

AUDIT COMMITTEE 28TH SEPTEMBER 2023

MEMBER QUESTION TIME

Question from Councillor David Vasmer:

At the last full Council meeting on 21st September the lead member for Finance presented a Capital Strategy which was passed by Conservative Councillors despite criticism from opposition members. This strategy included £95m of borrowing required to complete the North West (Relief) Road (NWR). The Director of Finance said that this inclusion was a mistake. And in his explanation he made the following comment:

“This was in effect a ‘holding’ figure, often used by finance officers when modelling potential costs or budget projections and was not derived from consultation or information from the project team, or operational officers involved in the NWRR.”

Will the Audit Committee now investigate the costings of the NWR because they could present a real threat to the financial stability of the Council for two reasons:

- a) Escalating building costs and regulatory concerns of the Environment Agency means that there is a real chance that the road may be cancelled or the planning application fail. This will mean that over £20 million of the capital expenditure of approx. £24m will be transferred from a capital account to the revenue budget
- b) Given that any extra expenditure over the original estimates of the road’s costs must be funded by the Council, the Director of Finance makes it clear that finance officers are considering the possibility of £95m or more in extra borrowing may be required to complete the road and the extra interest on such a sum would make the tackling the projected deficit more difficult.

Both scenarios could prompt the issue of a section 114 notice making the Council in effect bankrupt. Will the Audit Committee now investigate the funding of the North West (Relief) Road as a matter of urgency? Failure to do so may result in future investigations as to why the Committee did not manage risk as it is required to do as set out in the Accounts and Audit Regulations ‘ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body’s functions and which include the arrangements for the management of risk.’

Response:

Thank you Cllr Vasmer for your question. It raises a number of points, the key element of which appears to be will the Audit Committee investigate the costings of the Northwest Relief Road due to the threat it poses to the Council’s finances.

The role of the Internal Audit team is to provide independent and objective assurance on the Council’s activities. It does this by reviewing the effectiveness of risk management, control and governance processes. The Audit Committee approved the Internal Audit Plan for 2023/24 in February 2023, and this included an audit of the Northwest Relief Road Project . The audit is currently in progress and

appears to cover the key elements of your question. The management control objectives under review are:

- The recommendations made in the previous audit have been implemented.
- Appropriate Governance arrangements are in place which govern the project.
- Appropriate project management arrangements are in place to manage the project.
- Administration arrangements are in place to monitor, control and report on the budget.
- Interdepartmental dependencies are in place and decision making is made in conjunction with the project outcomes.
- Appropriate management arrangements are in place with consultants and stakeholders.

The Internal Audit will examine the process for establishing an approved budget, authorising expenditure and the process for monitoring and reporting the financial position. It may also challenge the validity of assumptions around projections. Internal Audit are unable to provide detailed costing for the project as this is the role of the Project Officers supported by the Finance team.

In line with our normal process the results of the audit will be shared with the Audit Committee once the report is finalised. The audit work has been delayed due to outstanding requests for information with the service area and the contractor. If required an update can be provided at the November Audit Committee meeting, however, we cannot guarantee that the report will be finalised and reported at that meeting. It is proposed that the Internal Audit review continues and once finalised the results are considered by the Committee to decide then if any further action or management assurances are required.