



NORWICH City Council

Committee Name: Council

Committee Date: 26/09/2023

Report Title: Annual Report of the Audit Committee 2022-2023

Committee chair Councillor Price

Report of: Head of Legal and Procurement

Wards: All Wards

OPEN PUBLIC ITEM

Purpose

This report presents the Annual Report of the Audit Committee 2022/2023, appended to this report at Appendix A, to Council.

Recommendation:

It is recommended that council receives the Annual Report of the Audit Committee 2022/2023.

Policy Framework

The Council has five corporate priorities, which are:

- People live independently and well in a diverse and safe city.
- Norwich is a sustainable and healthy city.
- Norwich has the infrastructure and housing it needs to be a successful city.
- The city has an inclusive economy in which residents have equal opportunity to flourish.
- Norwich City Council is in good shape to serve the city.

This report meets the corporate priority to ensure Norwich City Council is in good shape to serve the city.

Report Details

1. On 11 March 2014, the Audit Committee resolved to approve new procedures for the Audit Committee in line with Chartered Institute of Public Finance and Accountancy (CIPFA) guidance. The CIPFA guidance says that:

“The purpose of an Audit Committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes.”
2. The guidance goes on to set out that the core functions of the Audit Committee are to:
 - a) Be satisfied that the authority’s assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it, and demonstrate how governance supports the achievements of the authority’s objectives.
 - b) In relation to the authority’s internal audit functions:
 - i) oversee its independence, objectivity, performance and professionalism;
 - ii) support the effectiveness of the internal audit process;
 - iii) promote the effective use of internal audit within the assurance framework.
 - c) Consider the effectiveness of the authority’s risk management arrangements and the control environment. Review the risk profile of the organisation and assurances that action is being taken on risk-related issues, including partnerships with other organisations.
 - d) Monitor the effectiveness of the control environment, including arrangements for ensuring value for money and for managing the authority’s exposure to the risks of fraud and corruption.
 - e) Consider the reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control
3. The Council delegates authority to the Audit Committee to undertake a range of functions on its behalf, including approval of the Annual Statement of Accounts and Annual Governance Statement. It is therefore important the council ensures that the Audit Committee is discharging its role effectively.
4. The attached annual report of the Audit Committee 2022-2023 was approved by members of the Audit Committee at their meeting on 11 July 2023.

5. The report sets out the work of the Audit Committee over the last financial year, providing assurance to council on the work undertaken by the committee.
6. The report concludes that the committee has been effective in undertaking the functions set out in its terms of reference, in accordance with the council's procedure rules and the Accounts and Audit Regulations 2015.

Consultation

7. This report has been written in consultation with the chair and vice chair of the committee and based on discussions recorded in the minutes of meetings of the committee. At its meeting on 11 July 2023, the committee approved the report and recommends it to council.

Implications

Financial and Resources

Any decision to reduce or increase resources or alternatively increase income must be made within the context of the council's stated priorities, as set out in its Corporate Plan and Budget.

8. There are no proposals in this report that would reduce or increase resources.

Legal

9. The role of the Audit Committee is an important part of the Council's arrangements to ensure proper administration of its financial affairs under s.151 of the Local Government Act 1972. The annual report of the committee is considered to be good practice as identified by the Chartered Institute for Public Finance and Accountancy and is reflected in the council's constitution.

Statutory Considerations

Consideration:	Details of any implications and proposed measures to address:
Equality and Diversity	No implications arising from this report
Health, Social and Economic Impact	No implications arising from this report
Crime and Disorder	No implications arising from this report
Children and Adults Safeguarding	No implications arising from this report
Environmental Impact	No implications arising from this report

Risk Management

Risk	Consequence	Controls Required
Include operational, financial, compliance, security, legal, political or reputational risks to the council	None	None

Other Options Considered

10. This report is for information and consolidates information set out in minutes to the Audit Committee held in the period April 2022 to May 2023.

Reasons for the decision/recommendation

11. To provide an annual report to council.

Background papers:

12. Minutes and reports to the Audit Committee meetings held from April 2022 to May 2023.

Appendices:

A Annual Report of the Audit Committee 2022-2023

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Annual Report of the Audit Committee 2022-23

Introduction

This is the annual report of the Audit Committee and advises the Council of the work of the committee for the period of the civic year 2022-23

Councillor Ben Price
Chair, Audit Committee

Councillor Keith Driver
Vice-chair, Audit Committee

Report to full council on the committee's performance in relation to the terms of reference and effectiveness of the committee in meeting its purpose.¹

1. This report covers the work of the Audit Committee for the financial and civic year 2022-23. The production of an annual report by the committee is considered good practice.
2. The Council established an Audit Committee in 2007. The terms of reference were considered and revised as part of the Constitution Review in 2021. The committee exercises its powers within the policy framework of the council and the corporate plan, as specified in the terms of reference.
3. The members of the Audit Committee in 2022-23 were:

Councillor Ben Price (chair)
Councillor Keith Driver (vice chair)
Councillor Rachel Everett
Councillor Ash Haynes
Councillor Claire Kidman
Councillor Mike Sands
Councillor Ian Stutely
Councillor James Wright

David Harwood, Independent Person
4. Councillor Champion substituted for Councillor Haynes at the meeting on 12 July 2023.
5. Councillor Paul Kendrick, Cabinet Member for Resources, attended all meetings of the committee.
6. The key officers who supported the Audit Committee during this period were:

Annabel Scholes, Executive Director Corporate and Commercial Services (to December 2022)
Neville Murton, Interim Head of Finance, Audit and Risk and from January 2023, Interim Chief Finance Officer (S151 Officer)
Faye Haywood, Head of Internal Audit (Eastern Internal Audit Services)
Leah Mickleborough, Head of Legal and Procurement
Gareth Robinson, Interim Head of Finance (Deputy S151 Officer) from February 2023
7. The engagement team of the external auditors (Ernst & Young LLP) is led by David Rigler, who has replaced Mark Hodgson. The committee is grateful to Mark Hodgson for his work on the council's external audits and valuable advice to the chair and members of the committee.
8. There were four formal meetings of the committee during the civic year 2022-23 as follows:

¹ Taken from the Audit Committee's Terms of Reference, Norwich City Council Constitution

12 July 2022
4 October 2022
29 November 2022
21 March 2023

9. The information contained in this report is drawn from the minutes and reports considered at committee meetings held during the year. Agendas, reports, and minutes for the meetings are available on the council's website:

<https://cmis.norwich.gov.uk/live/Meetingscalendar.aspx>

10. The Audit Committee has undertaken its second self-assessment exercise against CIPFA checklist to be satisfied that the committee is performing effectively.
11. This report sets out the committee's performance in relation to the terms of reference and effectiveness of the committee in meeting its purpose, under the following headings:
- (a) Corporate governance
 - (b) Internal and external audit
 - (c) Statement of accounts
 - (d) Referral powers and accountability arrangements.
12. Extracts from the terms of reference have been used to introduce each section.

Corporate Governance

Review the effectiveness of internal control across the council and the adequacy of actions taken to address any weaknesses or control failures.

13. The committee reviews the effectiveness of internal control across the council through its receipt of the Annual Governance Statement and associated action plan, the Code of Corporate Governance, Risk Management reports and the reports of internal audit and external audit.
14. In July 2022, the committee approved the Code of Corporate Governance. It is a non-statutory document that informs the Annual Governance Statement (AGS). The production of a Code of Corporate Governance demonstrates the Council's commitment to effective corporate governance and the review process enables it to reflect on its systems and practices, identifying potential areas for improvement.
15. On 2 March 2023, members of the committee participated in a workshop as part of the preparation of the Annual Governance Statement and annual review of the Code of Corporate Governance. This will feed into production of the Annual Governance Statement for 2022/23

Review, consider and agree the Annual Governance Statement, including the adequacy of the corporate governance framework and improvement action plan contained within it.

16. The Accounts and Audit Regulations 2015 requires the council to produce an Annual Governance Statement (AGS). It summarises the extent to which the council complies with its Code of Corporate Governance and details, as appropriate, any significant actions needed to improve the governance arrangements in the year ahead. It provides a public facing statement on how well the council has delivered on governance over the course of the previous year and accompanies the Statement of Accounts (SoA).
17. In October 2022, the committee considered the draft AGS which reflects the governance arrangements, effectiveness of internal controls and risk management in the year 2021/2022. Members have been assured that the final AGS, which will be signed off with the audited SoA, will be updated to include the identification of any significant risks and concerns that affect the governance arrangements of the council.
18. The AGS is prepared in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) framework. The review of the Code of Corporate Governance is an important part of this process. The statement is prepared by the Head of Legal and Procurement and circulated to officers, the corporate leadership team (CLT) and the Leader of the Council before the draft is published for public consultation as required. Members discussed whether the process should be included in the AGS as it was a public facing document and noted that there was no statutory requirement to do so but that it would be included in the covering report.
19. An action plan is included in the AGS to ensure that recommendations for improvement are taken forward. Those internal audit reviews which received a limited assurance in 2021/2022 were reflected in the AGS for 2021/22.
20. The committee approves the AGS, which is signed by the Leader of the Council and the Chief Executive at the time that the audited accounts are approved by the committee.

Consider the adequacy and effectiveness of the council's arrangements for the identification and management of the organisation's business risks, including the risk management policy, strategy and risk register.

Receive and consider regular reports at least twice a year on the risk environment, corporate risk register and associated management actions.

21. The council's constitution adopted in March 2021, formalised the committee's request to receive a report on the council's risk management policy, strategy and register twice a year. This provides the committee assurance about the risk appetite of the council and an opportunity to ask questions on the application of scores to risks and raise concerns that the committee may have.
22. Cabinet receives the risk register as part of its quarterly Corporate Assurance Reports. The Audit Committee's responsibilities differ from the cabinet members, who are the owners of the risk register. Members of the Audit Committee have an oversight capacity to provide assurance on the governance

of risks. To do this the committee needs to be up to date with the council's risk profile and review the effectiveness of risk management options taken and to support good risk management practice. Members of the committee are aware that the risk register is regularly monitored by each directorate and the Corporate Leadership Team and the process for escalating risks.

23. The committee considered the risk register at its meetings in October 2022 and March 2023. The committee is aware of the external risks to the council from CORP 20 Cost of Living crisis, CORP21 Equality Impacts to Climate Change and CORP 23 Impact on Economic Downturn on Key Council Suppliers, as highlighted by the Cabinet Member for Resources, are outside the cabinet's control. The process for assessing risks has an element of subjectivity and the committee considers that it would be useful for the committee reports to include more information on Cabinet's process in scoring risks and what mitigation it considered and either selected or rejected.

Review and ensure the adequacy of the anti-fraud and corruption policy and strategy and the effectiveness of their application.

Review and ensure that adequate arrangements are established and operating to deal with situations of suspected or actual fraud and corruption.

24. Work of internal audit was reported to every meeting throughout the year. The reports are to contain updates on any overdue recommendations with a management response and new implementation dates, going forward.
25. When considering the External Audit Plan 2021/22, members were advised that there was no change in focus areas from the previous year, except for Accounting for Covid-19 related government grants where the risk has been reduced from the previous year.
26. At its meeting in November 2022, the committee received assurance that the council had adopted the right approach to managing the risk of fraud and error in the payment of Coronavirus business grants. The Head of Revenues and Benefits reported that the council's identification of fraudulent claims or grants paid out in error was less than 1 per cent of the total. The level of fraud was low and had been less in the later schemes due to the processes put in place to pre-check applications. The committee also noted the work being undertaken to recover funding from identified cases of fraud or overpaid cases. In November this stood at £91,000. Cases where the council had been unable to recover funding after three attempts were passed on to the Department of Business, Energy and Industrial Strategy (BEIS) for enforcement.
27. The Head of Legal and Procurement provided an Annual Report on Fraudulent Activity to the committee (11 July 2023). This is good practice and will be taken forward.
28. In addition, the committee received independent assurance from the Internal Audit Team on the council's Counter Fraud and Corruption arrangements. Recommendations from this audit are being tracked through to completion by the committee.

Receive periodic updates on improvement actions taken.

29. The council has identified a need to strengthen competencies and make improvements in the way in which contracts are managed effectively to drive out efficiencies and service improvements. This will continue to be an area of internal audit focus given recent limited assurance opinions for the management significant contracts. This reflects the committee's concerns about contract management and policies and procedures.
30. At its meeting in July 2022, the committee received the report of the Head of Legal and Procurement on the *Review of Contract Management*. The committee has had concerns about contract management which needed to be addressed. Lessons have been learned and the application of these procedures reduces the corporate risk across the council. Council officers involved in contract management or procurement were able to participate in the government's Contract Management Pioneer Programme, which provided the council with training and support to the value of £7,000 per participant. An internal contract management group had been established to support colleagues. The measures also included ongoing training, contract monitoring and performance reviews.
31. The committee has welcomed the actions of the Corporate Leadership Team (CLT) to strengthen governance arrangements throughout the council and its wholly owned companies, including the setting up of the quarterly meetings of the shareholder panels. The committee has noted that there is no internal audit review planned for 2023/24 of the outcomes of the Local Government Peer Review conducted in January 2023, but there is an expectation that some of the concerns raised may be addressed through the internal audit reviews of Corporate Governance and Lion Homes (Norwich) Limited (formerly Norwich Regeneration Ltd).

Internal and external audit

Approve the internal audit charter.

Approve and monitor delivery of the internal audit strategy.

32. The Accounts and Audit Regulations 2015 require that "a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance".
33. The committee approved the Internal Audit Charter and the Internal Audit Strategy at its meeting on 21 March 2023. The Charter is a mandatory document which sets out how Eastern Internal Audit Services (EIAS) will deliver internal audit services to the council, and outlines the internal audit purpose, authority, and responsibilities of the internal auditors. The strategy is a strategic high-level statement on how the internal audit service will be delivered and developed in accordance with the charter and how it links to the organisational objectives and priorities. The strategy includes the annual internal audit work plan and long-term plan, to provide a rolling programme.

Consider, endorse, and monitor delivery of the internal audit annual work programme, including any significant in-year changes to the programme or resource requirements.

Ensure adequate resourcing of the internal audit function, approving any

significant additional consulting services requested from internal audit not already included in the internal audit annual work programme.

34. As well as receiving quarterly updates, the committee also receives updates which track internal audit recommendations that are either medium or high priority and have gone past the due date. This provides the committee with an opportunity to monitor the progress against actions or seek an explanation where implementation of recommendations has been delayed or why actions have not been agreed by management.
35. The Head of Internal Audit presents any changes to the agreed internal audit work plan to the committee as part of the quarterly progress reports. The three-year programme allows for the plan to be re-prioritised to provide the assurance needs of the council so that internal audit focuses on the most strategic risks in year and make best use of its resources. The committee is asked to consider if these and if there are any other areas of strategic risk which could form part of the discussion with Corporate Leadership Team.

Receive and consider the annual internal audit report and opinion on behalf of the council.

36. At its July 2022 meeting, the committee considered the Internal Audit Annual Report and Opinion 2021/22. This report sets out the work that had been undertaken by internal audit in 2021/22, the recommendations for management and contributes to the AGS. The council received an audit opinion of reasonable assurance, with the committee noting that internal audit reviews of Payroll and Housing Benefits had been carried over into 2022/23.

Oversee the annual review of the effectiveness of the system of internal audit, to include the performance of the internal audit function, compliance with standards and delivery of improvement actions.

37. The committee commented on the Internal Audit Annual Report and Opinion 2021/22 and noted that the opinion was caveated with the internal audits reviews of Payroll and Housing Benefits being carried over to 2022/23. Members also considered that it was appropriate that as disruption caused by Covid-19 had still been an issue in the year and that reference should be made in the report.
38. Members expressed some concern that the internal work plan had a delayed start in 2021/22 due to the new internal audit arrangements, and that this had meant that some internal audit reviews had been deferred to the next year. Members appreciate the approach taken by the Head of Internal Audit to ensure that medium and high-level audit recommendations are included in the quarterly reports until the actions have been completed.

Contribute to the external quality assessment of internal audit that takes place every five years.

39. Eastern Internal Audit Services (EIAS) was fully assessed by the Chartered Institute of Internal Auditors in October 2022. The conclusion of the review was:

“EIAS conforms with the vast majority of the Standards, as well as the Definition, Core Principles and the Code of Ethics, which form the mandatory

elements of the PSIAS and the Institute of Internal Auditors' International Professional Practices Framework (IPPF), the globally recognised standard of quality in Internal Auditing”.

40. The next External Quality Assessment is scheduled for October 2027.

Commission work from internal and external audit and consider the resulting reports.

41. The committee has not commissioned any specific reports from external audit but is aware that there is broad agreement on the significant risks to the council which is reflected in the External Audit's Audit Results Report and the internal audit work programme.
42. The committee was grateful to take up the offer of the Head of Internal Audit to undertake the committee self-assessment exercise. The Chartered Institute of Public Finance and Accountancy (CIPFA) document on “audit committee's practical guidance for local authorities and police” sets out the guidance on the function and the operation of audit committees. It is therefore good practice to complete a regular self-assessment exercise against the checklist, to be satisfied that the committee is performing effectively. In addition, the Public Sector Internal Audit Standards also calls for the committee to assess their remit and effectiveness, in relation to Purpose, Authority and Responsibility.
43. This is the second time that the Audit Committee has undertaken the self-assessment exercise, facilitated by the Head of Internal Audit, and as a result, further actions have been identified to ensure full compliance with best practice. These actions were approved at the meeting in March 2023. It is intended that the committee will carry out the self-assessment exercise on an annual basis and monitor progress against actions as part of its work programme planning.
44. In June 2022, to enhance the knowledge skills and independence of the committee, the council appointed David Harwood, as an independent person to the committee. He has made a valuable contribution to meetings of the committee and informal sessions. This was an action arising from the self-assessment exercise. The council is ahead of other local authorities in making this appointment before it becomes standard practice. The committee has expressed an interest in appointing a second independent person and it will be progressed this year. The committee suggested that it would be useful for the personal specification to stipulate that accountancy skills would be desirable.
45. Council agreed to establish the Treasury Management Committee at its meeting in September 2022. The Audit Committee following its self-assessment recommended that the introduction of a Treasury Management Committee may be helpful to support the development of the council's Treasury Management Strategy, and to examine in greater depth how the council is performing against its strategy. The Chair of the Audit Committee is a member of the Treasury Management Committee which also comprises: the Leader of the Council, the Cabinet member for Resources, the Chair of Scrutiny Committee, and one other member from the administration in line with the political balance of the council.
46. In conclusion, the Audit Committee self-assessment has indicated that the committee considers that it is acting in line with best practice in most areas and can demonstrate that it is adding value to the council through its role. This

exercise is carried out annually and improvement actions tracked in the committee's workplan.

Comment on the scope and depth of external audit work and ensure it gives value for money.

47. The committee is satisfied with the assurance provided by External Audit in its audit of the financial statements that make up the AGS and the Statement of Accounts. The chair has stated that he has confidence in external audit's work and appreciates the need to validate information for themselves. The council has two wholly owned companies, and it is the view of the chair that the audit process needs to change. The audit of the group accounts (the audited accounts of the wholly owned companies) does not subject the accounts to the same level of detailed audit as the council's Statement of Accounts.
48. The committee has commented on the increase in the level of fees set by the Public Sector Audit Appointments (PSAA). External Audit has advised that investment and commercial activities of councils has complicated the audit process. There are good communications between the external audit team and the council's finance team to ensure a smooth audit.

Ensure that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted.

49. The committee is satisfied that the relationship between external and internal audit is effective and that audits are conducted in accordance with the relevant requirements.

Seek assurance that action has been taken to implement the recommendations arising from the findings of significant audit and inspection work.

50. Actions arising from internal and external audit reviews are followed up as part of the AGS and the quarterly internal audit plans.
51. The committee monitors actions through the internal audit quarterly reports. The committee is concerned with delays in implementing actions arising from internal audit reviews and that this could increase the risk to the authority. It has therefore been agreed that managers will be invited to attend a committee meeting to explain why they have not implemented actions within the timescale agreed.
52. The committee noted at its meeting (29 November 2022) that there were two internal audit reviews from 2021/2022, NC2213 Environmental Services and NC2219 Capital Programme Management and Accounting, that had each received a limited assurance. Members expressed concern that regarding Capital Programme Management and Accounting, records of meetings had not been kept. During discussion on the internal audit review of Environmental Services members noted that it was a large, frontline contract (valued at £6.6 million) but expressed dismay about the number of outstanding actions and that there was a recommendation for the council to undertake an independent verification that key performance indicators (KPIs). Members were advised that most of the actions had been completed but that internal audit was waiting for

evidence of this. Mitigation included the provision of refresher training on contract management to relevant officers.

Statement of Accounts

Discuss the annual audit plan for the audit of the financial statements with external audit.

53. The committee considered the Annual External Audit Plan 2021/22 at its meeting on 29 November 2022 and approved the approach and scope of the external audit as proposed in the audit plan and confirmed its understanding and agreement to the materiality reporting levels set out in the report.
54. The statutory deadline for the publication of the 2021/2022 audited accounts by 30 November 2022 was not met as the audit has not yet started. Members are aware of the national and sector issues in undertaking statutory audits, which are not specific to this council, but will affect the delivery of external audits for the next couple of years as external audit puts an improvement plan in place. Members are frustrated that the council should be in this position as it has submitted its accounts by the statutory deadline each year. It was agreed that a notice would be placed on the council's website to explain the delay in auditing the accounts to members of the public.
55. During discussion the External Auditor explained the statement "Effects of climate related matters on financial statements and Value for Money arrangements" and said that this was an area of increasing work on audits. Unlike the private sector, local authorities were not yet required to provide a sustainability report. Under Value for Money, where councils have declared a climate emergency, the auditors would report if there was no expenditure on climate change of a statement in the key strategic aims.
56. The Interim Head of Finance reported to the committee (*State of the Audit Landscape and Norwich Closure*, 21 March 2023) which updated the committee on the wider audit environment, both private and public, and the impact that it had on the closure of the accounts. The current situation is not sustainable in the long term and that the delay in conducting audits was expected to be improved within the next 2 to 3 years. Members commented that it was unfair for the councils that submitted accounts by the deadline of 31 May to be penalised by having to wait for over a year to be audited. This council has consistently submitted its accounts on time.

Consider the external auditor's annual letter, relevant reports and the report to those charged with governance.

57. The council has not received the External Auditors' Annual Letter or audit results report during the period covered by this report.
58. The chair responded to a letter from the External Auditor regarding the committee's understanding of the governance arrangements of the council.

Review and approve the annual statement of accounts, including subsequent amendments on behalf of the council.

59. The committee considers the draft financial statements before publication and submission to external audit. There is no requirement for the committee to

approve the unaudited accounts, but this gives an opportunity for members to understand the process.

60. The committee considered the draft Statement of Accounts (SoA) 2021-22 at its meeting in October 2022. It is a credit to the finance team that they produced the draft accounts to meet the statutory timeframe for the publication of the accounts at the same time as the previous year's accounts were subject to approval (Audit Committee, 17 May 2022).

Referral Powers and Accountability Arrangements

Make recommendations for due consideration on all matters described above.

Report to those charged with governance on the committee's findings, conclusions and recommendations concerning the effectiveness of their governance, risk management and internal control frameworks, financial reporting arrangements and internal and external audit functions.

61. The committee's discussions and recommendations relating to the effectiveness of the governance, risk management and internal control frameworks, financial reporting arrangements and internal and external audit, are recorded in the minutes of the meetings. Where appropriate the committee's recommendations on any of these matters are referred to Cabinet or the Chief Finance Officer, as set out in the terms of reference. Meetings are attended by the key officers and other members of the corporate leadership team and senior managers, internal and external audit, who contribute to the discussions and are accountable for ensuring that the committee's recommendations are given due consideration.
62. The chair and vice chair meet with the key officers to discuss agenda items and the committee's work plan.
63. The Cabinet Member for Resources also attends all meetings of the audit committee.

Conclusion

64. The committee has been effective in undertaking the functions set out in the terms of reference in accordance with the council's procedure rules and the Accounts and Audit Regulations 2015.