

Audit Committee Supplementary Agenda

Time: 2pm
Date: Thursday 21 April 2016
Venue: Colman Room, County Hall.

- 10 County Farms**
Report by the Executive Director of Finance

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Audit Committee

Item No 10

Report title:	County Farms
Date of meeting:	21 April 2016
Responsible Chief Officer:	Executive Director of Finance

Strategic impact

The Audit Committee considers matters of Governance in accordance with its terms of reference, which are part of the [Council's Constitution, part 4.1 \(4.4\)](#). (page 11) being:

B1: Internal Audit and Internal Control

1. With Chief Officers, to provide proactive leadership and direction on audit governance issues and champion audit and internal control throughout the Council.

The Council has 16,000 acres or more of farmland (estate) in Norfolk which are rented to over 145 tenant farmers.

Executive summary

The purpose of this report is to introduce the County Farms Governance Arrangements Audit report and the County Farms Lines of Enquiry Report, attached as **Appendix A and B**, respectively.

The reports confirm an opinion that there are, 'Key issues that need to be addressed'. The findings, recommendations and agreed action plans are set out in each report. The reports make recommendations to:

- Clarify and strengthen the County Farms governance in the Council's Constitution
- Ensure compliance with these constitutional arrangements; and
- Strengthen the business management of the estate.

The audit work has:

- not identified any potential criminal matters
- not identified any member mis-conduct
- not identified any potential breaches in Standards of Conduct for employees, except for a separate confidential disciplinary report which has been completed regarding the alleged actions of one County Farms employee.

Responses to individual allegations and complaints will be sent to the relevant complainants.

Recommendations:

- 1) To recommend that Policy and Resources Committee:**

- **Clarify and strengthen decision making for County Farms by asking the Council to consider, in accordance with the Council's provisions for changes to the Constitution, to**
 - **Place County Farms functions of decision making with the Policy and Resources Committee**
 - **Define the County Farms Advisory Board's role of scrutiny of the County Farms operational decisions, reporting back to Policy and Resources Committee, as part of an annual review and make required recommendations for Member's approval**
 - **Require the Managing Director to review (in consultation with the Executive Director of Finance) how the Council's County Farms landlord functions are exercised, including the selection of tenants, the allocations of County farm assets and Estate Strategies and then make recommendations to Policy and Resources for Member's approval**
 - **Require County Farm leases to be approved in accordance with the Constitution, for the avoidance of doubt, this will mean that Members no longer have a direct role in the selection of County farm tenants. Members will continue to set policy direction for the County Farms estate (including the lettings policy) via decisions at the relevant committee**
- 2) To consider:**
- **The opinion that, there are 'key issues that need to be addressed' for both reports; and**
 - **The findings, recommendations and agreed action plans in the reports**
- 3) To note that:**
- **Responses will be made to the complainants; and**
 - **A County Farms systems audit has been included in the 2016-17 Internal Audit Plan, which will include following up the agreed actions.**

1. Introduction

- 1.1** The Council has 16,000 acres or more of farmland (estate) in Norfolk which are rented to over 145 tenant farmers. The management of the estate had been split in half with the eastern half being managed by NPS Group and the western being half managed by Bruton Knowles and Brown & Co. With the expiry of these contracts during late 2015 the function is now run in-house. A policy for County Farms was approved in 2010 by Full Council. Revisions were proposed by a working group set up for that purpose by the Economic Development Sub Committee and approved by Full Council on 20 October 2014
- 1.2** An audit of County Farms Governance was agreed as part of the 2015-16 Internal Audit Plan reported to this committee in September 2015. In response to a significant number of complaints and allegations regarding the County Farms service the Council's Chief Internal Auditor was also tasked with investigating and reporting

back to the Executive Director of Finance with recommendations. That work has been referred to as the County Farms Lines of Enquiry.

2. Evidence

- 2.1 The County Farms Governance Audit report and the County Farms Lines of Enquiry Report (as at 31 March 2016) are attached as **Appendix A** and **Appendix B** to this report respectively.

3. Financial Implications

- 3.1 Any specific financial implications are covered in the reports.

4. Issues, risks and innovation

Risk implications

- 4.1 Apart from those listed in the reports, there are no other implications to take into account.

5. Background

- 5.1 The background is set out in the attached reports.

Officer Contact

If you have any questions about the matters contained in this paper please get in touch with:

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Appendix A



Norfolk Audit Services

**Final report on County Farms
Governance Arrangements**

18 April 2016

Report Contents:

1. Executive Summary
2. Introduction
3. Summary and Conclusions
4. Actions required
5. Statement of Responsibilities
6. Audit Opinion
7. Detailed Findings, Audit Views, Recommendations, Priority, Agreed Action Plan and Who and When

Appendix A - Terms of Reference

1. Executive Summary

What is this report about?

1.1. A planned audit was commissioned last August by the new Executive Director of Finance (Section 151 Officer) who wanted to ensure that he had clarity around the roles and responsibilities for the County Farms. We examined the governance arrangements for the Council's County Farms. The audit considered the clarity of the Constitutional requirements for County Farms, whether the present arrangements meet the current constitutional requirements and how effective the governance and controls are. A number of recommendations are made to:

- Improve references to County Farms governance in the Council's Constitution; and
- Improve the governance of the County Farms.

Key Findings and recommendations

1.2. Our opinion, based on the evidence we have seen as part of this audit, is that governance for County Farms has **Key Issues that need to be addressed**, (see part 6)

1.3. The key findings from the audit are:

- There is a lack of clarity and duplication in the Constitution for the role and authority of the Managing Director, decision making and the review of the performance and budget relating to County Farms (Finding 7.1)
- The Committee delegations are not clear and need clarifying (Finding 7.1)
- The roles of the Executive Director of Finance and the Head of Property (Interim) need clarification. The Head of Property (Interim) should control and authorise expenditure for County Farms in accordance with the budget limits approved by the Council (Finding 7.1)
- The County Farms Advisory Board does not adhere to the Constitution's Working Groups Protocol and its governance lacks clarity (Finding 7.2)

- The County Farms Advisory Board has directed officers, in the County Farms team, on the selection of tenants, the allocation of County Farms' assets and estate strategies. It has not made recommendations on these matters, either to the Managing Director or the Economic Development Sub-Committee as the Constitution requires. (Finding 7.2)
- County Farms' officers have exercised the Council's functions relating to County Farms, on behalf of the Managing Director, without reference back to or further approval from the Managing Director, the Executive Director of Finance, the Head of Property (Interim), line management or the Head of Law, leading to the risk of significant reputational damage to the Council. A further report, **Appendix B**, considers a number of complaints and allegations regarding the operation of the County Farms and makes recommendations for improvements. (Finding 7.3).
- Together these arrangements have led to the impression that the County Farms Advisory Board has and applies authority for County Farms business, without reference to any other body or officer.
- Without clear controls there is an increased opportunity for the misuse of public assets (Finding 7.2)
- The Hierarchy of Decision Making on Property Matters procedure requires significant amendment to reflect the Constitution (Finding 7.3); and
- The Managing Director requested a year ago that a Business Plan be produced for the County Farms function. That Plan has not been forthcoming and needs to be completed. That Plan should link the County Farms Policy to a strategy and outline how it will be met through the operations.(Finding 7.3)

1.4. The key recommendations from the audit are that, the Audit Committee recommend that Policy and Resources Committee:

- clarify and strengthen decision making for County Farms by asking the Council to consider, in accordance with the Council's provisions for changes to the Constitution, to:
 - Place the County Farms functions of decision making with the Policy and Resources Committee (Finding 7.1)
 - Define the County Farms Advisory Board's role of scrutiny of the County Farms operational decisions, reporting back to Policy and Resources as part of an annual review, and making required recommendations for Member approval (Finding 7.1)

- Require the Managing Director to review (in consultation with the Executive Director of Finance) how the Council's County Farms functions are exercised, including the selection of tenants, the allocations of County Farm Assets and Estate Strategies and then make recommendations to Policy and Resources Committee for Member's approval
- Require County Farm leases to be approved in accordance with the Constitution. For the avoidance of doubt, this will mean that Members no longer have a direct role in the selection of County Farm tenants. Members will continue to set policy direction for the County farms estate (including the lettings policy) via decisions at the relevant committee. Before an offer is made to a prospective County Farm tenant the Head of Law should be provided with appropriate advice and review relevant documentation to ensure that agreed criteria have been met for, 'the best terms have been reasonably obtained', (Finding 7.2)

1.5. The Council has 16,000 acres or more of farmland (estate) in Norfolk which are rented to over 145 tenant farmers. The management of the estate had been split in half with the eastern half being managed by NPS Group and the western half being managed by Bruton Knowles and Brown & Co. With the expiry of these contracts during late 2015 the function is now run in-house. A policy for County Farms was approved in 2010 by Full Council. Revisions were proposed by a working group set up for that purpose by the Economic Development Sub Committee and approved by Full Council on 20 October 2014.

1.6. The weaknesses in the administration of the County Farms go back many years. Following recommendations agreed by the then Cabinet on 2 March 2009, the decision in 2010 to have two estate management contracts for the estate, with the eastern half being managed by NPS Group and the western half being managed by Bruton Knowles and Brown & Co, managed by a client side officer in the then Finance Department, was an attempt to improve arrangements but was not seen to do so. A Property Transformation Strategy was established in June 2014 to review the Council's arrangements for the delivery of property services, including County Farms. During a period to mid-2015, when there were interim Directors and managers, the weaknesses were confirmed. As the new management revealed further problems, this governance audit and an investigation of complaints and allegations were commissioned last September.

- 1.7.** Under the Council's Constitution - Scheme of Delegated powers to Officers (Part 6.2), dated 20 October 2014, the Full Council has delegated, the functions relating to County Farms to the Managing Director. The authorisation, 'To exercise the Council's functions relating to County Farms, subject to taking professional advice before exercising such powers', is recorded in the schedule at the end of the Appendix to part 6.2 of the Constitution.
- 1.8.** Financial Regulations state that, for the disposal of assets, 'the Executive Director of Finance will recommend the disposal in accordance with..[for] 'County Farms – Managing Director following consultation with the Chair of Policy and Resources Committee'. [Constitution Part 7.7 (5.12.4)].
- 1.9.** The Financial Regulations, in the Constitution, (at Part 5.12.5), refer to the Hierarchy of Decision making on property matters procedures. These procedures were last reviewed in June 2014 and, whilst they have been in use in the meantime, they now require significant amendment and additions to fully meet the requirements in the present Constitution. A corrected interim procedure will be prepared by the Executive Director of Finance to ensure the present Constitutional requirements are fully described, pending any changes to the Constitution. (Finding 7.3)
- 1.10.** The Environment, Development and Transport Committee has no responsibility for County Farms described in its Terms of Reference but nine members of that committee compose the Economic Development Sub-Committee, Constitution Part 4.1 (2.3).
- 1.11.** The full Council has delegated the role of 'Oversight and Development of County Farms' to the Economic Development Sub-Committee, a recognition of their importance in the rural economy. The full Council delegates the following decision making responsibilities to the Economic Development Sub-Committee:
- All decisions in relation to the above function within the control of the Council, other than decisions reserved for full Council
 - Development of policy in relation to the above function
 - Review of performance and budget in relation to the above function [Constitution Part 4.1(2.5)]
- 1.12.** The Economic Development Sub-Committee recommended terms of reference for the working group, formally named as the 'County Farms Advisory Board' on 12 September 2014. The County Farms Advisory Board is a working group subject to the Working Groups Protocol, at Annex 2 of part 4.2 of the Constitution. It cannot take decisions, however, it can make recommendations to the Economic Development Sub-Committee.

- 1.13.** It should be noted that despite the delegation to the Economic Development Sub Committee to 'Review of performance and budget in relation to the above function (Oversight and Development of County Farms) (1.7 above) the financial reporting for revenue and capital expenditure for County Farms is already reported to the Policy and Resources Committee, as 'Property' is part of the Finance budget reporting. County Farms' Capital Receipts, Capital Receipts Reserve are both specifically mentioned in the 30 November 2015 report to Policy and Resources (pages 37 and 39). It is noted in that report, at part 8 (page 60), that the 'County Farms member working group oversees the co-ordination and management of the [County Farms] Capital Programme'. It should be noted again that the working group cannot make decisions, only make recommendations.
- 1.14.** It was reported on 26th November 2015 to the Economic Development Sub-Committee that (3.2) Capital – 'There are currently no approved capital schemes under the control of this Sub-Committee', so there is a lack of clarity in the Constitution and in the Capital monitoring notes. [Constitution Part 4.1(1)]
- 1.15.** The full Council has delegated responsibility for developing and monitoring the specific enabling corporate services, including finance and risk management, property and asset management to the Policy and Resources Committee. The full Council delegates the decision making responsibilities to the Policy and Resources Committee, in kind with those set out in 1.10 above. The County Farms function and the management of day to day performance sits in the Council's Finance Department, which reports to the Policy and Resources Committee. The Head of Property (Interim) is the responsible budget holder for the County Farms revenue and capital budgets set out on pages 158 and 161 of the Council's Budget Book 2015-18. The Head of Property should therefore control and authorise expenditure for County Farms in accordance with the budget limits approved by the Council.
- 1.16.** On 15th April 2015 the Managing Director asked that delegated decisions were to be reported to Policy and Resources Committee by the then Director of Finance. The reporting was to cover 'Property related decisions taken under the property hierarchy of decision making; and decisions taken by Chief Officers under delegated powers following consultation with the Chairman of Policy and Resources Committee. This is now in place.
- 1.17.** The Managing Director exercises the Council's functions relating to County Farms in accordance with the Schedule of delegations of Chief Officers' powers, Managing Director, Section B – Specific Delegation (Part 6.2, Page 14) and with the Financial Regulations, in part 7.7 of the Constitution. Operational responsibility for the County Farms sits within the Corporate Property Team within the Finance Department. The Executive Director of Finance is responsible for the Corporate Property team.

1.18. The Head of Law has a sub-delegation from the Managing Director (see 1.17 above) in accordance with the Schedule of delegations of Chief Officers' powers, Managing Director, Section B – Specific Delegation (Part 6.2, Page 14), 'To review 1954 Act Leases on similar terms and on the best rent reasonably obtained, to grant and renew Farm Business Tenancy Agreements pursuant to the agricultural tenancies Act 1995 at the best rent reasonably obtained, to accept surrenders of leases on the best terms reasonably obtained, to grant way leaves and easements to statutory undertakers and for other such services on the best terms reasonably obtainable and to grant tenancies at will'. This is achieved in practice when the tenancy contracts are sealed by the Head of Law (Finding 7.2).

1.19. Other key messages are set out below:

- Reporting on the functions, delegated to the Managing Director (see 1.7 and 1.8), has not taken place, as she had requested (see Paragraph 3.13 and Finding 7.5)
- The County Farms policy should be reviewed in the light of the new 'Local Authority Rural Estate Asset Management Planning – Good Practice Guidance', which has been published recently by the Association of Chief Estates Surveyors & Property Managers in the Public Sector (ACES) supported by the Tenancy Reform Industry Group (TRIG). (Finding 7.18).

1.20. We have identified eighteen actions that can be taken to address the weaknesses by the end of June 2016. These are divided as follows:

High Priority Finding	11
Medium Priority	7

The Council's future plans for Good Governance of County Farms

1.21. Following reporting this audit, the Executive Director of Finance will ensure that the action plan to implement this report's recommendations, at part 7, are completed timely.

1.22. Recommendations to be made to the Constitution Advisory Group to clarify the governance of County Farms, as set out in the Constitution to ensure clarity in the decision making process and where responsibilities and authority rests.

1.23. The performance and governance of County Farms will, going forward, be reported to Members as required by the Constitution.

- 1.24.** An audit of the Operational Controls for County Farms has been included in the proposed Internal Audit Plan for 2016-17.

2. Introduction

- 2.1.** In September 2008 the Council's then Cabinet Scrutiny Committee received a report from a working group that had considered the County Farms function. This report then went to the then Cabinet on 2 March 2009 with minor changes where it was approved. A number of recommendations were made that informed the County Farms Management Policy. The recommendations included:

- Recommendation 29

A separate 'County Farms Panel' should be established to take over the current remit of the Property Advisory Panel with regard to the Estate, and this new panel should include tenant farmer representatives.

- Recommendation 30

The new 'County Farms Panel' should be consulted on all matters concerning the allocation, renewal or termination of tenancies, disposal of assets or tenant grievances and complaints. It should also keep under review the management of the contract between the County Council and its land agents and monitor progress in implementing the working group's recommendations. The panel should report progress and any concerns that may warrant further scrutiny to the Corporate Affairs Review Panel.

- 2.2.** In the autumn of 2013, the Council's then Corporate Resources Overview and Scrutiny Panel decided that, given the need to make the most of the Council's assets to generate income where ever possible, it was timely to investigate the current and potential financial contribution that the estate could make. It was therefore agreed to set up a working group to scrutinise this topic. Evidence was considered and recommendations were made in a report to the Economic Development Sub-Committee on 24 June 2014. The Sub-Committee resolved that, 'the County Farms Working Group be re-established in order to review the County Farms policy'.
- 2.3.** In 2010 the management of the estate to the west of the A10 corridor was put out to tender, while Norfolk Property Services Consultancy Ltd (part of the Council's wholly owned Norse Group Ltd) retained management of the Eastern sector. The contract for managing the western sector was subsequently awarded to Bruton Knowles, working with Brown and Co., following a formal open competitive tendering process. Those contracts expired in September 2015 and from October 2015 all estates have been managed in-house. That decision was not put to or agreed by the Managing Director.

- 2.4.** The Corporate Property Client Team was proposed to the then Chief Officers Group (COG) in November 2014 for approval. Approval was sought from the then COG for the recruitment process to proceed, to enable the team to be created and to extend the then current interim Head of Property arrangements until 31 March 2015. It was proposed and agreed that there was a single property 'Estates' client officer within Finance whose primary focus is the County Farms estate. The grade for the Head of Property post was agreed by Personnel Committee in June 2014.
- 2.5.** While the Managing Director is given the specific role to exercise the Council's functions relating to County Farms in the Council's Constitution, the full Council has delegated the 'Oversight and Development of County Farms' to the Economic Development Sub-Committee. The Sub-Committee agreed terms of reference for the working group formally named as the 'County Farms Advisory Board' on 12 September 2014. The County Farms Advisory Board cannot take decisions. It can make recommendations to the Economic Development Sub-Committee.
- 2.6.** This audit has been undertaken as part of the 2015-16 Audit Plan, which was agreed by the Audit Committee at its meeting on 24 September 2015. The purpose of the audit is to provide an assessment and opinion of the overall control environment for management. This opinion is based on our evaluation of how the identified risks are mitigated by adequate controls within the system. The Terms of Reference for this audit, Appendix A, were agreed with the Executive Director of Finance.
- 2.7.** This report details the assurance we have obtained for each audit objective and details the findings and recommendations emanating from this work. It has been confirmed the scope of the audit has met the client's expectations.
- 2.8.** With reference to these findings management is requested to undertake the actions identified in Section 4 of this report. It is the responsibility of the Executive Director of Finance to ensure the recommendations are implemented within the agreed timescales. The implementation of recommendations with regards to High Priority Findings is monitored by Norfolk Audit Services and delays are reported to the Audit Committee.
- 2.9.** Confirmation has been received (to be confirmed) that the scope of the work undertaken and reported in this report has met client's expectations in terms of scope.

3. Summary and Conclusions

- 3.1.** The executive summary of this County Farms Governance audit, including key recommendations, some further recommendations and the audit opinion, is detailed in Section 1.
- 3.2.** The conclusions below are referenced to the audit objectives in the terms of reference for the audit (**Appendix A**).
- 3.3.** Transparency and accountability for the County Farms is essential to demonstrate that it is a productive and well managed asset, enhancing the Council's ambitions and reputation. (Appendix A 5.1.3).
 - 3.3.1.** The policy and procedures need to be reviewed (7.4). The County Farms Policy and procedures are not fit for purpose. Criteria for decisions, arrangements and reporting for the promotion of tenants to larger farms, outside of competitive tenders, are inadequate. The Hierarchy of Decision making on Property matters procedures (June 2014) (which reference County Farms decisions) need significant additions and changes to meet the requirements of the Constitution. (Finding 7.3) The reporting to cover 'Property related decisions taken under the property hierarchy of decision making; and decisions taken by Chief Officers under delegated powers following consultation with the Chairman of Policy and Resources Committee is now in place. (Appendix A 5.1.2)
 - 3.3.2.** The Economic Development Sub-Committee is responsible and accountable for the oversight and development of County Farms. Officers should prepare written reports to this sub-committee on the performance and decisions taken with regard to the County farms. (Finding 7.5) Reporting from the County Farms Advisory Board to the Economic Development Sub Committee has not enhanced understanding and accountability within the organisation. When it has taken place, reporting has been verbal, from the Chairman of the County Farms Advisory Board, rather than by formal reports from officers with clear recommendations. The reporting has not clearly set out how the ambitions and goals of the function based on its terms of reference, are being met, performance towards them and accountability. (Ref. Finding 7.5) (Appendix A 5.1.5). Consideration should be given to reviewing the County Farms Policy in this respect.
- 3.4.** The Terms of Reference for the County Farms Advisory Board were unclear on what is meant and expected regarding (9) '..will consider and may make recommendations on...the strategic management plans for each estate may consider ..allocations'. This has been taken to mean the selection of tenants for the farms, which is covered by a procedure. The September 2014 report to the Economic Development Sub-Committee set out proposed changes to the County farms Policy (Annex 2 to that report) and the reference to 'allocation' was omitted (Finding 7.6) (Appendix A, 5.1.5)

- 3.5.** The allocation of 'promotional' farms to existing tenants (without competition) is not transparent or accountable and the Council could be open to accusations of impropriety or conflict of interest. Such transactions have not been reported formally to the Managing Director or the Economic Development Sub-Committee. The process, criteria and authorisation for allocating, 'Holdings identified as being suitable as promotional farms may be offered in the first instance to existing tenants of the County Farms estate..', is not clearly set out in the Farm Re-Letting Policy, so the transparency of not going to open tendering may be questioned. (Finding 7.7)
- 3.6.** The phrasing in the 12 September 2014 report to the Economic Development Sub-Committee, '(3) that it is noted that the Board has agreed', does not sit with its role as a Working Group. (Finding 7.8) (Appendix A, 5.1.5)
- 3.7.** A farm lettings tender procedure is in place and being operated. Further strengthening is required in the use of the forms used to record information at the interview process. From our audit testing of one farm vacancy we found the forms were not completed fully to support the decision made. Reasons and decisions for awarding the tender to a particular applicant were also not recorded. (Finding 7.9) The NCC policy framework approved in September 2014, by the Economic Development Sub-Committee, is not included in the 'Guide for prospective tenants' and prospective tenants are not asked to link their applications to this policy's aims and objectives. (Finding 7.10) The evaluation of potential tenants for the Eastern Estates is only undertaken by the Land Agent. Brown and Co evaluated and prepared a shortlist for some lettings on the Western Estates. A second person is not involved in the completion of a shortlist for interview for Eastern Estate lettings, so there is no internal checking. (Finding 7.11) Decisions about who to award the tenancy are with the interview panel, which had been made up of NCC officers, Members and Tenant Representatives in some cases, until the Re-letting Policy and procedure was changed to remove them in October 2015 by the County Farms Team. Feedback given to unsuccessful applicants may be questioned and misleading errors were identified for such letters for the Stow Estate lettings in 2015. (Appendix A, 5.1.1)
- 3.8.** Regular monitoring and farm tenant management of tenants is not carried out to ensure compliance with rental agreements (Finding 7.12). The monitoring which does take place is mainly on a reactive basis. Further strengthening is required to ensure all tenants are compliant with their Farm Business Tenancies (FBT'S). From discussions with the Land Agent any potential issues of non-compliance would be investigated and resolved by him. He stated the County Farms Advisory Board would then be notified of any such issues, however with no minutes recorded this cannot be tested. No such reports have been issued to the Managing Director. The Managing Director, who is delegated to exercise the County Farms function, is not party to this operational reporting. (Appendix A, 5.1.1)

- 3.9.** Complaints are discussed at the County Farms Advisory Board meetings. There is no formal system in place for collating the number, nature and outcomes of complaints. The Board is not always demonstrating transparency and its intention to, 'improve relationships between tenants and the County Council to improve greater transparency in decision making'. The Board Agenda includes 'Estates Management & Tenancy Issues' but there was no written officer report from the Corporate Property team at its 24th September meeting. Such a report could outline any compliments or complaints that had been received regarding County Farms and how they have been resolved. Complaints were raised at the 7 August 2015 and 26 May 2015 meetings. There is no clear process where complaints will be escalated to the Corporate Compliments and Complaints procedure. The Managing Director, who is delegated to exercise the County Farms function, is not party to this operational reporting. The Good Practice Guidance suggests, at stage 5, stakeholder consultation (options and policies buy in). (Finding 7.13) (Appendix A, 5.1.1)
- 3.10.** Conflicts of interest declarations are not identified by NCC staff, Members and Tenant Representatives at County Farms Advisory Board meetings and as part of the re-letting process or during procurement. (Finding 7.14) (Appendix A, 5.1.1)
- 3.11.** Procedures were not tested as part of this audit. The re-letting procedure has not been formally approved. A documented procedure for carrying out rent reviews is not in place. (Finding 7.15) (Appendix A, 5.1.2)
- 3.12.** Responsibilities for the management of County Farms are fragmented and unclear and due process has not been followed (Finding 7.2). (Appendix A, 5.1.3)
- 3.13.** Effective monitoring of performance against the County Farms Policy is not in place (see 3.2). Our audit testing confirmed reports are produced by officers and presented to the County Farms Advisory Board on a monthly basis. Verbal updates are provided by the Chairman of the County Farms Advisory Board to the Economic Development Sub-Committee. The Executive Director of Finance should be the author of County Farm reports to the relevant Committee.
- 3.14.** There is no annual report presented to either the Board or the Sub-Committee. (Finding 7.5) Management meetings of officers are minuted with action plans however these could be strengthened by clear deadlines being allocated to actions and confirmation in the minutes that previous actions have been completed. (Appendix A, 5.1.4)
- 3.15.** Appropriate use of resources and value for money is not reported, for example in an Annual Report, for the management of County Farms (Finding 7.5). (Appendix A, 5.1.6 and 5.1.7)

- 3.16.** Voids and rents are actively managed. The Land Agent confirmed that currently there are no vacant farms and as soon as they are made aware of a vacancy the re-letting process is instigated. (Appendix A, 5.1.8)
- 3.17.** County Farms has a stated policy that: Subletting outside the terms of the tenancy shall be actively discouraged. There is a policy that the landlord (the Council) should be advised of sublets of farm houses. There is uneven application of subletting of land. Officers have no knowledge of and do not hold details where tenants have sublet County Farm property, of approval being given or who the tenancy was sublet to. Officers have not reported to the Sub-Committee or the County Farms Advisory Board the compliance of cases where the present tenancy agreement template allows for, '....with the written consent of the Landlord the tenant may let the dwelling to an agreed named third party on an assured short hold tenancy under the provisions of the Housing Act 1996 or any statutory modification thereof for a fixed term not exceeding six months at a full market rent subject to any conditions specified in writing by the landlord'. The County Farms Policies need to be fully reviewed (Finding 7.16).
- 3.18.** Exceptions, where procedures have not been followed or errors, are not always identified, investigated and followed up in a timely manner. Evidence of significant failure to meet the Council's Customer Care standards have been noted (Finding 7.17). (Appendix A, 5.1.9)
- 3.19.** The report has been completed on an exception basis, only those areas with control weaknesses have been reported upon in detail.
- 3.20.** Conflicts of Interest are not being declared, that includes for the Open Tendering panel and officer procurement. The lack of conflict of interest records and weak internal check in the shortlisting process increase the risk of fraud or corruption.
- 3.21.** It is the Executive Director of Finance's responsibility to ensure satisfactory progress is achieved in an acceptable timeframe in order to ensure suitable controls are in place.
- 3.22.** The detailed findings, views, and recommendations from the audit are shown in section seven of this report.

4. Actions required

- 4.1. The Executive Director of Finance should be informed where a recommendation is not to be implemented, as it will be assumed that the associated potential implications have been accepted. The approval of the final draft is considered as evidence that the Executive Director or a delegated Senior Manager has approved the proposed action plan, including where a recommendation has not been accepted.
- 4.2. The Department Management Team should be notified of the opinions provided in this report and any recommendations identified as “high priority” so that the following can be undertaken:
- Consideration given to the inclusion of identified risks in the Corporate or Department Risk Registers
 - Reporting the findings of the review and subsequent actions taken by management to the relevant Committee for consideration
 - Consideration given to the inclusion of identified findings in the Governance Assurance Statement, together with actions agreed and/or taken
- 4.3. The recommendations identified in this report should be implemented within a reasonable timescale on a risk assessed basis. It is not always possible for Internal Audit to prescribe a specific timescale by which a recommendation should be implemented. However as a general rule, it is expected that the following timescales will be adopted:

Grading	Default expected timescales
High	Resolution within one month of the issue of the final report
Medium	Resolution within six months of the issue of the final report

- 4.4. As part of the drive to increase transparency and accountability it has been agreed with the County Leadership Team that a Quarterly Internal Audit performance report will be taken to the Audit Committee. Corporately Significant High priority findings from audit reports will be reported to the County Leadership Team and a table of findings, showing progress status, will be reported to the Chair of the Audit Committee each quarter. Moreover, high priority findings which have not been addressed within the agreed timeframe will be reported to the Audit Committee public meeting each quarter.

5. Statement of Responsibilities

- 5.1 Internal Audit takes responsibility for this report, which is prepared on the basis of the limitations set out below. The audit has been conducted in accordance with the Public Sector Internal Audit Standards.
- 5.2 The matters raised in this report are only those which came to our attention during the course of our internal audit work, and are not necessarily a comprehensive statement of all weaknesses that exist or all improvements that might be made. Any recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of internal audit work is not, and should not be taken as, a substitute for management's responsibilities for the application of sound management practices.
- 5.3 It is emphasised that the responsibility for a sound system of internal control rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses that exist.
- 5.4 Internal audit work should not be relied upon to identify all circumstances of fraud or irregularity should there be any, although audit procedures have been designed so that any material irregularity has a reasonable probability of discovery. Even sound systems of internal control may not be proof against collusive fraud. Audit work is based on sampling transactions to test the operation of systems.
- 5.5 Internal audit procedures are designed to focus on areas as identified by management as being of greatest risk and significance. Effective implementation of any recommendations by management is important for the maintenance of a reliable internal control system.

6. Audit Opinion

6.1. We are required to give an overall opinion in each audit report and to report the results to the County Leadership Team and the Audit Committee.

6.2. Our overall audit opinion is based on two grades which are explained in the table below:

Opinion	Assessment of internal control
Acceptable	Few or no weaknesses, mostly not significant
Key issues that need to be addressed	A number of weaknesses, mostly significant or one or more major weaknesses

6.3. Our opinion, based on the evidence we have seen as part of this audit, is that internal controls for County Farms have **'Key issues that need to be addressed'**.

7. Detailed Findings, Audit Views, Recommendations, Priority, Agreed Action Plan and Who and When

Ref.	Findings	Audit View	Recommendation	Priority	Agreed Action Plan	Who and When
7.1	<p>Clarity of the Constitution in relation to County Farms Governance</p> <p>The Constitution is unclear in relation to the role of the Policy and Resources Committee, the Economic Development Sub-Committee, the Managing Director, decision making by members and performance and overview of the County Farms function.</p>	Where decision making, responsibilities, authority and reporting are not clear then there is increased risk that errors, omissions, fraud or the misuse of public funds could take place.	<p>To resolve the present duplication in decision making that the Council is asked to consider, in accordance with the Council's provisions for changes to the Constitution,</p> <p>- Placing of County Farms functions of decision making with the Policy and Resources Committee; and</p>	High	Agreed.	<p>Executive Director of Finance</p> <p>31 August 2016</p>

Ref.	Findings	Audit View	Recommendation	Priority	Agreed Action Plan	Who and When
	<p>The Committee delegation in the Constitution is not clear and need clarifying. As Policy and Resources oversees Property this is the logical place for oversight and performance for County Farms. The Managing Director recommended that to the review of the Council's Constitutional arrangements for where authority for County Farms should rest however these were not accepted at the time.</p> <p>The Financial Regulations in the Constitution did not recognise the establishment of a Corporate Property Client. This has now been resolved in a report to Full Council.</p>		<p>- should it be decided to continue with the County Farms Advisory Board the role should be of scrutiny of operational decisions, reporting back to Policy and Resources Committee, as part of an annual review and make required recommendations</p> <p>Any changes to the Constitution should trigger changes in the procedures that support it.</p>			

Ref.	Findings	Audit View	Recommendation	Priority	Agreed Action Plan	Who and When
	The responsibilities of the Managing Director, the Executive Director of Finance and the Head of Property (Interim) are not clear.		The Managing Director to review (in consultation with the Executive Director of Finance) how the Council's functions relating to County Farms are exercised, including the selection of tenants, the allocations of County Farms assets and estate strategies and to make recommendations to the Policy and Resources Committee.	High	Agreed	Managing Director and Executive Director of Finance 31 August 2016
7.2	Constitutional Compliance The County Farms Advisory Board is not functioning as intended, it is not following the processes it is required to under the Constitution and as a result the governance of the County Farms lacks clarity.	Without clear controls there is an increased opportunity for fraud and the misuse of public assets. (1.12)	The decisions of the Managing Director in relation to the County Farms function to be reported to the Policy and Resources Committee.	High	Agreed.	Executive Director of Finance (in consultation with the Managing Director) by 31 st August 2016

Ref.	Findings	Audit View	Recommendation	Priority	Agreed Action Plan	Who and When
	<p>Since 12 September 2014, the County Farms Advisory Board has not been taking recommendations to the Economic Sub-Committee or the Managing Director as it is required to do in the Constitution. (1.12)</p> <p>Examples include estate strategies, the Thurn Estate (March 2015 County Farms Advisory Board meeting) and the selection of new tenants (Stow Estate).</p>		<p>The governance processes agreed for County Farms need to be reported by the Executive Director of Finance to the relevant Committee. (1.13)</p> <p>A report with recommendations should be prepared by the Executive Director of Finance and presented to the relevant Committee. (1.13)</p>		Agreed.	

Ref.	Findings	Audit View	Recommendation	Priority	Agreed Action Plan	Who and When
	The County Farms Advisory Board has directed officers, in the County Farms team, on the selection of tenants, the allocation of County Farms' assets and estate strategies. It has not made recommendations on these matters, either to the Managing Director, the Executive Director of Finance or the Economic Development Sub-Committee as appropriate. (1.9, 1.10 and 1.12)		Before an offer is made to a prospective County Farm tenant, leases to be approved in accordance with the Constitution, for the avoidance of doubt, this will mean that Members no longer have a direct role in the selection of tenants. The Head of Law should obtain appropriate advice and review relevant documentation to ensure that agreed criteria have been met. (1.19)		Agreed	Head of Law From 19 January 2016

Ref.	Findings	Audit View	Recommendation	Priority	Agreed Action Plan	Who and When
7.3	<p>Professional Officer Advice</p> <p>County Farms' officers have exercised the Council's functions relating to County Farms, on behalf of the Managing Director, without reference back to or further approval from line management, the Head of Law or the Managing Director who has delegation to exercise the County Farms functions, leading to the risk of significant reputational damage to the Council. (1.10)</p>	Members and the Managing Director may not be adequately supported in the processes leading to reputational damage.	<p>The Executive Director of Finance should ensure that appropriate professional advice is maintained.</p> <p>Clear executive advice should be agreed and recorded where the Managing Director delegates certain duties to the Executive Director of Finance and the Head of Law for legal property contract matters.</p>	High	Agreed	<p>Executive Director of Finance</p> <p>by 31st August 2016</p>

Ref.	Findings	Audit View	Recommendation	Priority	Agreed Action Plan	Who and When
	<p>Disposals reports, prepared by Norfolk Property Services Consultancy Ltd are sent to the Managing Director for approval by the County Farms Team, however these sometimes lack sufficient information.</p> <p>The Managing Director requested:</p> <ul style="list-style-type: none"> A Business Plan be produced by the Corporate Property Team. This was not forthcoming 		<p>Once the Constitutional position has been confirmed the Managing Director's role and authority for County Farms, as included in the Financial Regulations and then the Hierarchy of Decisions for Property Procedures should be clarified. (1.13)</p> <p>The Business Plan for 2016-17 should be completed timely by the Head of Property (Interim) and reported to the appropriate Committee.</p>	<p>High</p> <p>High</p>	<p>Agreed.</p> <p>Agreed</p>	<p>Executive Director of Finance</p> <p>by 31st August 2016</p> <p>Executive Director of Finance</p> <p>by 31 August 2016</p>

Ref.	Findings	Audit View	Recommendation	Priority	Agreed Action Plan	Who and When
	The Hierarchy of decision making on property matters procedures (June 2014), mentioned in the Council's Financial Regulations, describe the arrangements set out in the Financial Regulations as a practical guide to officers, require significant additions and changes to fully meet the requirements in the present Constitution.		<p>The details of interim changes required (pending any Constitutional changes) for the Hierarchy of decision making on property matters procedures (June 2014) have been reported to the Head of Property (Interim) and these should be actioned timely.</p> <p>Any 'interim' Hierarchy of decision making on property matters procedures should be approved by the Executive Director of Finance.</p>			
7.4	<p>Policy and Procedures</p> <p>The County Farms Policy and procedures are not fit for purpose.</p>	Inadequate policies and procedures can lead to errors, financial and reputational damage and a lack of transparency.	The County Farms Policy and procedures need to be fully reviewed and approved by the relevant Committee.	High	Agreed.	Head of Property (Interim) and Executive Director of Finance

Ref.	Findings	Audit View	Recommendation	Priority	Agreed Action Plan	Who and When
	Criteria, arrangements and reporting for the promotion of tenants to larger farms are inadequate. (3.2.1)		Criteria, arrangements and reporting for the promotion of tenants to larger farms need to be strengthened.			by 31 st August 2016
7.5	<p>Reporting</p> <p>The Economic Development Sub-Committee is responsible and accountable for the oversight and development of County Farms.</p> <p>Officers do not routinely prepare reports to Policy and Resources Committee on the performance and decisions taken with regard to the County farms.</p>	Members may not be aware of the full picture and position regarding County Farms.	<p>Consideration should be given by the Managing Director (in consultation with the Executive Director of Finance) to:</p> <ul style="list-style-type: none"> - reporting being strengthened by an Annual County Farms Plan, with accountable officers and timescales identified, authored by the Executive Director of Finance. 	High	Agreed.	<p>Executive Director of Finance</p> <p>by 31st August 2016</p>

Ref.	Findings	Audit View	Recommendation	Priority	Agreed Action Plan	Who and When
	<p>The Executive Director of Finance should be the author of County Farm reports to that Committee.</p> <p>Reporting to the Economic Development Sub-Committee from the County Farm Advisory Board tends to be verbal, from the Chairman of the Board, rather than by formal reports from officers with clear recommendations.</p> <p>The reporting does not clearly set out the goals of the function i.e. what it can do, based on its terms of reference, performance towards them and accountability.</p>		<ul style="list-style-type: none"> - A County Farms Annual Report be prepared and presented by officers to the relevant Committee, authored by the Executive Director of Finance. 		Agreed.	<p>Executive Director of Finance</p> <p>by 31st August 2016</p>

Ref.	Findings	Audit View	Recommendation	Priority	Agreed Action Plan	Who and When
	<p>No annual report has ever been presented to either the Board or Sub-Committee. We understand annual reports will be prepared from November 2015.</p> <p>(3.2.2)</p>					

Ref.	Findings	Audit View	Recommendation	Priority	Agreed Action Plan	Who and When
7.6	Terms of Reference The Terms of Reference for the County Farms Advisory Board do not clearly state what is meant and expected regarding (point 9) ‘..will consider and may make recommendations on...the strategic management plans for each estate may consider ..allocations’. This is taken to mean the selection of tenants for the farms, which is covered by a ‘Lettings’ procedure.	Members and Officers may be open to accusations of impropriety or conflict of interest over the procedure used for allocating tenants.	As per 7.2. A report with recommendations should be prepared by the Executive Director of Finance and presented to the relevant Committee.	High	Agreed.	Executive Director of Finance by 31 st August 2016

Ref.	Findings	Audit View	Recommendation	Priority	Agreed Action Plan	Who and When
	The September 2014 report to the Economic Development Sub-Committee set out changes to the County farms Policy (Annex 2 to that report) and the reference to 'allocation' was omitted. (3.3)					
7.7	Allocating Holdings The process, criteria and authorisation for allocating, 'Holdings identified as being suitable as 'promotional farms' may be offered in the first instance to existing tenants of the County Farms estate..', is not clearly set out in the Farm Re-Letting Policy. (3.4)	The transparency and not going to open tendering may be questioned. The Council could be open to accusations of impropriety or conflict of interest.	As per 7.2. A report with recommendations should be prepared by the Executive Director of Finance and presented to the relevant Committee. Details should be entered into the Farm Re- Letting Policy regarding the process criteria and authorisation for allocating holdings, not open competitively.	High	Agreed.	Executive Director of Finance by 31 st August 2016

Ref.	Findings	Audit View	Recommendation	Priority	Agreed Action Plan	Who and When
7.8	Role of the County Farms Advisory Board In reports to the Economic Development Sub-Committee, the phrasing in the 12 September 2014 report to the Economic Development Sub-Committee, <u>'(3) that it is noted that the Board has agreed'</u> , does not sit with its role as a Working Group. (3.5)	Members and Officers are acting out of their scope..	The Executive Director of Finance should ensure Members and Officers are made aware of their roles and responsibilities, especially regarding decision making under the Consitution.	High	Agreed.	Executive Director of Finance by 31 st August 2016
7.9	Interviewing and selecting tenants Records were found to be incomplete for selection of tender applicants. There is inconsistency in the shortlisting criteria that were used.	In the event of a challenge by a third party, the Land Agent and interview panel may be unable to effectively demonstrate how they have reached their decisions	As per 7.2. A report with recommendations should be prepared by the Managing Director and presented to the relevant Committee.	High	Agreed.	Executive Director of Finance by 31 st August 2016

Ref.	Findings	Audit View	Recommendation	Priority	Agreed Action Plan	Who and When
	<p>We also found three of the five 'Farm Interview Scoring Matrix' forms were not completed with the interviewers name and it was not clear who the Chairman of the interview was.</p> <p>Three forms did not also include scores for all applicants.</p> <p>Reasons and decisions for awarding the tender to a particular applicant were not recorded. (3.7)</p>	<p>and how they have complied with procedures.</p> <p>The Council could be open to accusations of impropriety or conflict of interest.</p>	<p>All relevant forms should be completed accurately, with all details and reasons for decisions included. The interviewers name should be clearly stated along with who the Chairman of the interview was.</p>			
7.10	<p>Policy framework and Guidance</p> <p>The 'Guide for prospective tenants' does not include the up to date policy and</p>	<p>Policies and guidance that are unclear or out of date may lead to errors or omissions.</p>		Medium	Agreed.	<p>The Head of Property (Interim)</p> <p>By 31st August 2016</p>

Ref.	Findings	Audit View	Recommendation	Priority	Agreed Action Plan	Who and When
	<p>reflect current practices.</p> <p>Not all tenants may be aware of the Council's policy framework for managing the Estate.</p> <p>As part of the re-letting process tenants are not asked to link their application to the policy objectives.</p> <p>The scoring process is not clearly described in the guidance. (3.7)</p>		<p>The Head of Property (Interim) ensures The 'Guide for prospective tenants' is up dated to reflect the current policy and practices and that this is approved by the Policy and Resources Committee. Then all tenants are made aware of the up to date Council policy framework.</p> <p>As part of the re-letting process tenants are asked to link their application to policy.</p>			
7.11	<p>Tender process</p> <p>Only one person was involved in the opening of Tenders and completing the process for</p>		<p>The Head of Property (Interim) should ensure two people involved in the tender opening and shortlisting process.</p>	High	<p>Agreed. This will be actioned for the next round of lettings.</p>	<p>The Head of Property (Interim)</p>

Ref.	Findings	Audit View	Recommendation	Priority	Agreed Action Plan	Who and When
	<p>shortlisting applicants for the 2015 Eastern Estate tenders.</p> <p>The date and time tenders are received was not recorded for the Eastern Lettings 2015. (3.7)</p>	<p>Where only one person is involved in a process there is the risk of accidental or deliberate errors being made. .</p> <p>The Council could be open to accusations of impropriety or conflict of interest.</p> <p>Lack of evidence to support application submissions.</p>	<p>The date and time tenders are received should be recorded.</p>			<p>From next lettings.</p>
7.12	<p>Monitoring</p> <p>No regular monitoring and reporting takes place by the County Farms Team to ensure tenants are compliant with their farm business tenancy agreements (3.8).</p>	<p>NCC would not know if tenancy agreements are not being complied with. This could lead to financial loss or reputational loss.</p> <p>The Council could be open to accusations of impropriety or conflict of interest.</p>	<p>A regular monitoring system should be set up by the Head of Property (Interim) to ensure tenants are fully complying with their Farm Business Tenancies. If it is found that a tenant is acting outside of their agreement then the relevant Committee should be advised and</p>	Medium	<p>Agreed. Additional resources have been secured to support the Estates Management.</p>	<p>The Head of Property (Interim)</p> <p>From February 2016</p>

Ref.	Findings	Audit View	Recommendation	Priority	Agreed Action Plan	Who and When
			the Managing Director should decide upon a course of action to be taken, in line with the County farms Policy.			
7.13	<p>Complaints</p> <p>No system is in place for collating the number, nature and outcomes of complaints.</p> <p>The Board is not always demonstrating transparency and its intention to, 'improve relationships between tenants and the County Council to improve greater transparency in decision making'. The Board Agenda includes 'Estates Management & Tenancy Issues' but there was no written officer report from the Corporate Property team at its 24th</p>	<p>No analysis of complaints can be made and no assurance can be gained that a consistent approach for dealing with complaints is in place.</p> <p>The Council could be open to accusations of impropriety or conflict of interest.</p>	<p>The Head of Property (Interim) should introduce a system for collating the number, nature and outcomes of complaints to ensure a full understanding about areas of complaint are known.</p> <p>The performance and outcomes should be reported to the relevant Committee as part of the Annual Report and integrated into the Council's Compliments and Complaints process.</p>	Medium	Agreed.	<p>The Head of Property (Interim)</p> <p>System from 1 March 2016</p> <p>Reporting annually.</p> <p>Compliments and Complaints Team</p>

Ref.	Findings	Audit View	Recommendation	Priority	Agreed Action Plan	Who and When
	September meeting. Such a report could outline any compliments or complaints that had been received regarding County farms and how they have been resolved. Complaints were raised at the 7 August 2015 and 26 May 2015 meetings. There is no clear process where complaints will be escalated to the Managing Director and the Corporate Compliments and Complaints team and that procedure. (3.9)					
7.14	Conflicts of interest Conflicts of interest for Members and Employees are not included as an agenda item at County Farms Advisory Board meetings.		Conflicts of interest should be formally recorded and the Head of Service advised.	Medium	Agreed.	The Head of Property (Interim) From next meeting.

Ref.	Findings	Audit View	Recommendation	Priority	Agreed Action Plan	Who and When
	<p>They are also not acknowledged for Members or Employees as part of the re-letting shortlisting meeting and interview process.</p> <p>Conflicts of interest are not recorded regarding procurement activity for County Farms functions.</p> <p>As part of the application process prospective tenants are asked if they are related to or have a close personal relationship with any Councillor or employee of NCC. (3.10)</p>	<p>Where Members and NCC staff are not given the opportunity to formally acknowledge any conflict of interest it may lead to inappropriate decisions being made.</p> <p>The Council could be open to accusations of impropriety or conflict of interest.</p>	Members or employees with a conflict of interest should withdraw from decisions relevant to their declared interest.			

Ref.	Findings	Audit View	Recommendation	Priority	Agreed Action Plan	Who and When
7.15	<p>Procedures</p> <p>The re-lettings procedure used has not been formally approved.</p> <p>No documented procedure in place for carrying out rent reviews.</p> <p>We understand various procedures, including the above, had been drafted in 2010 but were never formally approved. (3.11)</p>	<p>Incorrect or inconsistent processes may be followed.</p> <p>The Council could be open to accusations of impropriety or conflict of interest.</p>	<p>The Head of Property (Interim) should decide which procedures are appropriate for the effective running and management of the County Farms.</p> <p>These should be updated to reflect current practice, approved by the relevant Committee and circulated to the relevant staff.</p> <p>Compliance with the procedures should be reported to the relevant Committee.</p>	Medium	Agreed.	<p>The Head of Property (Interim)</p> <p>By 31st August 2016</p>
7.16	<p>Sub-letting Policy Monitoring</p>	<p>Where policies are unclear that may lead to the risk of errors, omissions or misuse of public funds.</p>	<p>A clear unambiguous policy is required.</p>	High	Agreed.	<p>The Head of Property (Interim)</p> <p>By 31st August 2016</p>

Ref.	Findings	Audit View	Recommendation	Priority	Agreed Action Plan	Who and When
	<p>Officers have no knowledge of, and do not hold details of, where tenants have sublet County Farm property or land, of approval being given or who the tenancy was sublet to.</p> <p>The County Farm Advisory Board has a stated policy that: Subletting outside the terms of the tenancy shall be actively discouraged. It is not clear what that means and its implications.</p> <p>Officers have not reported to the Sub-Committee or the County Farms Advisory Board the compliance of cases where:</p>	<p>The Council could be open to accusations of impropriety or conflict of interest.</p> <p>Tenants may enter into inappropriate legal agreements with sub-tenants that may lead to financial or reputational loss to the Council.</p>	<p>The County farms Sub Letting Policy needs to be fully reviewed by the Head of Property (interim) and approved by the relevant Committee.</p> <p>Compliance with the procedures should be reported to the relevant Committee.</p>			

Ref.	Findings	Audit View	Recommendation	Priority	Agreed Action Plan	Who and When
	<ul style="list-style-type: none"> - the present tenancy agreement template allows for, '....with the written consent of the Landlord the tenant may let the dwelling to an agreed named third party on an assured short hold tenancy under the provisions of the Housing Act 1996 or any statutory modification thereof for a fixed term not exceeding six months at a full market rent subject to any conditions specified in writing by the landlord', or - Land is sub let (Contract Farming) (3.16) 					

Ref.	Findings	Audit View	Recommendation	Priority	Agreed Action Plan	Who and When
7.17	<p>Exceptions</p> <p>Exceptions, where procedures have not been followed or errors, are not always identified, investigated and followed up in a timely manner. (3.17)</p> <p>Evidence was noted of:</p> <ul style="list-style-type: none"> - significant failure to meet the Council's Customer Care standards relating to responses to customer's letters and phone calls - Incomplete tendering score forms 	<p>The Council may risk financial or reputational loss where persistent errors are not investigated and resolved.</p> <p>The Council could be open to accusations of impropriety or conflict of interest.</p>	<p>Staff should be reminded by the Head of Property (Interim) that any errors or exceptions from procedures that are identified should be logged, reported and investigated.</p> <p>Staff should be reminded of the requirements of the Council's Customer Care Standards.</p>	Medium	Agreed	<p>The Head of Property (Interim)</p> <p>By 1 March 2016</p>

Ref.	Findings	Audit View	Recommendation	Priority	Agreed Action Plan	Who and When
7.18	Good Practice Guidance It has been noted that Local Authority Rural Estate Asset Management Planning – Good Practice Guidance has been published by Association of Chief Estates Surveyors & Property Managers in the Public Sector (ACES) supported by the Tenancy Reform Industry Group (TRIG). (1.20)	Best practice advice should be noted and exploited.	The Head of Property (Interim) should consider the guidance and develop an action plan to be approved by the relevant Committee.	Medium	Agreed	The Head of Property (Interim) By 31 st August 2016

Adrian Thompson, Chief Internal Auditor
Norfolk Audit Services
18 April 2016

Norfolk Audit Services

Governance Arrangements within County Farms 2015-2016

1. Introduction

- 1.1 This document sets out the Terms of Reference for the audit of governance arrangements within County Farms. The audit is to be carried out by Norfolk Audit Services (NAS).
- 1.2 The audit is part of the 2015-2016 audit plan.
- 1.3 NAS supports the Council's Strategic Ambitions and corporate priorities as defined in the Putting People First blueprint. NAS also supports the delivery of the Finance Department's Service Plan 2015-18.
- 1.4 This audit aims to support the above through providing assurance in support of the following objectives:

Putting People First corporate priorities

- Good Infrastructure

Finance Service Plan priorities

- Priority: 1. Enhance financial performance, understanding and accountability within the organisation
- Priority: 2. Enable the organisation to act swiftly, innovatively and effectively to be confident the Council's resources are utilised efficiently

Re-imagining Norfolk

- Strong governance and performance management

2. Background

- 2.1 NCC have 16,000 acres or more of farmland (estate) in Norfolk which are rented to over 145 tenant farmers. The management of the estate is split in half with the eastern half being managed by NPS Group and the western half being managed by Bruton Knowles and Brown & Co. A policy for County Farms was approved in 2010 and this was revised in September 2014. [NB:- This has since been taken back in-house.]

- 2.2 The NCC Working Constitution states that one of the Economic Development Sub committee's specific function is to provide oversight and development of County Farms.

Part of the County Farm policy is to, 'Provide the best professional standards in management of the contracts and of the Estate together with a close working relationship with the tenants to endeavor to meet their expectations and encourage sustainable farming methods to be adopted on the Estate.

- 2.3 In September 2014 a County Farms Advisory Board, comprising of Members and Officers was set up to act as an advisory group. Membership will be determined by the Economic Development Sub-Committee. The County Farms Advisory Board are expected to consider and make recommendations on County Farm policy matters and on the strategic management plans for each estate, including consideration of acquisitions, disposals and allocations, future investment strategy and monitoring the financial programme of the estate with the aim of ensuring greater transparency in decision making.

- 2.4 The County Farms are let and managed against a set of principles, set out in a brochure to prospective tenants. Tenancies are let by a tender process. Tenants will be subject to a letting agreement.

- 2.5 Ultimately, the purpose of the governance arrangements within County Farms audit is to provide assurance that the governance process is effective and ensures:

- The clarity of the constitutional requirements for County Farms
- The County Farms Advisory Board fulfill their terms of reference and meet relevant guidance; and
- That the County Farms function:
 - fulfills the requirements of the agreed County Farms policy
 - meets standards of conduct and codes of conduct
 - the activity represents appropriate use of resources; and
 - value for money is consistently and fairly demonstrated.

As such this topic is material and has a significant impact on the ability to deliver on NCC core objectives and the department's ability to deliver on its priorities.

- 2.6 No audits have previously been carried out on governance arrangements for County Farms.

3. Fraud and Corruption

- 3.1 Executive Directors are responsible for ensuring there are adequate and effective controls for the prevention and detection of fraud and corruption.
- 3.2 Findings identified from the audit will be presented as weaknesses that increase the risk of theft or fraud and general control weaknesses.

4. Risks

Our preliminary assessment of the risks has identified the following key risks as the most relevant for consideration in this audit:

4.1.1. Reputational and Financial Loss due to:

- The potential for an ineffective tender procedure. This includes an unfair allocation of the choice of tenant (including evaluation and decision making) and lack of evidence to support decisions and lack of feedback to all applicants
- The potential for a lack of monitoring of tenants being carried out to ensure compliance with tenancy agreements and lack of reporting of outcomes to the County Farms Advisory Board
- The potential for rent setting and recovery not in line with corporate policy
- The potential for complaints not being adequately dealt with and learnt from
- The potential for conflicts of interest not being identified, reported and appropriately dealt with

4.1.2. Procedures are not being consistently complied with, in accordance with agreed policy

4.1.3. Responsibilities for the management of County Farms not being clearly set out and understood

4.1.4. Effective monitoring and reporting is not taking place

4.1.5. The potential that County Farms Advisory Board is not fulfilling their Terms of Reference and not adequately reporting to Economic Development Sub-Committee

4.1.6. Appropriate use of resources not being in place for the management of County Farms

4.1.7. That value for money cannot be consistently and fairly demonstrated

- 4.1.8. Opportunities to maximise income from vacant properties is not being undertaken timely, consistently or in line with agreed policy
- 4.1.9. Exceptions not being identified, investigated, actioned or reported

5. Objectives and Scope

The objectives of the audit based on our preliminary assessment of the risks relevant to Governance arrangements – County Farms are to provide the Executive Director of Finance with reasonable assurance that:

5.1.1. Reputational and Financial loss are minimised due to:

- An effective tender procedure being operated. This includes a fair allocation of the choice of tenant (including evaluation and decision making) and retained evidence to support decisions and show feedback has been provided to all applicants
- Monitoring of tenants is carried out to ensure compliance with rental agreements and reporting of outcomes to the County Farms Advisory Board
- Rent setting and recovery is in line with corporate policy
- Complaints are adequately dealt with and learnt from
- Conflicts of interest are identified, reported and appropriately dealt with

5.1.2. Procedures are consistently complied with, in accordance with agreed policy

5.1.3. Responsibilities for the management of County Farms are clearly set out and understood

5.1.4. Effective monitoring and reporting is in place

5.1.5. The County Farms Advisory Board fulfills its Terms of Reference and adequately reports to the Economic Development Sub -Committee

5.1.6. Appropriate use of resources is in place for the management of County Farms

5.1.7. Value for money is consistently and fairly demonstrated.

5.1.8. Opportunities to maximise income from vacant properties is undertaken timely, consistently and in line with agreed policy

5.1.9. Exceptions are identified, investigated and followed up in a timely manner.

5.2 The scope of the audit will cover governance from September 2014 and ensure that officers and Members have clarity as to the decisions the County farms Advisory Board can and cannot make.

5.3 This is considered the extent of work needed to achieve this engagement's objectives.

6. Tasks

6.1 The project tasks are to:

- Meet with the auditee (and relevant officer(s)) to agree the audit approach and confirm the expectations of senior management for internal audit opinions and other conclusions
- Ascertain by interview, from procedures and documentation what systems are in operation, and assess whether procedures are adequate
- Use audit programme tests to establish that systems are operating in accordance with procedures and that good practice is being complied with. Consider whether technology based audit and other data analysis techniques should be applied
- Assess strengths and weaknesses of the systems operated and the levels of financial and management risk
- Remain alert throughout audit work to the risk of intentional wrongdoing, errors and omissions, poor value for money, non compliance with management policy and conflict of interest and include any issue noted as deemed appropriate
- Discuss the audit findings with the relevant managers as part of a planned audit closure meeting
- Prepare and issue a draft report for discussion which includes opportunities identified for making significant improvements to the activity's governance, risk management and controls processes.

7. Audit Opinion

7.1 We are required to give an overall opinion in each audit report, which take account of the expectations of senior management, the board and other stakeholders. These have been documented in the background section above. The Public Sector Internal Audit Standards recommend that satisfactory performance should be acknowledged and our reporting approach complies with this. The Public Sector Internal Audit Standards also require for us to report periodically to the County Leadership Team and the Audit Committee on significant risk exposures and control issues, including fraud risks and governance issues. The opinion will, therefore cover these elements.

7.2 Audit work is based on an assessment of risk management and/or sampling transactions to test the operation of systems. It cannot guarantee the elimination of fraud or error. Our opinion is based on the risk identified to the service and the authority as a whole, at the time of the audit.

- 7.3 Our overall audit opinion is based on two grades, which are explained in the table below:

Opinion	Assessment of internal control	Action required from the recipient - as agreed with the auditors
Acceptable	Few or no weaknesses, mostly insignificant	Remedial action required as risk assessed and agreed. Action against High Priority Findings will be followed up by NAS as due.
Key issues that need to be addressed	A number of weaknesses, mostly significant or one or more major weaknesses	Remedial action required as risk assessed and agreed. Action against High Priority Findings will be followed up by NAS as due.

8. Resources and Timescales

- 8.1 The job code for the audit will be AM 15-16 3.
- 8.2 The cost of assurance has been considered against the potential benefits and the audit has been allocated 12 days.
- 8.3 There will be appropriate and sufficient resources to achieve the engagement objectives based on our evaluation of the nature and complexity of the engagement and time constraints.
- 8.4 Target dates are:

Target	Date
Start fieldwork	21 September 2015
Issue Draft Report	(Approx 2 weeks after the planned completion of fieldwork, post planned completion of coaching notes)
Response to draft report including agreed action plan	(3 weeks of date of draft report)
Issue Draft Final Report	(2 weeks of return of completed action plan)
Approval of Draft Final report (including confirmation of adequate scope)	(2 weeks of date of draft final report)

Issue Final Report	(1 week after approval received)
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- 8.5 It is assumed that staff and management will be available as required and all documents will be made available to us in a timely manner.

9. Deliverables

- 9.1 After completion of the audit, a draft report will be prepared containing the audit findings, audit views and recommendations. The recommendations will be prioritised as 'High' or 'Medium'. An explanation of these priority levels is provided below:

High Priority A significant weakness that requires immediate attention

Medium Priority A less significant weakness that requires attention within six months.

- 9.2 The draft report will be issued to the Executive Director of Finance who will be responsible for the co-ordination of the preparation of an action plan. We will discuss the adequacy of the action plan submitted and our views on this matter will be included in the final report.
- 9.3 It is the Executive Director's responsibility in the audited areas to ensure that risk, internal and financial controls are being managed adequately and effectively and that action is taken against the weaknesses identified through this audit. High Priority Findings are reported to Council Leadership Team and progress with meeting agreed action plans is monitored. Exceptions to agreed deadlines will be reported to the Audit Committee in the public domain.

10. Terms of Reference agreement

These Terms of Reference have been agreed by:

- Simon George on behalf of the audited department; and
- Adrian Thompson on behalf of Norfolk Audit Services.

By agreeing these Terms of Reference, management has confirmed that the scope of the audit, as outlined in the above Section 4 and 5 of these Terms of Reference, meet their expectations in terms of audit scope.

Appendix B

Norfolk Audit Services

**Final report on
County Farms
Lines of Enquiry (as at 31st March 2016)**

18 April 2016

Report Contents:

1. Executive Summary
2. Conclusions
3. Internal Management Actions Required
4. Statement of Responsibilities
5. Audit Opinion
6. Findings from Lines of Enquiry, Risk, Recommendations, Action and Who and When
7. Terms of Reference

Executive Summary

- 1.1. This report, together with the County Farms Governance Audit report (**Appendix A**), makes recommendations to strengthen the fundamental requirements for sound and professional estate management for County Farms and urgent action has been agreed (at part six) to strengthen:
 - The Farm Business Tenancy Contracts and their enforcement,
 - The approval of Commercial Tenancy propositions
 - The Estate Management Procedures
 - Checks and balances
- 1.2. A number of complaints and allegations about the management of the Council's County Farms Service have been reported to the Executive Director of Finance since August 2015. More complaints and allegations followed media coverage of the separate Governance Audit of County Farms in November 2015. Responses will be given to those who made the complaints and allegations. Some complaints and allegations were found to be valid, some partially valid and others were not valid.
- 1.3. It is acknowledged, in this report, that the County Farms Service has not provided the standards of good practice and customer care that was expected and this report has an opinion that there are 'key issues that need to be addressed'. The reporting of decisions and activity has not been sufficiently clear to counter a perception by some tenants and the wider public that decisions may be unfair or subject to favoritism.
- 1.4. The complaints and allegations have been investigated and the general conclusions are set out in part two of this report. Recommendations have been made and actions have been agreed with the Executive Director of Finance and the Head of Property (Interim), which are set out in part six of the report.
- 1.5. The audit work has:
 - Not identified any potential criminal matters
 - Not identified any member misconduct
 - Not identified any potential breaches in Standards of Conduct for employees, except for a separate confidential disciplinary report which has been completed regarding the alleged actions of one County Farms employee.

- 1.6. There were 36 instances of complaints and allegations. Some complainants raised several complaints and some complaints were raised by more than one complainant. The matters cover the whole County Farms estate (Eastern and Western Estates) and fall into eight general categories, the most contentious being Customer Service and Farm Letting Transparency, as shown in Table 1 below:

Category	Number	%
Farm Letting Transparency	11	31
Customer Service	11	31
Procedures	6	15
Farm Business Tenancy Compliance	3	8
Reporting	1	3
Checks and Balances	1	3
Declarations of Interest	1	3
No further action	2	6
Total	36	100

- 1.7. The Council has 16,000 acres or more of farmland (estate) in Norfolk which are rented to over 145 tenant farmers. The management of the estate had been split in half with the eastern half being managed by NPS Group and the western half being managed by Bruton Knowles and Brown & Co. With the expiry of these contracts during late 2015 the function is now run in-house. A policy for County Farms was approved in 2010 by full Council. Revisions were proposed by a working group set up for that purpose by the Economic Development Sub Committee and approved by full Council on 20 October 2014.
- 1.8. The Council appreciates the comments and feedback from those who contacted us and those who have assisted with this work. Where relevant, a full response has been issued to the complainant (or drafted) and any other interested parties. This report covers audit work to 31st March 2016, the Council recognises that there may be further complaints and we always welcome further information, so that it can be investigated and action taken where appropriate. The Council's Chief Internal Auditor can be contacted on (01603) 222784 or by email at chief.internal.auditor@norfolk.gov.uk
- 1.9. With reference to the findings in this report, management is expected to undertake the actions identified in Section six of this report. It is the responsibility of Executive Director of Finance to ensure the recommendations are implemented within the agreed timescales.

Conclusions

- 1.10. The County Farms estate is held for the purposes of the Agriculture Act 1970. Section 39 of the Act states that the general aim is, having regard to the general interests of agriculture and of good estate management, to provide opportunities for persons to be farmers on their own account by letting small holdings to them.
- 1.11. Over the years, Farm Business Tenancies (FBTs) have been established under the relevant laws and are now let under the Agricultural Tenancies Act 1995. The 1995 Act enables all landlords, including statutory smallholdings authorities, to let land for whatever duration they wish under FBTs and enables councils to let land on a more flexible basis to encourage upward mobility of tenants within and off an estate.
- 1.12. There needs to be a careful balance between the purposes of the 1970 Act and using the estate as an investment to generate income and capital.
- 1.13. The Council has approved a County Farms Management Policy, which sets out how it wishes to meet the purposes of the relevant Acts.
- 1.14. Farming practices are diverse, so the selection of potential tenants to farm the estate requires careful consideration and scrupulous transparency, as the decisions are life changing for the applicants and are long term commitments for the Council as landlord.
- 1.15. The conclusions from the investigation are that the fundamental requirements for sound and professional estate management for County Farms need strengthening as follows:
 - **The Farm Business Tenancy Contracts need to be fit for purpose, complete and compliance should be strictly enforced (Finding 6.1)**
 - Conditions relating to Contract Farming, should be clearly set out in the Farm Business Tenancy agreement. The County Farms Management Policy is not clear on this at present (Finding 6.1)
 - Conditions relating to activity not appropriate to a location, for example pig rearing, should be clearly set out in the agreement and the advertisement of the letting (Finding 6.2)
 - Conditions relating to proposed development by each party should be clearly set out in the Farm Business Tenancy agreement. (Finding 6.3)
 - When Farm Business Tenancy Conditions are not fulfilled, prompt and clear warnings, setting out the consequences, should be issued as part of enforcing strict compliance (Finding 6.4)

- **Any Commercial Tenancy propositions should be approved by the Policy and Resources Committee**
 - Where farms propose commercial business operations, on the farms that are not ancillary to the farming, approval for relevant commercial tenancy agreements, rents and planning permissions should be sought from the Policy and Resources Committee (Finding 6.5)
- **Fit for purpose and transparent Estate Management Procedures need to be defined, approved and published**
 - The decision making for recent tenancy lettings has led to a significant number of allegations. This matter is considered further in **Appendix A, paragraph 3.7**. (Finding 6.6)
 - The names and acreage holdings of County Farm land (but not the rental value) should be made public to ensure transparency (Finding 6.7)
 - There were inaccurate standard letters issued informing candidates why they were not shortlisted for interview. (Finding 6.8)
 - Letting scores should be retained or the appropriate retention period (Finding 6.9)
 - The criteria for allocating Farm Business Tenancies for farm dwellings should be transparent to demonstrate that it is fair and that there is a suitable business case. Subletting of property is mentioned in **Appendix A, paragraph 3.17**. (Finding 6.10)
 - A clear procedure for tenant promotions, increasing the size of a holding without competitive competition, should be drafted, agreed and promoted. The promotion of tenants should be reported to the Executive Director/Managing Director. This matter is considered further in **Appendix A, paragraph 3.5**. (Finding 6.11)
 - The policy and procedures did not require any potential conflicts of interest to be declared at any stage. Conflicts of interest declarations are mentioned in **Appendix A, paragraph 3.10**. (Finding 6.12)
 - A clear policy for how many farms a tenant can hold is drafted, agreed and promoted. Applications and the assessment of tenant's skills and financial standing are based on single farm applications. A business case based on all the proposed holdings should be required. (Finding 6.13)

- The customer care policy standards have not being complied with by County Farms staff and some members. NCC should ensure customer care requirement are understood by staff and members (6.14)
 - Site visits, to ensure compliance with farm Business Tenancy conditions, should be formalised. (Finding 6.15)
 - An Annual Report on the activity on the estate would promote transparency. Annual reporting is also mentioned in **Appendix A, Paragraph 3.14 and 3.15** (Finding 6.16)
 - **There should be Checks and Balances in the management of the County farms to demonstrate probity**
 - The findings in this report demonstrate that there needs to be clear internal checks in the line management, decision making and approvals processes for County Farms. (Finding 6.17)
 - The internal checks for the approval of expenditure needs strengthening (Finding 6.18)
- 1.16. The report has been completed on an exception basis, only those areas with control weaknesses, as identified by complaints and allegations, have been reported upon in detail. A systems audit for County Farms has been included in the 2016-17 Internal Audit Plan, which will include following up on the agreed actions.
- 1.17. It is the Executive Director's responsibility to ensure satisfactory progress is achieved in an acceptable timeframe in order to ensure suitable controls are in place.
- 1.18. The detailed findings, views, and recommendations from the audit are shown in section six of this report
- 1.19. The Terms of Reference are set out in part seven of this report.

Internal Management Actions required

- 1.20. The recommendations identified in this report should be implemented within a reasonable timescale on a risk assessed basis. It is not always possible for Internal Audit to prescribe a specific timescale by which a recommendation should be implemented. However as a general rule, it is expected that the following timescales will be adopted:

Grading	Default expected timescales
High	Resolution within one month of the issue of the final report
Medium	Resolution within six months of the issue of the final report

Statement of Responsibilities

- 5.1 The matters raised in this report are only those which came to our attention during the course of our internal audit work, and are not necessarily a comprehensive statement of all weaknesses that exist or all improvements that might be made. Any recommendations for improvements should be assessed by the Director for their full impact before they are implemented. The performance of internal audit work is not, and should not be taken as, a substitute for management's responsibilities for the application of sound management practices.
- 5.2 It is emphasised that the responsibility for a sound system of internal control rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses that exist.

Audit Opinion

- 1.21. We are required to give an overall opinion in each audit report and to report the results to the County Leadership Team and the Audit Committee.
- 1.22. Our overall audit opinion is based on two grades which are explained in the table below:

Opinion	Assessment of internal control
Acceptable	Few or no weaknesses, mostly not significant
Key issues that need to be addressed	A number of weaknesses, mostly significant or one or more major weaknesses

Our opinion, based on the evidence we have seen as part of this audit, is that internal controls for County Farms have **'Key issues that need to be addressed'**.

Ref	Findings from Lines of Enquiry	Risk	Recommendation	Action	Whom/When
6.1	<p>The Farm Business Tenancy Contracts are not fit for purpose, complete and compliance is not strictly enforced</p> <p>Farm Business Tenancy Conditions – Use of Land needs strengthening</p> <p>There was one complaint/allegation which referred to ‘Contracting out - Ghosting of Fields’. County Farms do not adequately address this risk. There are inadequate mitigating controls in place to manage contracting out of farming by tenants and that may have contributed to the perception that the process was unfair or that tenants had been favoured.</p> <p>Advice from an expert confirms that it is not unusual for a farmer to have an interest (take the risk) from an agreement to farm a crop in a field. Proof that a field has been wholly sub-let without approval requires a high burden of proof, which is difficult to achieve.</p>	<p>Without transparency and appropriate management of contracting out or Sub-letting for land the Council could be open to accusations of impropriety or conflict of interest.</p>	<p>The Farm Business Tenancy Contracts need to be fit for purpose, complete and compliance should be strictly enforced.</p> <p>It was noted that Cambridgeshire CC have a stronger Farm Tenancy Agreement Template which addresses this issue.</p>	<p>Agreed. County Farms has engaged LGSS who can provide this advice.</p>	<p>Head of Property (Interim)</p> <p>31st August 2016</p>

Ref	Findings from Lines of Enquiry	Risk	Recommendation	Action	Whom/When
6.2	<p>Farm Business Tenancy Conditions – Conditions of Use of Land needs strengthening</p> <p>There were two complaints regarding proposals to farm pigs not being considered viable. That had not been clearly mentioned in the advert for the letting of the farm. This appears to have led to disappointment and complaints from applicants who had invested time in making applications that were not likely to be shortlisted.</p> <p>Barriers to applications are not being clearly stated in the advert for the lettings where particular types of farming may be expected.</p>	The Farm Business Tenancy adverts are not always fit for purpose.	<p>Farm Business Tenancy Conditions should be transparent.</p> <p>To avoid applicants wasting time it is recommended that if rearing pigs is likely to be a barrier to any application a note should be included in the advert to say words to the effect, 'if you are considering non arable farming you are advised to contact the County farms Team for advice regarding your proposed business model'.</p>	Agreed. County Farms has engaged LGSS who can provide this advice.	<p>Head of Property (Interim)</p> <p>31 August 2016</p>

Ref	Findings from Lines of Enquiry	Risk	Recommendation	Action	Whom/When
6.3	<p>Farm Business Tenancy Conditions – Agreed Development of Land/Buildings needs strengthening</p> <p>There was one complaint/allegation which referred to this matter.</p> <p>It was noted that when applicants promise development of a farm, thus perhaps enhancing their selection score or suitability, if no contractual obligation is written into the tenancy it will not be enforceable and that may contribute to a perception that the process was unfair or that tenants had been favoured.</p> <p>Proposals made at the application stage of a farm letting (that may have a significant bearing on the scoring or choice of candidate) have not been formalised into Farm Business Tenancy contract conditions.</p> <p>The Estate Management Policy includes:</p>	<p>Without clear and enforceable contract conditions the Council could be open to accusations of impropriety or conflict of interest..</p>	<p>Farm Business Tenancy conditions should clearly set out all expectations and then be enforced.</p> <p>Longer term tenancies (10-15 years) can stifle turnover, but it is recognised that this must be balanced against development of farmer's businesses.</p> <p>Used positively renewals also offer a potent check on tenant compliance and delivery of any development set out in an application.</p>	<p>Agreed. County Farms has engaged LGSS who can provide this advice.</p>	<p>Head of Property (Interim)</p> <p>31 August 2016</p>

Ref	Findings from Lines of Enquiry	Risk	Recommendation	Action	Whom/When
	<ul style="list-style-type: none"> At parts 3 and 5, to develop the estate as an exemplar of innovation, working with tenants, the County Council, communities and external parties At part 6, to seek to develop farms to help deliver wider Corporate services and objectives such as use as an educational resource centre or care farm, in conjunction with the County Council's relevant departments. Also develop links with local schools. 				

Ref	Findings from Lines of Enquiry	Risk	Recommendation	Action	Whom/When
6.4	<p>Farm Business Tenancy Conditions - Enforcement</p> <p>Warning Procedure for Tenants needs strengthening</p> <p>There were two complaints/allegations that related to this matter.</p> <p>We noted that there is no policy or procedure for issuing warnings to tenants who may be found to breach Farm Business Tenancy Agreements (FBT).</p>	Without transparency and appropriate management of warnings to tenants the Council could be open to accusations of impropriety or conflict of interest..	Farm Business Tenancy conditions should be enforced.	Agreed. County Farms has engaged LGSS who can provide this advice.	Head of Property (Interim) 31 August 2016

Ref	Findings from Lines of Enquiry	Risk	Recommendation	Action	Whom/When
6.5	<p>Commercial Tenancy propositions are not being approved by the Policy and Resources Committee</p> <p>There were three complaints/allegations that tenants have undertaken activity that did not have appropriate Commercial tenancies approved by the Council and the activity may not be permitted under the relevant planning rules. These complaints had not been adequately investigated in a timely way.</p>	<p>Appropriate tenancy agreements have not been established and approved.</p> <p>There could be reputational loss where the Council had allowed unpermitted activity to take place on its estate.</p>	<p>Commercial Tenancy propositions should be approved by the Policy and Resources Committee.</p> <p>Farm Business Tenancy conditions should be enforced.</p> <p>Site visits should include consideration of whether planning approvals may be required for activity/development and if required that they are obtained timely.</p>	Agreed.	<p>Head of Property (Interim)</p> <p>31 August 2016</p>

Ref	Findings from Lines of Enquiry	Risk	Recommendation	Action	Whom/When
6.6	<p>Fit for purpose and transparent Estate Management Procedures are not defined, approved and published -</p> <p>Interview Selection Criteria need strengthening</p> <p>There were four complaints/allegations related to tenant selection criteria.</p> <p>It was noted on one occasion that the interview records were significantly incomplete.</p> <p>It was noted that on two occasions the interview panel used discretion and made an offer to a lower scoring candidate.</p>	Without transparency and appropriate management of candidate selection for tenants the Council could be open to accusations of impropriety or conflict of interest..	Fit for purpose and transparent Estate Management Procedures to be defined, approved and published.	Agreed. County Farms has engaged LGSS who can provide this advice.	Head of Property (Interim) 31 August 2016

Ref	Findings from Lines of Enquiry	Risk	Recommendation	Action	Whom/When
	<p>For the Western Estate lettings in late 2015 the interview selection panel used discretion to make some direct lettings (without interview) to some existing County Farm tenants. Other farms and land were let through interviews. The direct lettings were based on the highest rent offered. Applicants were not aware of that when they applied for the farms and that may have contributed to the perception that the process was unfair or that tenants had been favoured.</p> <p>Whilst the Council does have a clear policy to influence selection criteria, it is not clear how this has been applied to encourage new and younger farming entrants and innovation, which is a stated objective for County Farms.</p>				

Ref	Findings from Lines of Enquiry	Risk	Recommendation	Action	Whom/When
	<p>The approval of the tenancy offer should be confirmed by the Head of Property before an offer is made to the intended tenant. The interview panel is advising the Head of Property in making that decision. This has become 'blurred' with the panel effectively committing the Council to a decision.</p> <p>It is noted that the County farms letting Policy needs to be formally approved by the appropriate Committee.</p>				

Ref	Findings from Lines of Enquiry	Risk	Recommendation	Action	Whom/When
6.7	<p>Fit for purpose and transparent Estate Management Procedures are not defined, approved and published – Transparency needs strengthening</p> <p>The names and acreage holdings of County Farm land (but not the rental value) are not publically available.</p>	<p>County farms may be questioned on the stewardship of this public asset and could be open to accusations of impropriety or conflict of interest.</p>	<p>The names and acreage holdings of County Farm land (but not the rental value) should be made public, to ensure transparency</p>	<p>Agreed. County Farms has engaged LGSS who can provide this advice.</p>	<p>Head of Property (Interim) 31 August 2016</p>

Ref	Findings from Lines of Enquiry	Risk	Recommendation	Action	Whom/When
6.8	<p>Fit for purpose and transparent Estate Management Procedures are not defined, approved and published -</p> <p>Lettings Administration needs strengthening</p> <p>There were inaccuracies in standard letters informing candidates why they were not shortlisted for interview. Candidates who were marked as scoring over 30 points were told they had not been, which was misleading and untrue.</p>	<p>The Council could be open to accusations of impropriety or conflict of interest. Where significantly misleading information is provided to candidates. Reputational damage could arise.</p>	<p>Letters of correction should be sent to the relevant applicants with an apology.</p>	<p>Agreed.</p>	<p>Head of Property (Interim)</p> <p>31 August 2016</p>

Ref	Findings from Lines of Enquiry	Risk	Recommendation	Action	Whom/When
6.9	<p>Fit for purpose and transparent Estate Management Procedures are not defined, approved and published -</p> <p>Records Retention needs to be compliant</p> <p>Some Letting scores records for interviews prior to 2015 were not retained for the appropriate retention period.</p>	<p>The retention of records policy was not followed. The Council could be open to accusations of impropriety or conflict of interest regarding the selection criteria for tenants.</p>	<p>Letting scores records should be retained for the appropriate retention period.</p>	<p>Agreed.</p>	<p>Head of Property (Interim)</p> <p>31 August 2016</p>
6.10	<p>Fit for purpose and transparent Estate Management Procedures are not defined, approved and published -</p> <p>Farm House Dwelling Sub letting</p> <p>One complaint/allegation related to this matter.</p>	<p>Without transparency and appropriate management of the Farm House Dwelling letting the Council could be open to accusations of impropriety or conflict of interest..</p>	<p>Fit for purpose and transparent Estate Management Procedures are defined, approved and published.</p>	<p>Agreed. County Farms has engaged LGSS who can provide this advice.</p>	<p>Head of Property (Interim)</p> <p>31 August 2016</p>

Ref	Findings from Lines of Enquiry	Risk	Recommendation	Action	Whom/When
	<p>We found that, to allow for future retirement housing of tenants (who were contracted under older conditions), for technical reasons some domestic properties on the estate are let to an existing tenant under a Farm Business Tenancy (FBT) agreement. That agreement allows them to sublet the property privately. The FBT tenancy agreement requires the tenant to advise the landlord (the Council) where this takes place.</p> <p>The controls for; fairly offering and selecting the tenant for the Farmhouse FBT; reporting such agreements and the monitoring of sub tenancies were inadequate. That may have contributed to the perception that the process was unfair or that tenants had been favoured.</p>				

Ref	Findings from Lines of Enquiry	Risk	Recommendation	Action	Whom/When
6.11	<p>Fit for purpose and transparent Estate Management Procedures are not defined, approved and published -</p> <p>Tenant promotions Controls need strengthening</p> <p>There was one complaint/allegation that related to this matter.</p> <p>There is no clear structure for farm sizes, the farms are not advertised early enough and financial requirements, including start-up costs, have favoured established applicants when compared to new entrants.</p>	Without transparency and appropriate management of tenant promotions for land or farms the Council could be open to accusations of impropriety or conflict of interest..	Fit for purpose and transparent Estate Management Procedures are defined, approved and published.	Agreed. County farms has engaged LGSS who can provide this advice.	Head of Property (Interim) 31 August 2016

Ref	Findings from Lines of Enquiry	Risk	Recommendation	Action	Whom/When
	<p>There is no clear procedure for tenant promotions. Promotions can occur where a farm or land becomes available and it is offered to existing tenants to promote the viability and size of their holding. The controls for fairly offering and of selecting a tenant for promotion are not adequate and that may have contributed to the perception that the process was unfair or that tenants had been favoured.</p>				

Ref	Findings from Lines of Enquiry	Risk	Recommendation	Action	Whom/When
6.12	<p>Fit for purpose and transparent Estate Management Procedures are not defined, approved and published -</p> <p>Conflict of Interest Declarations need strengthening</p> <p>There was one complaint regarding conflicts of interest declarations that are not requested or logged as part of the County Farms interview letting process. There is nothing on the re-letting file in relation to conflicts of interest declarations. Conflict of interest is also not mentioned in the County Farms Management Policy. This policy is yet to be formally amended and approved.</p>	<p>Lack of declaration of conflict of interest may create the impression that the Council's selection process could be compromised. The Council could be open to accusations of impropriety or conflict of interest.</p>	<p>Fit for purpose and transparent Estate Management Procedures are defined, approved and published.</p>	<p>Agreed.</p>	<p>Head of Property (Interim)</p> <p>31 August 2016</p>

Ref	Findings from Lines of Enquiry	Risk	Recommendation	Action	Whom/When
6.13	<p>Fit for purpose and transparent Estate Management Procedures are not defined, approved and published -</p> <p>Multiple Farm Holdings controls need strengthening</p> <p>There was one complaint about this topic. There appears to be inconsistency in the policy for multiple holdings.</p> <p>Confusion arose when a tenant was allegedly told that they could not hold more than one County farm, so they refused a farm they had been successful at interview for. In the recent Western Lettings four farms were passed to one existing tenant. Applications are not scrutinised on the basis of multiple holdings and that may have contributed to the perception that the process was unfair or that tenants had been favoured.</p>	Without transparency and appropriate management of multiple tenant holdings for farms the Council could be open to accusations of impropriety or conflict of interest..	Fit for purpose and transparent Estate Management Procedures are defined, approved and published.	Agreed. County Ffarms has engaged LGSS who can provide this advice.	Head of Property (Interim) 31 August 2016

Ref	Findings from Lines of Enquiry	Risk	Recommendation	Action	Whom/When
6.14	<p>Fit for purpose and transparent Estate Management Procedures are not defined, approved and published -</p> <p>Customer Care Standards need strengthening</p> <p>There were eleven complaints regarding customer care.</p> <p>The Council has clear and established Customer Care Standards and based on the allegations these have clearly not been met by the County Farm Land Agent and in some cases members.</p> <p>There have been complaints that have not been acknowledged, investigated or responded to. Complaints have not been reported to the Head of Property (Interim), the Executive Director of Finance or the Managing Director.</p> <p>Positive Tenant Participation (ideas/feedback/cooperation) seems untapped and that could be missing energy and motivation.</p>	<p>There is the risk of reputational damage where complaints are not investigated and resolved timely. The Council could be open to accusations of impropriety or conflict of interest..</p> <p>Positive tenant participation is not being actively encouraged.</p>	<p>Fit for purpose and transparent Estate Management Procedures are defined, approved and published.</p> <p>The County Farms team should be reminded of the Corporate standards for customer care and handling complaints.</p> <p>Complaints to Members should be passed to the County farms Team for resolution.</p>	Agreed.	<p>Head of Property (Interim)</p> <p>31 August 2016</p>

Ref	Findings from Lines of Enquiry	Risk	Recommendation	Action	Whom/When
			Positive tenant participation should be actively encouraged.		
6.15	<p>Fit for purpose and transparent Estate Management Procedures are not defined, approved and published -</p> <p>Site Visits to ensure that FBT conditions have been met need strengthening</p> <p>A Strong governance team need to perform regular and comprehensive site visits are a foundation of good estate management. Visits should be recorded and any action required should be followed up. We noted that site visits were ad hoc and not formalised.</p>	<p>Noncompliance with the Farm Business Tenancy could occur and not be recognised or treated. This could lead to financial or reputational loss to the Council. The Council could be open to accusations of impropriety or conflict of interest.</p>	<p>Fit for purpose and transparent Estate Management Procedures are defined, approved and published.</p>	<p>Agreed. County Farms has engaged LGSS who can provide this advice.</p>	<p>Head of Property (Interim)</p> <p>31 August 2016</p>

Ref	Findings from Lines of Enquiry	Risk	Recommendation	Action	Whom/When
6.16	<p>Fit for purpose and transparent Estate Management Procedures are not defined, approved and published -</p> <p>Transparency and Accountability needs strengthening</p> <p>There has not been an annual report on the activity on the estate to demonstrate transparency.</p>	<p>The Council could be open to accusations of impropriety or conflict of interest and be questioned on the stewardship of the estate.</p>	<p>Fit for purpose and transparent Estate Management Procedures are defined, approved and published.</p> <p>Where it is possible there should be full transparency in the use of the asset, decisions made, financial reporting and of complaints that have been received and their resolution.</p> <p>An Annual Report should be presented to Members.</p>	<p>Agreed. A report for 2015-16 has already been drafted.</p>	<p>Head of Property (Interim)</p> <p>31 August 2016</p>

Ref	Findings from Lines of Enquiry	Risk	Recommendation	Action	Whom/When
6.17	<p>Checks and Balances are not adequate -</p> <p>Leadership, Expertise and Resources need strengthening</p> <p>The findings described in this report suggest that resources, expertise and strong leadership have been lacking in County Farms.</p>	Good governance and value for money may not be demonstrated.	An appropriate corporate culture should ensure strong leadership, expertise and adequate resources are deployed to maintain and develop the County Farms service. County Farms has a policy.	Agreed. County Farms has engaged LGSS who can provide this advice.	Head of Property (Interim) 31 August 2016

Ref	Findings from Lines of Enquiry	Risk	Recommendation	Action	Whom/When
6.18	<p>Checks and Balances are not adequate–</p> <p>Approval of Expenditure needs strengthening</p> <p>There was one complaint/allegation regarding excessive expenditure on the internal fabric of a County Farm property during 2014.</p> <p>The Estates Management Policy includes (at part 12) to, ‘Develop an investment programme to improve the infrastructure, buildings and storage capacity for crops on the estate.</p> <p>There are number of works described in the County Farms Capital Programme Budget. These are not reported to the Managing Director or Head of Property (Interim) but we understand the County Farms Advisory Board are advised (but they cannot make decisions).</p> <p>The budget holder acknowledges that best value for money may not have been obtained and expenditure is now being monitored more closely.</p>	<p>There is a lack of checks, balances and transparency for the approval of expenditure. The Council could be open to accusations of impropriety or conflict of interest.</p>	<p>The capital expenditure checks and approval for County Farms need to be improved to ensure transparency and accountability.</p>	<p>Agreed.</p>	<p>Head of Property (Interim)</p> <p>31 August 2016</p>

7. Terms of Reference

- 7.1 On 17 September 2015 the Executive Director of Finance requested the Council's Chief Internal Auditor to investigate and to report with recommendations on a number of complaints and allegations he had received regarding the County Farms Service, which is part of the Finance Department at Norfolk CC.

Adrian Thompson
Chief Internal Auditor
Norfolk Audit Services
18 April 2016