the profession and subsequently large volumes of delayed audit opinions. Only ten suppliers are currently registered to undertake local audits in England, three of which opted not to take part in the most recent procurement.
10. Offers were made by PSAA to six suppliers following a competitive process of which three of the existing suppliers were retained, being Grant Thornton, Mazars and Ernst & Young. Former supplier KPMG returned back to the market and new contracts were entered into with two new suppliers Bishop Fleming and Azets Audit Services.
11. The Director of Finance and Corporate Services has received notification from PSAA that they propose to appoint Grant Thornton as the Auditors for Kent and Medway Fire and Rescue Authority for five years from 2023/24. A response to the proposed appointment was required by 14 November 2022, and as such a response accepting that proposal, was returned having been drafted in consultation with the Chair of the Audit and Governance Committee and the Chair of the Authority, attached at **Appendix 2**, for Members' information.
12. Subsequent to receiving our response, PSAA's response is attached at **Appendix 3**, for information. PSAA has confirmed that formal notification will be provided to the Authority by no later than 31 December 2022, confirming the final appointment. Members are therefore requested to note the proposed appointment and approve in principle the appointment of Grant Thornton as the Authority's Auditors.

Scale Fees for 2023/24

13. PSAA have also advised that they will formally consult on the scale fees for 2023/24 in Autumn 2023 and will publish confirmed scale fees for 2023/24 for opted-in bodies on their website by 30 November 2023. However, they have also advised that the outcome of result is an increase to the scale fee in the region of 150% on the total fees for 2022/23. It is estimated that this could result in our annual fee increasing from approximately £46k per annum to £116k.

IMPACT ASSESSMENT

14. Clearly if the resultant fee increases by the scale set out above then additional funding will need to be set aside to meet the increase in additional cost.
15. The inclusion of an independent member on the Audit and Governance Committee will assist in strengthening the knowledge and experience base of the committee, whilst reinforcing its independence.

RECOMMENDATIONS

16. Members are requested to:
 - 16.1 Note the new Audit Committee position statement issued by CIPFA (paragraph 3 to 6 and **Appendix 1** refer).
 - 16.2 Recommend to the Authority to seek to recruitment an independent member to the Audit and Governance Committee (paragraph 7 refers).
 - 16.3 Note the proposed appointment and approve in principle the appointment of Grant Thornton as the Authority's External Auditors (paragraph 8 to 12 and **Appendix 2 and 3** refers).

CIPFA's Position Statement 2022: Audit committees in local authorities and police

Purpose of the audit committee

Audit committees are a key component of an authority's governance framework. Their purpose is to provide an independent and high-level focus on the adequacy of governance, risk and control arrangements. The committee's role in ensuring that there is sufficient assurance over governance risk and control gives greater confidence to all those charged with governance that those arrangements are effective.

In a local authority the full council is the body charged with governance. The audit committee may be delegated some governance responsibilities but will be accountable to full council. In policing, the police and crime commissioner (PCC) and chief constable are both corporations sole, and thus are the individuals charged with governance.

The committee has oversight of both internal and external audit together with the financial and governance reports, helping to ensure that there are adequate arrangements in place for both internal challenge and public accountability.

Independent and effective model

The audit committee should be established so that it is independent of executive decision making and able to provide objective oversight. It is an advisory committee that has sufficient importance in the authority so that its recommendations and opinions carry weight and have influence with the leadership team and those charged with governance.

The committee should:

- be directly accountable to the authority's governing body or the PCC and chief constable
- in local authorities, be independent of both the executive and the scrutiny functions
- in police bodies, be independent of the executive or operational responsibilities of the PCC or chief constable
- have rights of access to and constructive engagement with other committees/functions, for example scrutiny and service committees, corporate risk management boards and other strategic groups
- have rights to request reports and seek assurances from relevant officers
- be of an appropriate size to operate as a cadre of experienced, trained committee members. Large committees should be avoided.

The audit committees of the PCC and chief constable should follow the requirements set out in the Home Office Financial Management Code of Practice and be made up of co-opted independent members.

The audit committees of local authorities should include co-opted independent members in accordance with the appropriate legislation.

Where there is no legislative direction to include co-opted independent members, CIPFA recommends that each authority audit committee should include at least two co-opted independent members to provide appropriate technical expertise.

Core functions

The core functions of the audit committee are to provide oversight of a range of core governance and accountability arrangements, responses to the recommendations of assurance providers and helping to ensure robust arrangements are maintained.

The specific responsibilities include:

Maintenance of governance, risk and control arrangements

- Support a comprehensive understanding of governance across the organisation and among all those charged with governance, fulfilling the principles of good governance.
- Consider the effectiveness of the authority's risk management arrangements. It should understand the risk profile of the organisation and seek assurances that active arrangements are in place on risk-related issues, for both the body and its collaborative arrangements.
- Monitor the effectiveness of the system of internal control, including arrangements for financial management, ensuring value for money, supporting standards and ethics and managing the authority's exposure to the risks of fraud and corruption.

Financial and governance reporting

- Be satisfied that the authority's accountability statements, including the annual governance statement, properly reflect the risk environment, and any actions required to improve it, and demonstrate how governance supports the achievement of the authority's objectives.
- Support the maintenance of effective arrangements for financial reporting and review the statutory statements of account and any reports that accompany them.

Establishing appropriate and effective arrangements for audit and assurance

- Consider the arrangements in place to secure adequate assurance across the body's full range of operations and collaborations with other entities.
- In relation to the authority's internal audit functions:
 - oversee its independence, objectivity, performance and conformance to professional standards
 - support effective arrangements for internal audit
 - promote the effective use of internal audit within the assurance framework.

- Consider the opinion, reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control, and monitor management action in response to the issues raised by external audit.
- Contribute to the operation of efficient and effective external audit arrangements, supporting the independence of auditors and promoting audit quality.
- Support effective relationships between all providers of assurance, audits and inspections, and the organisation, encouraging openness to challenge, review and accountability.

Audit committee membership

To provide the level of expertise and understanding required of the committee, and to have an appropriate level of influence within the authority, the members of the committee will need to be of high calibre. When selecting elected representatives to be on the committee or when co-opting independent members, aptitude should be considered alongside relevant knowledge, skills and experience.

Characteristics of audit committee membership:

- A membership that is trained to fulfil their role so that members are objective, have an inquiring and independent approach, and are knowledgeable.
- A membership that promotes good governance principles, identifying ways that better governance arrangement can help achieve the organisation's objectives.
- A strong, independently minded chair, displaying a depth of knowledge, skills, and interest. There are many personal skills needed to be an effective chair, but key to these are:
 - promoting apolitical open discussion
 - managing meetings to cover all business and encouraging a candid approach from all participants
 - maintaining the focus of the committee on matters of greatest priority.
- Willingness to operate in an apolitical manner.
- Unbiased attitudes – treating auditors, the executive and management fairly.
- The ability to challenge the executive and senior managers when required.
- Knowledge, expertise and interest in the work of the committee.

While expertise in the areas within the remit of the committee is very helpful, the attitude of committee members and willingness to have appropriate training are of equal importance.

The appointment of co-opted independent members on the committee should consider the overall knowledge and expertise of the existing members.

Engagement and outputs

The audit committee should be established and supported to enable it to address the full range of responsibilities within its terms of reference and to generate planned outputs.

To discharge its responsibilities effectively, the committee should:

- meet regularly, at least four times a year, and have a clear policy on those items to be considered in private and those to be considered in public
- be able to meet privately and separately with the external auditor and with the head of internal audit
- include, as regular attendees, the chief finance officer(s), the chief executive, the head of internal audit and the appointed external auditor; other attendees may include the monitoring officer and the head of resources (where such a post exists). These officers should also be able to access the committee members, or the chair, as required
- have the right to call on any other officers or agencies of the authority as required; police audit committees should recognise the independence of the chief constable in relation to operational policing matters
- support transparency, reporting regularly on its work to those charged with governance
- report annually on how the committee has complied with the position statement, discharged its responsibilities, and include an assessment of its performance. The report should be available to the public.

Impact

As a non-executive body, the influence of the audit committee depends not only on the effective performance of its role, but also on its engagement with the leadership team and those charged with governance.

The committee should evaluate its impact and identify areas for improvement.

- A. Detailed below is the Authority's response to the Public Sector Audit Appointments (PSAA) on the consultation on the Appointment of New Auditors from 2023/24.

Dear Sir / Madam

Thank you for providing the opportunity to comment on the proposed auditor appointment for this Authority, from 2023/24.

We are pleased to see that we will have a continuation of having Grant Thornton as our Auditor for the new contract from 2023/24, and as such we are pleased to accept the outcome of the tender process. Whilst this of course will have its benefits, there are a number of comments that I wish to raise with regards to the future contract, which I set out below:

1. The new contract highlights that there is likely to be a significant increase in audit fee of some 150%, which takes our fee from £46k to possibly £116k. Can we be assured that this increase is relevant to audit work that is undertaken at this Authority and not just a carte blanche increase across the Fire Sector. There have been occasions in the past when proposed increases in fees have not been relevant nor appropriate for this Authority.
2. Given the significant increase in fee can we be assured that audits will be undertaken and completed within the statutory timescales, so that audits for each financial year can be signed off by the statutory deadline date
3. Similarly, what assurance do you have that the audit firm (Grant Thornton) can obtain not just the resources but the experienced resources to undertake the required audits. We have on a number of occasions had auditors who seem to know little about the public sector and therefore have not really understood what they are auditing.

I would welcome your views on the above and would be grateful for your assurances that the cost and quality of service delivered will be closely monitored and managed within the new contract.

B. Set out below is the response that was received from the Public Sector Audit Appointments (PSAA) in relation to the Authority's response on the consultation.

Thank you for your email confirming your acceptance of the proposed auditor from 2023/24. I have responded below to the further points covered in your email. I hope this additional information is helpful.

Q1

The anticipated fee increase is on the basis that the volume of audit work across the two years of 2022/23 and 2023/24 is similar. However, if the volume of audit work changes, then the total audit fee will vary accordingly. For example, if a national or local factor triggers an increase or decrease in the volume of audit work then the fee will vary accordingly. This is illustrated below using an example total audit fee (scale fee + approved fee variations) of £100k.

- 2022/23 total fee £100k – no change in work required for 2023/24 – total fee c.£250k
- 2022/23 total fee £100k – 10% increase in work required for 2023/24 – total fee c.£275k (£110k uplifted by 150%)
- 2022/23 total fee £100k – 10% decrease in work required for 2023/24 – total fee c.£225k (£90k uplifted by 150%)

If you can provide an example in relation to your comment “There have been occasions in the past when proposed increases in fees have not been relevant nor appropriate for this Authority”, I will look into it and provide a further response.

Q2

The current local audit system is that audit quality is regulated by the Financial Reporting Council, the NAO sets the scope of an audit in the Code of Audit Practice and PSAA procures and manages the contracts with firms for the delivery of the audit. The FRC's Ethical Standard does not permit contingent fees so we are unable to reduce supplier payment for not delivering the opinion by the publishing date. The contract, reflecting the LAAA 2014 and Appointing Person Regulations (2015), is very different to a typical services contract.

The audit contracts from 2023/24 contain a range of new provisions designed to improve service delivery which I have summarised below, as per our [webinar in March 2022](#) to explain the new features of the contract. We are currently developing the practical arrangements for contract monitoring aligned to these strengthened provisions, however the fact remains that as now, our ultimate sanction of being able to remove auditors from appointments is largely moot as there is no surplus in the local audit market. As referenced

in our press releases, we had to go through several procurement stages to get enough capacity to make the appointments which is far from ideal. In this context neither we nor the system can offer any guarantees. DLUHC has publicly stated that local audit will take years to fix, and no single action will solve it. What we can guarantee is that PSAA will do all we can to help the system to tackle the issues.

The measures in the new contract include:

- firms will be paid when they deliver of four predefined audit milestones (each attracting 25% of the scale fee), rather than on a routine quarterly basis unlike to on the ground delivery.
- for Audit Year 2023/24 where the Supplier has not been the Appointed Auditor for the previous Audit Year not earlier than 1 October 2023, otherwise on the production of the auditor's annual report for the previous Audit Year
- production of the draft audit planning report to Audited Body
- 50% of the Supplier's planned hours in respect of the Audited Body have been completed
- 75% of the Supplier's planned hours in respect of the Audited Body have been completed
- we have introduced KPIs linked to the audit delivery lifecycle and a quarterly contract monitoring review process
- there is a Review Procedure through we can require a supplier at its own cost to amend its method statement, if the current one does not to satisfy their obligations under the contract

There is a Rectification Plan process which we may invoke if:

- the supplier fails to comply with its method statement obligations and materially impacts delivery,
- there is a supplier delay or is reasonably likely to be a delay; and/or
- the supplier fails to achieve any KPI measure; and/or
- commits a default that has or may have an adverse effect on the provision of the Services.

Once agreed by us, the Rectification Plan creates a supplier obligation to implement it, including rectification of past failures.

Q3

In our procurement the quality evaluation of the tender responses allocated 45 marks out of 80 to resourcing capacity and capability – so it covered both quality and quantity, and we have introduced several new mechanisms within the contract that will help us to tackle service delivery quality issues. As mentioned, the firms' tenders demonstrated that they had assessed their capacity carefully, but as the DLUHC Permanent Secretary said to the Public Accounts Committee, there is no magic bullet. The development of more auditors with local

audit knowledge will take time. DUHC has committed to developing a workforce strategy for local audit to address the current shortfall.

Firms' tender responses and our subsequent discussions with them demonstrate clearly that they have carefully considered the volume of audits that they can deliver with their available capacity following the changes in audit requirements since they bid in 2017. This is evidenced as two of the retained firms currently with the largest portfolios have reduced their portfolio size by 10% (GT) and 33% (EY) respectively.

In more general terms, Key Auditor Partners (Engagement Leads) must be registered with the ICAEW to undertake local audit following an assessment of suitability. DLUHC has also committed to enabling more KAPs to be accredited – there is wide recognition that the number is currently too low.

As covered in my response to Q2 albeit noting the caveat given the challenges facing the local audit market, the new contracts include strengthened provisions that we can invoke in the event that firm is failing to performance.

By: Director Finance and Corporate Services
To: Audit and Governance Committee – 28 November 2022
Subject: CORPORATE RISK REGISTER
Classification: Unrestricted

FOR DECISION

SUMMARY

The Audit and Governance Committee last received an update on the Corporate Risk Register at the April 2022 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 17 refers).
2. Agree the addition of the new Corporate Risk (paragraph 18 refers).
3. Note the content of the report.

LEAD/CONTACT OFFICER: Head of Finance, Treasury and Pensions – Nicola Walker

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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 2022 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 kept up to date and relevant.
2. The expectation is that this Committee will be presented with an update on the Corporate Risk Register twice a year, which will usually be to the April and the November/December meeting. However, the Risk Register will be kept under regular review and as such if circumstances are such that new risks or significant changes are required then there will of course be an update provided to Members at the next meeting of this Committee.
3. Detailed below in the following paragraphs are the changes that have been applied to the Risk Register, alongside and where relevant an update on the action plans to mitigate the risk, since Audit and Governance last reviewed it in April. There is however one new corporate risk (Risk 15) which is also detailed below. A full Risk Register is attached at **Appendix 1** for Members' information and approval.

Summary of Progress

4. **Risk 1** – The increased likelihood of industrial action has been adjusted to highly likely to reflect the national pay negotiations. However, the mitigation we have in place in our Industrial Action Business Continuity planning arrangements and degradation procedures allows us to maintain a residual risk score of material. This plan is regularly reviewed and as a result of potential impending industrial action a walkthrough of those activities within the plan are currently under way.
5. **Risk 2** – The controls in place were significantly tested through the COVID pandemic. The annual audit took place during November and regular supplier meetings have been held and the monitoring of Government guidance continues. In April 2022 a number of PPE providers donated a portion of their resilience stock to the Ukraine Aid effort which has reduced the amount of National Resilience PPE available, should it be required urgently. As a result, we are reviewing the Business Continuity plans around the availability of PPE during times of national crisis. Actions to date include increasing the allocation of PPE to Group Manager and above roles, gaining assurance from our PPE provider there is no impact on their supply chain currently

and discussing any changes and enhancements to their own business continuity planning. In summary the likelihood of the risk has been reduced down to very unlikely.

6. **Risk 3** – The outstanding action is to undertake a full joint evacuation exercise of Control with Kent Police (potentially over a three day period). This will require a relocation of Control to their training room at which time Kent Police will carry out a deep clean of the Force Control and Incident Room. This was discussed at the Tactical Joint Control Partnership meeting held in October and we are currently awaiting confirmation from Kent Police of potential dates for this exercise.
7. **Risk 4** – This has been reviewed as part of the 2022/23 budget build. The first tranche of the Fire Link Grant has been received which was £136k less than budgeted resulting in an in-year budget pressure. We have been advised there will be a 20% reduction in the grant allocation in each of the next five years, so phasing the grant out over that timeframe. Consideration has been given for utilising earmarked reserves in the short term and in the longer term, savings will need to be identified to cover the ongoing budgetary shortfall. This has been reflected in the Risk Register by increasing the likelihood to highly likely to reflect the reduction in funding.
8. **Risk 5** – A development plan process is in place for all learners attending core skill initial or re-validation courses and these are used to support and develop those learners who do not reach the required standard, providing specific areas for development before being re-assessed. A review is currently underway as to how information from accident investigations and near misses link into the Health and Safety Framework and this will be completed by the end of November 2022.
9. **Risk 6** -This is considered and reviewed as part of the annual budget build and regular reviews of the Medium-Term Financial Plan are carried out. We participate in responding to all consultation documents issued and regularly monitor Government funding plan proposals. The spending review for 2022 was a one-year settlement and not a multi-year settlement as had been hoped for to provide a greater level of stability. It was announced by Michael Gove, whilst in post as Secretary of State for Levelling Up, Housing and Communities, that this year should see a 2-year settlement to give some stability for budget setting. The recent economic and political changes increase the uncertainty around the Authority's medium-term funding, and this has been reflected by increasing the likelihood from fairly likely to highly likely.
10. **Risk 7** –We were expecting local government funding reforms from the Government this year and have seen the Levelling Up White Paper issued on 2 February 2022. However, the recent economic issues have seen the Government prioritise the need to stabilise the economy and it is now anticipated that these reforms have been put back to future years. Due to the increasing rises in the utility price cap, the Property Team

are reviewing the monitoring arrangement for utilities to ascertain if the smart meter data across the KFRS estate can be better utilised to inform budget monitoring

11. **Risk 8** – The CRM/PRM project is ongoing to address this issue, but completion of the project has been extended to December 2024. There will be some milestone wins within the project to assist in mitigating this risk that should come to fruition during the system implementation. Dynamics is live for the Risk Information Team, Building Safety Team and on station desktops however, it is not currently available on Mobile Data Terminals (MDTs) as the Microsoft App that was being used has been discontinued. A new App has been identified and is in testing and it is anticipated will be launched to MDTs in December 2022. Availability to the Customer Safety Team is planned to start in early summer 2023.
12. **Risk 9** – We have mechanisms in place to monitor delivery arrangements and have improved the standard terms and conditions of contracts. Clarification of expectations with partners and stakeholders are defined at the outset of a contractual arrangement.
13. **Risk 10** – There are no remaining outstanding actions and as such it is proposed that this risk be taken off the Corporate Risk Register going forward but be managed at a local level. Should any situation arise that impacts the likelihood or impact of this risk, then we will of course consider whether it needs to be back on the Corporate Risk Register.
14. **Risk 11** - The Fire Safety England Regulations 2022 will come into effect in January 2023. We are working with the National Fire Chiefs Council and Health and Safety Executive on the implementation of the new legislation. We are currently mapping out our processes, consulting with stakeholders and have increased training requirements to enable compliance to be achieved in line with the guidelines.
15. **Risk 12** – The current economic environment is such that inflation has spiralled significantly as a result of increases in many goods and services. Indications are such that the Government may decide to amend legislation which may have an adverse financial effect on the local government sector. If this materialises this will undoubtedly have an impact on our Medium-Term Financial Plans and therefore work is in progress to understand the scale of the potential impact going forward. The likelihood of this risk has increased to highly likely.
16. **Risk 13** – We are proactively engaging with colleagues considering retirement, attend LGA fortnightly updates and regular FRA client meetings with the Local Pension Partnership Administration. The impact of this risk is reducing as a result of the Authority allowing colleagues to retire under the grounds of Immediate Detriment.

17. **Risk 14** - A Cyber Security Assurance Map was completed by KCC Internal Audit in April 2022 where two actions were identified as requiring further assurance, which were Cyber Awareness training to new starters and regularity of offsite backups. As a follow up to the Assurance Map, cyber security awareness is regularly communicated to staff whilst Cyber Security Incident Response Plans and mission critical activities have been reviewed. Data impact assessments are implemented where necessary and a review of actions and work to be completed is ongoing. The likelihood and impact of this risk has been reassessed.
18. **Risk 15** - This is a new risk identified as a result of the changes in business practice proposed by the Commercial Service Group of which a subsidiary, CTS Vehicle Services, currently undertakes the Authority's heavy vehicle maintenance and repairs. At the October Authority meeting it was agreed to progress with bringing in-house the heavy fleet and vehicle servicing and maintenance function and work is underway to ensure that from the 1 April 2023 the service is brought in-house.

IMPACT ASSESSMENT

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

RECOMMENDATIONS

20. Members are requested to:
 - 20.1 Agree amendments to the Corporate Risk Register as shown in **Appendix 1** (paragraphs 4 to 17 refer).
 - 20.2 Agree the addition of the new Corporate Risk (paragraph 18 refers).
 - 20.3 Note the content of the report.

Corporate Risk Register

Risk Tolerance Table

Descriptor	Definition
Very Severe	The Authority is extremely concerned about this risk as the impact is potentially highly disruptive for the Authority's key objectives, projects or targets. Management action in the form of a comprehensive action plan is required immediately to reduce the risk and progress will be assessed by CMB.
Severe	The Authority is concerned about this risk. The consequences could have a significant impact for the Authority. The proposed action to reduce this risk to an acceptable level should be established and reported to CMB. Monitoring reports are required by CMB on a quarterly basis thereafter.
Material	The Authority is uneasy about this risk as the consequences, though not severe, will be disruptive to the delivery of the objectives. Proposals should be drawn up to reduce the risk to an acceptable level within six months and reported to CMB.
Manageable	The Authority is content to carry the risk as the likelihood and impact are within acceptable tolerances. The status of the risk should be reviewed regularly by the risk-owner to ensure that it remains within acceptable tolerances and reported to CMB.

Likelihood Descriptions

Descriptor	Definition
Almost certain	More than one of the causes of the risk materialising is 90-100% likely to occur during the life of the project, programme or plan being assessed.
Highly likely	One of the causes of the risk materialising is 80-90% likely to occur during the life of the project, programme or plan being assessed.
Fairly Likely	There is 50-80% chance that one or more of the causes of the risk occurring will happen during the life of the project, programme or plan being assessed.
Fairly Unlikely	There is a less than 50% chance that one or more of the causes of the risk occurring will happen during the life of the project, programme or plan being assessed.
Very Unlikely	There is a remote chance that one or more of the causes of the risk occurring will happen during the life of the project, programme or plan being assessed.

Impact Descriptions

Descriptor/Score	Definition
Catastrophic	Would result in total failure to achieve/deliver/meet a key objective, project or target to the quality price and timescales required.
Critical	Major disruption to the successful delivery of objectives, projects or targets causing unacceptable delays, major financial implications or loss of key benefits or outcomes requiring major re-assessment of business case, outcome or target.
Significant	Disruptive to the delivery of the objective, project or target causing delay, increase cost or reduced performance, requiring some re-phasing, additional funding or amendment of the business case.
Minor	Disruptive but of short duration or capable of being managed fairly easily with little impact of the delivery of objectives, projects or targets.
Negligible	Annoying but unlikely to cause any delay to or failure of the delivery of key objectives, projects or targets at this stage.

Acronym Key for Risk Register

MDT Project	Mobile Data Terminals
EMR	Emergency Medical Response
BC	Business Continuity
CRM/PRM	Customer Relationship Management and Premises Risk Management
SPOC	Single Point of Contact

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	<p>IF the Authority is affected by prolonged industrial action THEN an effective emergency response wouldn't be maintained</p>	Major Loss of life or property	AD Resilience	<p>Fairly Unlikely Highly Likely</p>	Significant	Material	Increase in risk	Review Industrial action BC plan and update	Completed
		Fines or claims against the Authority						Provide refresher training to officers in appliance equipment etc.	In Progress
		Increased financial costs						Fortnightly Industrial Action Working Group meetings to ensure mission critical functions are protected	
		Public and media condemnation of the Service						Industrial action BC plan scenario walk through	
		Government intervention in the management of the Service							
2	<p>IF sufficient fire-fighting equipment PPE and vehicles of the required standard was unavailable as required THEN an effective emergency response could not be provided</p>	Major Loss of life or property	AD Response	<p>Fairly Unlikely Very Unlikely</p>	Catastrophic	Material	Reduction in risk	Review and test Disaster Recovery arrangements for current contract	Completed
		Fines or claims against the Authority						Annual Audit Held and regular meetings established with incumbent supplier, with regard to operational continuity of supply of good and services.	In Progress
		Increased financial costs						Monitor and respond to govt guidance with regard to the monitoring of supply chain impact	In Progress
		Public and media condemnation of the Service							
		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
		Joint systems development board to agree IT work						Identify key person weaknesses and address skill deficiency	Completed
		Emergency service have preferential access to systems in event of wide scale failure.						Joint evacuation exercise with Kent Police	In Progress
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	Fairly Likely Highly Likely	Significant	Material	Increase in risk	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							

Risk No	Risk	Potential Consequences	Owner	Likelihood	Impact	Current Rating	Direction of Travel	Planned Risk Management Actions	Status
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
		Enforcement action against the Authority						Exercise a significant safety event/injury scenario to test the new plan	
		Claims against the Authority							
		Resignation or dismissal of senior staff							
6	IF the government's funding plans (e.g.funding formula/Spending Review) disadvantage KFRS THEN its MTFP will be compromised	Further savings would be required	Dir Finance & Corp Serv	Fairly Likely 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	

Risk No	Risk	Potential Consequences	Owner	Likelihood	Impact	Current Rating	Direction of Travel	Planned Risk Management Actions	Status
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						MDT replacement project	Completed
		Legal action against the Authority							
		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/	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	<p>IF the Authority is unable to maintain mission critical services following an external disruption THEN the Authority could fail to meet its statutory duties</p>	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)						Annual exercise completed and learning identified	Completed
		Loss of Information and Communication Technology (ICT) services						Review section business impact analysis	Completed
		Loss of utilities							
		Loss of critical suppliers/ contractors							
		Loss of vehicles and essential equipment							
		Transport disruption - including severe weather							
Shortage of fuel supply									
11	<p>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.</p>	Increased financial costs	Dir Prev, Protec	Fairly Likely	Significant	Material	No Change	Monitor the progress of the Fire Safety Act 2022 and Building Safety Act 2022I	In Progress
		Public dissatisfaction with the Service						Work with the NFCC and HSE on the implementation of the new legislation	

Risk No	Risk	Potential Consequences	Owner	Likelihood	Impact	Current Rating	Direction of Travel	Planned Risk Management Actions	Status
12	<p>IF costs increase as a result of legislative changes THEN the Authority's MTFP will be compromised.</p>	Increased financial costs	Dir Finance & Corp Serv	<p>Fairly Unlikely Highly Likely</p>	Significant	Material	Increase in risk	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 and impact on the MTFP	In Progress
		A reduction in reserves						Request a revised pension report to understand the increased pension liability	Completed
13	<p>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.</p>	Public/union and staff dissatisfaction with the service.	AD People & Learning	Fairly Likely	Significant Minor	Material	Reduction in risk	Remain engaged and maintain awareness of progress by the Scheme Advisory Board	In Progress
		The exit of significant staff and loss of expertise						Engage with other FRS' to consider necessary approach	In Progress
		Legal action against the Authority						Ensure communication takes place to all those affected	In Progress
								Ensure we are fully prepared to deliver outcomes when the guidance is available	In Progress

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	AD Corporate Services	Highly Likely Fairly Likely	Catastrophic Significant	Very Severe Material	Reduction in risk	Started at level 2 BC issue and small working team to monitor	Completed
								Implemented additional Cyber Protection measures	Completed
								Agree Cyber SPOC	Completed
								Communicate to all users about cyber security	Completed
								Draft a new cyber security incident response plan	Completed
								Review IT related mission critical activities	Completed
								Check we are in line with published KRF cyber-attack response plans	Completed
								Carry out a Cyber Attack Critical scenario walkthrough	Completed
								Identify a summary of actions and work to be completed	In Progress
								Complete Data Protection impact assessments where necessary	In Progress
	Public dissatisfaction with the Service						Future programme of data and cyber security reminders to be released periodically for 6 months commencing 1 March 2022	In Progress	

Risk No	Risk	Potential Consequences	Owner	Likelihood	Impact	Current Rating	Direction of Travel	Planned Risk Management Actions	Status
15	<p>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.</p>	Major Loss of life or property	AD Response	Fairly Unlikely	Critical	Material	New Risk	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	In Progress
		Public dissatisfaction with the Service							

By: Director, Finance and Corporate Services

To: Audit and Governance Committee - 28 November 2022

Subject: TREASURY MANAGEMENT AND INVESTMENT STRATEGY
2023/24 - 2026/27

Classification: Unrestricted

FOR DECISION

SUMMARY

The 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. Review and agree in principle, the Treasury Management and Investment Strategy for 2023/24 (paragraphs 9 to 60 refer).

LEAD/CONTACT OFFICER: Head of Finance, Treasury and Pensions – Nicola Walker
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EMAIL: nicola.walker@kent.fire-uk.org
BACKGROUND PAPERS:

ANNUAL TREASURY MANAGEMENT AND INVESTMENT STRATEGY 2023/24

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 £44m, 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 be reported separately to the Authority in February as part of the 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 Safety 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 2023 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 the annual revenue charge for the use of capital expenditure assets funded from borrowing.
 - 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. From 2023/24, CIPFA requires treasury management reporting to be formalised on a quarterly basis. A quarterly review by Corporate Management Board will monitor 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.
12. **Administration:** As of 3 October 2022, day to day treasury management activity, such as placing deposits with institutions, is now being managed in-house and is no longer being carried out on behalf of the Authority by the Kent County Council Treasury and Investment Section.

THE CAPITAL PRUDENTIAL INDICATORS 2023/24-2026/27 AND THE MINIMUM REVENUE PROVISION (MRP) STATEMENT

13. The Authority's capital expenditure plans are the key driver of treasury management activity. The output of the Capital Plan is reflected in the Prudential Indicators, which are designed to assist Members' overview and confirm capital expenditure plans.
14. **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 both short and longer-term interest rates are currently high, it is prudent to consider internal borrowing as opposed to external borrowing until such time as interest rates reduce. The capital figures detailed below provide a current estimate of forecast spend but may be subject to refinement prior to the February Authority meeting as projects progress or slip as more detailed work in costing and profiling is undertaken, to ensure affordability.

Table 1 - Capital Expenditure	2022/23	2023/24	2024/25	2025/26	2026/27
	Forecast	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000
Total Capital Expenditure	5,639	16,598	15,368	6,270	1,498
Funded By					
Revenue / Infrastructure funding	-2,731	-1,876	-8,395	-6,270	-1,498
Capital Receipts	-1,508	-3,366	-6,723	0	0
One-off Capital Funding	0	0	0	0	0
Net Financing Need (Borrowing) for the Year	1,400	11,356	250	0	0

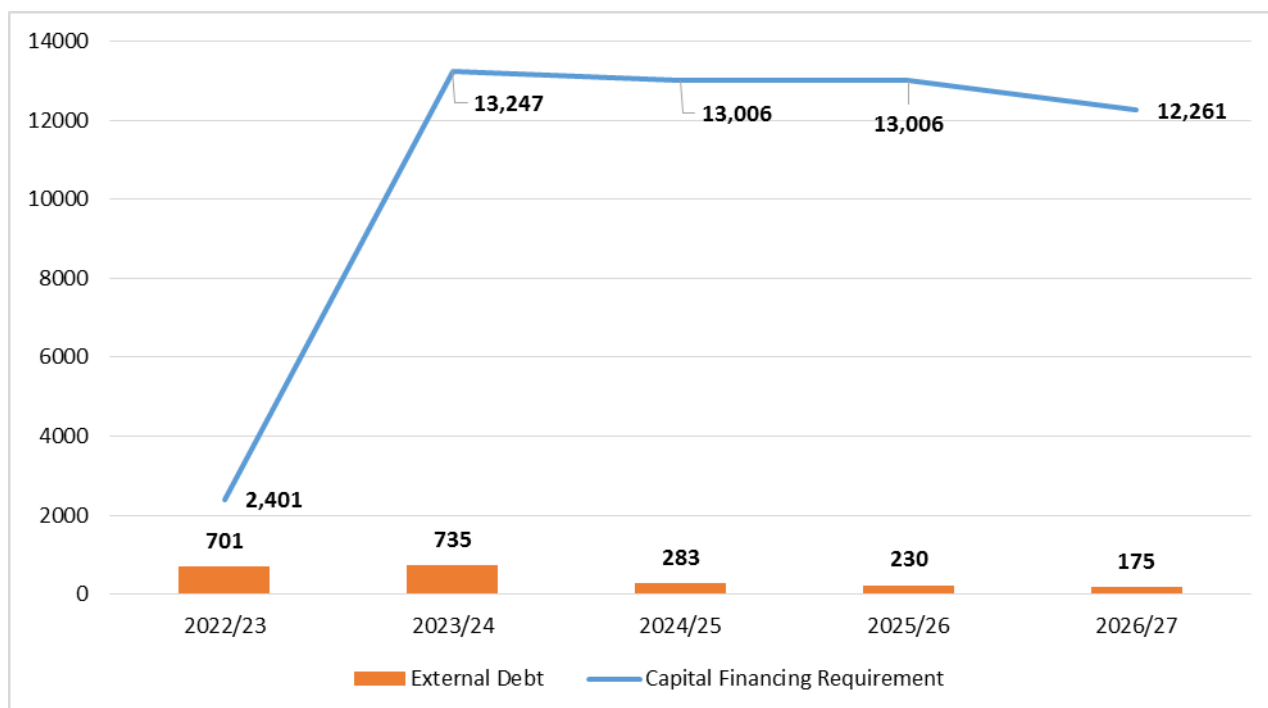
15. **The Authority's Borrowing Need [the Capital Financing Requirement (CFR)]:** The CFR is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Authority's indebtedness and its underlying borrowing 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	2022/23	2023/24	2024/25	2025/26	2026/27
	Forecast	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000
Opening CFR	1,829	2,401	13,247	13,006	13,006
Movement in CFR	572	10,846	-241	0	-745
Closing CFR	2,401	13,247	13,006	13,006	12,261

Movement in CFR					
Net Financing Need (Borrowing) for the Year	1,400	11,356	250	0	0
Less: Provision for Principal (MRP/VRP)*	-828	-510	-491	0	-745
Movement in CFR	572	10,846	-241	0	-745

*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

16. **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.

17. 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. New Internal borrowing will be undertaken from 2022 and is reflected in the table below. **Table 6** further below details how the under-borrowing is then calculated.

Table 3 Reserves and Balances	2022/23 Forecast £'000	2023/2024 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000
General reserve	3,970	4,180	4,330	4,330	4,420
Earmarked reserves	29,193	22,885	13,020	7,638	6,863
Insurance Provision	129	129	129	129	129
Capital Receipts	9,855	6,489	0	0	0
Total Core Funds	43,147	33,683	17,479	12,097	11,412
Working Capital surplus	2,273	2,273	2,273	2,273	2,273
Under borrowing	-1,700	-12,512	-12,723	-12,776	-12,086
Expected Investments	43,720	23,444	7,029	1,594	1,599

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:

Borrowing for capital expenditure incurred before 1 April 2008 - The MRP is calculated as 4% of the opening CFR balance for the year;

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 2022 the total VRP overpayments were £6.2m. 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 economic and geo-political climate. At this moment in time the Bank Rate is expected to peak at 5% and remain there for the first three quarters of 2023, before seeing a decrease of 50bps to 4.5% in the fourth quarter of 2023. However, there are a number of factors that could require these forecasts to be revised, such as progress on economic recovery, supply shortages, rising utility prices and labour shortages. With the high level of uncertainty prevailing on several different fronts, it is likely that these forecasts will need to be kept under regular review.

Link Group Interest Rate View	27.09.22											
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
BANK RATE	4.00	5.00	5.00	5.00	4.50	4.00	3.75	3.25	3.00	2.75	2.75	2.50

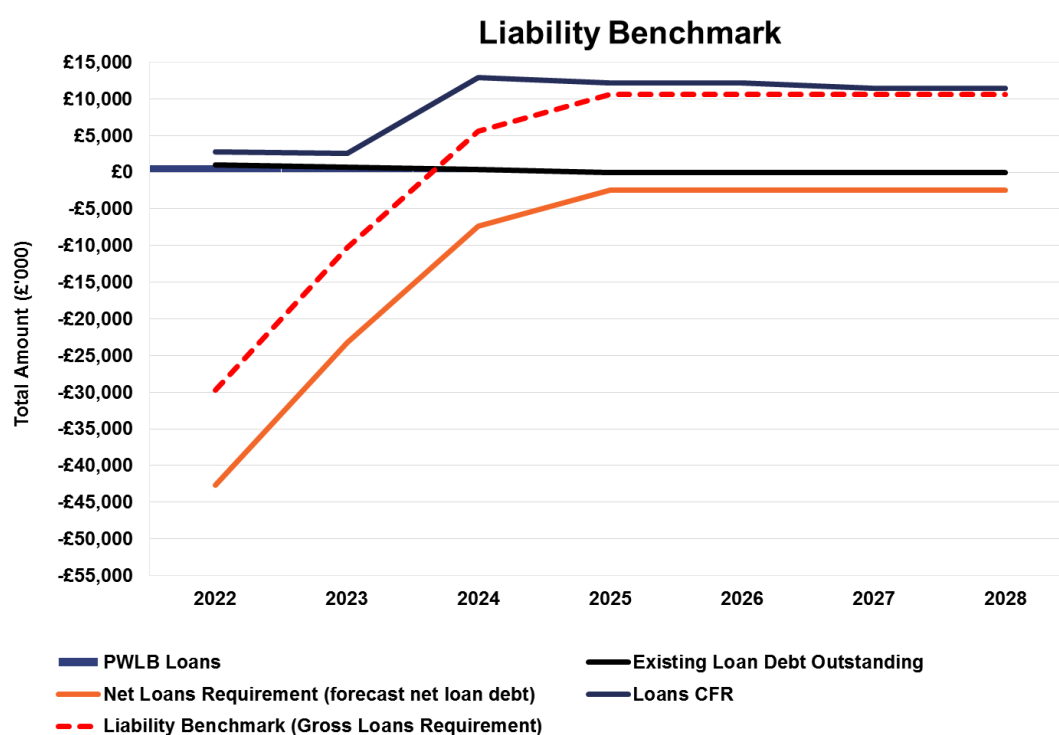
21. **Limits on External Debt:** The Treasury Indicators set limits for interest rate exposures in relation to borrowing, deposits and the maturity structure of long-term borrowing. The objective of these indicators is to ensure the activity of the treasury function is undertaken within certain limits, thereby managing the risk of re-financing and adverse movements in interest rates.
22. **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). Current plans suggest some borrowing maybe required from 2025, however as capital projects progress and their figures 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 or alternatively internal borrowing could be utilised.
23. **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, it is proposed that as interest rates are forecast to remain elevated for at least the next two to three years, a greater degree of flexibility is required to gain improved market returns on deposits with up to 100% of deposits on a variable interest basis, an increase from the initial 75% within the 2022/23 Treasury Strategy. The Authority defines fixed rate investments as those where the interest rate does not fluctuate during the period of the investment.

Table 4 Limit of Deposit Exposure	2022/23 Limit	2023/24 Limit	2024/25 Limit	2025/26 Limit	2026/27 Limit
Fixed Interest Rates	100%	100%	100%	100%	100%
<i>Variable Interest Rates</i>	<i>100%</i>	<i>100%</i>	<i>100%</i>	<i>100%</i>	<i>100%</i>

24. **Maturity Structure of Borrowing:** The current maturity profile of the Authority's existing loans, as at 31 March 2023 is set out in **Table 5** below.

Table 5 Existing Loan Profile	Amount £'000	Percentage Maturing
2023/24	301	43%
2024/25	400	57%
Total borrowing to be repaid	701	100%

25. **Debt Liability Benchmark:** - the liability benchmark is a new indicator introduced as part of CIPFA's review of the Prudential Code and is a projection of the optimum amount of loan debt the Authority needs each year in order to fund its existing debt liabilities, planned prudential borrowing and other cash flows.
26. 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.



BORROWING

27. **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 £1.7m and, based on current interest rates has saved approximately £83k per annum by not borrowing this money.
28. **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, in order that borrowing and investing activity can be undertaken at the most advantageous time. However, at the time of writing it is not anticipated that the Authority will undertake any new external borrowing in 2023/24. In the event that borrowing is required, given the prevailing high borrowing rates and the Authority's high cash balances it is proposed to undertake internal borrowing in the interim.
29. **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.
30. **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 in order 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.
31. **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.
32. **External Debt:** The Authority's current debt portfolio position for the next five years is detailed in **Table 6** below. It shows the actual external debt against the underlying capital borrowing need (the CFR) highlighting any over or under-borrowing.

Table 6 - Current Debt Portfolio	2022/23 Forecast £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000
Borrowing as at 1 April	1,001	701	400	0	0
New Borrowing	0	0	0	0	0
Other Long-term liabilities (OLTL)	0	335	335	283	230
Expected change in OLTL	0	0	-52	-53	-55
Loans Repaid	-300	-301	-400	0	0
Borrowing as at 31 March	701	735	283	230	175

Less closing CFR	-2,401	-13,247	-13,006	-13,006	-12,261
Under borrowing	-1,700	-12,512	-12,723	-12,776	-12,086

33. 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.
34. **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 takes into account current commitments, existing plans and the proposals within the budget report.
35. **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.
36. 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. Currently there are impending accounting changes with regard to leases (IFRS16) that mean that some existing lease arrangements, that in the past have been accounted for within the revenue budget, may now need to 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 taken into account, as have estimates of the Capital Financing Requirement and estimates of cash flow requirements for all purposes when determining this limit.
37. **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 7** below.

Table 7	2022/23	2023/24	2024/25	2025/26	2026/27
Operational Boundary	Forecast	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000
Borrowing	18,000	20,000	35,000	35,000	35,000
Other long term finance liabilities	3,000	3,500	3,500	3,500	3,500
Total	21,000	23,500	38,500	38,500	38,500

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 investments, is shown in **Table 8** below.

Table 8	2022/23	2023/24	2024/25	2025/26	2026/27
Authorised Limit	Estimate	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000
Borrowing	22,000	24,000	39,000	39,000	39,000
Other long term finance liabilities	3,000	3,500	3,500	3,500	3,500
Total	25,000	27,500	42,500	42,500	42,500

38. **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.
39. **Debt Rescheduling:** The Authority has minimum borrowing at present, and those loans have a short timeframe until maturity. Accordingly, there are no debt rescheduling opportunities at present.
40. **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 very low 0.54%.

41. **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 high and counterparty risk is still an issue that needs to be considered.
42. Against this background and the risks within the economic forecast, caution will be adopted with the 2023/24 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

43. **Investment Policy - Management of Risk:** The Authority's Investment Strategy has regard to the CIPFA Treasury Management 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 institutions. The Authority will ensure that robust due diligence procedures cover all external investment. This Strategy is reviewed and updated annually.
44. 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.
45. 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 in order 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 from the three major rating agencies – Fitch, S&P, Moody's.
 - **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 in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
46. **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.
47. **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**.
48. **High Credit Quality:** The Authority's Treasury Management Advisor provides a creditworthiness service which, taking into account the ratings provided by the credit rating agencies, market data, market information and information relating to government support for banks, provides a suggestion 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- (the UK is excluded from this limit) and have, as a minimum, the following credit rating from at least one of Fitch, Moody's and Standard and Poors (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.

49. **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.
50. **Environmental, Social and Governance (ESG) Risk Management:** For short term investments with counterparties, this Authority utilises the ratings provided by Fitch, Moody's and Standard & Poor's to assess creditworthiness, which do include analysis of ESG factors when assigning ratings. The Authority will continue to evaluate additional related metrics and assessment processes that it could incorporate into its investment process and will update these accordingly.
51. **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.
52. The Strategy for 2023/24 will be to use only those institutions detailed on the counterparty list, shown in **Table 9** below

Table 9 – Investment Duration for Deposits

<i>Permitted Forms of Investment 2023/24</i>	<i>Minimum Credit Criteria</i>
Cash Deposits with the Debt Man. Office	N/A
UK Treasury Bills	N/A
Call Accounts/Notice Accounts Term Deposits	UK Banks, UK part-nationalised bank or an institution rated by Link Group as suitable for investment for 100 days or more
Certificates of Deposit	N/A
Money Market Funds CNAV	AAA
Money Market Funds LVNAV	AAA
Term Deposits with Other UK Local Authorities	AAA

Counterparty List 2022/23	Counterparty Limit
Debt Management Office (incl. Treasury Bills)	Unlimited
RBS Group: Royal Bank of Scotland/Nat West	£7m Group Limit
Lloyds Bank: Lloyds TSB/HBOS	£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

Santander UK plc	£7m
Close Brothers Ltd	£5m
Goldman Sachs International Bank	£5m
Standard Chartered Bank	£5m
Handelsbanken plc	£5m
Svenska Handelsbanken	£5m per institution but £5m Country
Skandinaviska Enskilda Banken	Limit
Swedbank	
Australia and New Zealand Banking Group	£5m per institution but £5m Country
Commonwealth Bank of Australia	
National Australian Bank Ltd	
Westpac Banking Corporation	
Bank of Montreal	£5m per institution but £5m Country
Bank of Nova Scotia	Limit
Canadian Imperial Bank of Commerce	
National Bank of Canada	
Royal Bank of Canada	
Toronto Dominion Bank	
Bank of America N.A	£5m per institution but £5m Country
Bank of New York Mellon	Limit
JP Morgan Chase	
Wells Fargo	
DNB Bank ASA – (Norway)	£5m per institution but £5m Country Limit
DBS Bank Ltd – (Singapore)	£5m per institution but £5m Country Limit
United Overseas Bank Ltd – (Singapore)	
UBS AG – (Switzerland)	£5m per institution but £5m Country Limit
ING Bank N.V. – (Netherlands)	£5m per institution but £5m Country
Cooperative Rabobank U.A.	Limit
Bank Nederlandse Gemeenten N.V.	
ABN AMRO Bank N.V.	
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.

53. **Investment Returns Expectations:** Investment returns are expected to improve further in 2023/24. The Authority is expecting investment income of approximately £896k for 2022/23, averaging a return of 1.57% for the year. However, it should be noted that political and economic events around the economic recovery, changes in leadership, supply shortages, rising utility 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.
54. Treasury bills are Bank of England short dated debt issuance and returns for them have now improved. They offer a high degree of security and are currently returning an average rate of 2.35%. 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 2.16%, 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 a MMF can have invested with any one counterparty and what the average duration of the underlying portfolio can be.
55. 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.
56. 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.
57. **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.

58. 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, an appropriate approach will be adopted by officers in such rare occasions and reflecting the specific circumstances that may apply at such time.
59. 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, and in light of the low level of return received, it is not cost-effective to transfer the investment income out of these accounts monthly. 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.
60. LIBOR (the rates at which banks are prepared to lend to each other) and associated LIBID (the bid rate at which banks are prepared to borrow) ceased from the end of 2021 and has been replaced with a rate based on SONIA (Sterling Overnight Index Average), which is the risk-free rate for sterling markets administered by the Bank of England.
61. **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 briefing session covering 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. 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. As mentioned previously, the management of the Treasury function moved back in-house with effect from October 2022.

62. **Current Portfolio** - below sets out the investment portfolio of the Authority as at 28 October 2022.

Table 10 Portfolio	Current	Fixed Deposit s	Call A/C	Notice Call A/C	Money Market Funds	Total	Average Interest Rate
		£'000	£'000	£'000	£'000	£'000	%
Debt Management Office (including Treasury Bills)		10,270	0	0	0	10,127	2.38%
RBS Group: Royal Bank of Scotland/ Nat West		0	306	0	0	306	0.50%
Barclays Bank plc		0	0	5,000	0	5,000	2.30%
Nationwide Building Society		5,000	0	0	0	5,000	2.29%
Santander UK plc		0	0	4,350	0	4,350	2.11%
HSBC		0	0	7,000	0	7,000	2.20%
Coventry Building Society		4,600	0	0	0	4,600	1.94%
Aviva Investors Sterling Liquidity Fund		0	0	0	5,000	5,000	2.12%
Aberdeen Sterling Liquidity Fund		0	0	0	5,000	5,000	2.19%
BlackRock Institutional Sterling Liquidity Fund		0	0	0	3,000	3,000	2.08%
Goldman Sachs Sterling Liquid Reserves		0	0	0	5,000	5,000	2.13%
HSBC Sterling Liquidity Fund		0	0	0	5,000	5,000	2.14%
Total	Per Deposit Type	19,870	306	16,350	23,000	59,526	2.19%
Average Interest Rate Per Deposit Type		2.25%	0.50%	2.21%	2.14%		

IMPACT ASSESSMENT

63. All financial implications associated with servicing the Authority's loans can be contained within the overall budget.

RECOMMENDATION

64. Members are requested to:

- 64.1 Review and agree in principle, the Treasury Management and Investment Strategy for 2023/24 (paragraphs 9 to 60 refer).

By: Director, Finance and Corporate Services
To: Audit and Governance Committee – 28 November 2022
Subject: INTERNAL AUDIT MID-YEAR UPDATE 2022/23
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 is the mid-year update by Internal Audit of the progress undertaken to date in relation to the 2022/23 Audit Plan agreed by Members back in April. Members may recall that due to the fact that the Authority was being inspected by His Majesty's Inspectorate over the summer it was agreed that the majority of audit reviews would be delayed until the second half of the year.

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
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Email: nicola.walker@kent.fire-uk.org
Background papers: None

COMMENTS

Background

1. There were nine internal audits agreed at the Audit and Governance meeting (28 April 2022) which are set out in the Internal Audit Plan 2022/23. In order to allow appropriate resources to be directed to the Authority's inspection undertaken by His Majesty's Inspectorate of Constabulary and Fire and Rescue Services (HMICFRS) over the summer, it was agreed that the majority of the audits would take place in the second half of the financial. As such, to date only one audit has been concluded and that relates to the Grenfell review.

Internal Audit Progress Update

2. The Kent Fire and Rescue Service response to Grenfell Tower Inquiry Recommendations Audit was the only audit planned for quarter 1. This audit has been completed and Internal Audit have identified that the Authority has gone beyond the inquiry's formal recommendations and has taken the opportunity to identify other learning actions as a result. The Internal Audit Summary Report is attached with **Appendix 1 at Annex A** for Members information.
3. Whilst originally three audit reviews were planned for quarter 2, only the Purchasing Cards Audit has started in quarter 2. The Clinical Governance Audit has been postponed until quarter 4 in order to allow the new Service Level Agreement with South East Coast Ambulance Service (SECAMB) to be embedded. The Business Continuity Planning Audit is currently in planning stage awaiting confirmation of the fieldwork commencement date.
4. Despite the back loading of internal audit reviews this year, the Head of Internal Audit has provided assurance that all audits will be undertaken in the current financial year, and the final report presented to this committee next September will include the outcomes of all nine audits that were undertaken during 2022/23.

Outstanding Management Actions from Previous years Audit Reviews

5. Attached at **Appendix 1**, Table 2, is a summary of previous years audits which had outstanding actions. Some actions have been progressed and as such are now concluded, whereas as others do not remain due until later this year, i.e. the Equality, Diversity and Inclusion Audit and the IT Help Desk Audit. Once the necessary 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. In addition, we have undertaken fraud workshops with a number of teams to increase awareness of the risks and we also plan to

provide Member training to help keep you up to date on fraud awareness related issues. The KCC Fraud Team are currently producing a number of Fraud Awareness videos that will be made available to all colleagues in the near future. The Authority is also currently taking part in the National Fraud Initiative Audit that is conducted biannually.

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

28 November 2022

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 – 28th November 2022

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 2022, against the 2022/23 Internal Audit Plan.

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

2. Progress Against 2022/23 Audit Plan

2.1 **Table 1** below provides an update on our progress against the 2022/23 Audit Plan:

Table 1 – 2022/23 Audit Plan						
Audit	Quarter	Status	Assurance Opinion	Prospects for Improvement	Reported to Members	
FS01	KFRS Response to Grenfell Tower Inquiry Recommendations	Q1	Complete	N/A	N/A	November 2022
FS02	Purchasing Cards	Q2	Fieldwork			
FS03	Clinical Governance	Q2-Q4	Planning			
FS04	Business Continuity Planning	Q2 Q3	Planning			
FS05	Prevention – Safe & Well Visits	Q3	Planning			
FS06	Use of Risk Data	Q3	Planning			
FS07	Safeguarding	Q4	Planning			
FS08	People Plan	Q4	Not yet started			
FS09	Operational Response Management	Q4	Not yet started			

- 2.2 It was agreed with Corporate Management Board and Members that the majority of the 2022/23 Audit Plan would be delivered between August 2022 and 31 March 2023. This was to allow for the His Majesty's Inspectorate of Constabulary and Fire and Rescue Services Inspection.
- 2.3 The audit summary for **FS01-2023 KFRS Response to Grenfell Tower Inquiry Recommendations** is included at **ANNEX A**.
- 2.4 The client has requested that **FS03-2023 Clinical Governance** audit be postponed until February 2023. This is to allow sufficient time for the new service level agreement with South East Coast Ambulance Service (SECAMB) to be embedded.
- 2.5 **FS04-2023 Business Continuity Planning** will be completed in Quarter 3 to allow for Client and Auditor availability.
- 2.6 It is anticipated that all audits will be at final or draft report stage by 31 March 2023.
- 2.7 **ANNEX B** details 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 and all 'Limited' and 'No Assurance' rated audits are the subject of a full re-audit. 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 April 2022:

Table 2 – Implementation of Agreed Management Actions					
Audit	Audit Date	Assurance Opinion	Summary of Agreed Actions	Status	
FS05-2020	Property Statutory Compliance	March 2020	Limited	(3) High (4) Medium	Closed
FS03-2021	Contract Management	September 2021	Substantial	(2) Medium	In progress
FS05-2021	Customer	May 2021	Substantial	(1) Medium	Closed
FS06-2021	Sickness	May 2021	Adequate	(3) Medium	Closed
FS01-2022	Operational Response Training	November 2021	Adequate	(1) High (2) Medium	Closed
FS02-2022	Treasury Management	September 2021	Adequate	(2) High (3) Medium	Closed
FS05-2022	Equalities, Diversity & Inclusion	December 2021	Substantial	(1) Medium	Not yet due
FS06-2022	IT Help Desk	January 2022	Substantial	(2) Medium	Not yet due

- 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 2022.
- 4.2 Fraud awareness briefings have been delivered to a number of departments, including Building Safety.
- 4.3 Fraud awareness videos are currently being developed and will be published as soon as practically possible.

5. Resources

- 5.1 The Internal Audit Team is currently fully resourced and all of the 2022/23 Audit Plan 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.
- 6.2 **ANNEX D** provides a year-on-year comparison of the performance indicators.

7. Conclusion

- 7.1 Audit plan delivery is on track to be delivered by 31 March 2023. 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 2021/22 Annual Report. This is, however, subject to change as further audits are completed.

ANNEX A – AUDIT SUMMARY – FS01-2023 KFRS RESPONSE TO GRENFELL TOWER INQUIRY RECOMMENDATIONS

FS01-2023 KFRS Response to Grenfell Tower Inquiry Recommendations

INTRODUCTION

The Director of Operations (on behalf of the Corporate Management Board) commissioned Internal Audit to complete a consultancy review of the adequacy and effectiveness of the management / oversight of the implementation of the Grenfell Tower Inquiry (GTI) recommendations with a particular focus on the following key areas:

- Allocation of tasks
- Adequacy of records
- Management, monitoring and tracking of the recommendations / actions • Progress reporting and escalation on implementation of recommendations / actions

SUMMARY

Internal Audit recognises the significant work undertaken by KFRS staff to ensure that the GTI Phase 1 report recommendations are implemented to affect change. We also recognise that KFRS has gone beyond the Inquiry's formal recommendations and used the Inquiry as an opportunity to identify other operation learning actions.

The Operational Learning Plan which provides the framework for establishing systems and processes for managing and overseeing all operational learning actions / activities has had a positive impact in the management of the GTI actions.




There are adequate controls in place to ensure that actions are allocated and tracked appropriately; staff and Senior Management have constant visibility of the status of each action via a central database; and implementation of actions are challenged and scrutinised by critical friends to provide additional and reliable assurance that actions have actually been implemented as planned.






Evidence to support the implementation of actions are retained on a central database and are accessible to KFRS staff in the event of a query or audit. However, there are a small number of actions (specifically actions relevant to staff training) where the type of supporting evidence retained on file can be improved to provide greater reliability and assurance that action has been fully implemented.

The frequency of progress reporting to Senior Management is reasonable, but there has been no update to Members since December 2020.

Furthermore, the reports provided to Senior Management does not contain sufficient details or explanation of progress of open actions (or actions that have been extended).

ANNEX B – DEFINITIONS

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.

ANNEX B - DEFINITIONS

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.

ANNEX C – PERFORMANCE INDICATORS

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%	N/A
3.	Draft Reports to be issued by the date specified in the Engagement Plan	90%	N/A
4.	Final Report to be issued within 5 working days of receiving management response	90%	N/A
5.	Client Satisfaction Questionnaires to be issued for all audits/investigations completed with the final report	100%	N/A
6.	% Positive Client feedback	90%	N/A
7.	% Completion of Annual Internal Audit Plan @ 31 March 2023	90%	N/A

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

ANNEX D – COMPARISON OF PERFORMANCE INDICATORS

IACF PERFORMANCE INDICATOR	TARGET	2019/20	2020/21	2021/22
1. Engagement Plan issued 2 weeks prior to commencement of fieldwork start date	90%	100%	50%	100%
2. Verbal feedback to be provided within one week of completion of audit fieldwork	100%	100%	50%	89%
3. Draft Reports to be issued by the date specified in the Engagement Plan	90%	100%	50%	67%
4. Final Report to be issued within 5 working days of receiving management response	90%	100%	100%	89%
5. Client Satisfaction Questionnaires to be issued for all audits / investigations completed with the final report	100%	87.5%	100%	100%
6. % Positive Client feedback	90%	100%	100%	100%
7. % Completion of Annual Internal Audit Plan @ 31 March	90%	95%	58%	90%

KFRS PERFORMANCE INDICATOR	TARGET	2019/20	2020/21	2021/22
1. Agreement of Engagement Plan to be provided prior to fieldwork start date	100%	100%	100%	100%
2. Response to Draft Report and Action Plan to be provided within 10 working days of issue	90%	88%	100%	100%
3. Client Satisfaction Questionnaires to be completed and returned within 10 working days of Final Report	100%	100%	100%	100%
4. Actions plans in response to High and Medium Priority issues raised to be implemented within agreed timescales	90%	95%	100%	100%