

Appendix A



Norfolk Audit Services

Final report on County Farms Governance Arrangements

18 April 2016

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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> <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</p>	<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>	<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> <ul style="list-style-type: none"> - Placing of County Farms functions of decision making with the Policy and Resources Committee; and - 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, 	<p>High</p>	<p>Agreed.</p>	<p>Executive Director of Finance</p> <p>31 August 2016</p>

Ref.	Findings	Audit View	Recommendation	Priority	Agreed Action Plan	Who and When
	<p>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. The responsibilities of the Managing Director, the Executive Director of Finance and the Head of Property (Interim) are not clear.</p>		<p>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> <p>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.</p>			<p>Managing</p>

Ref.	Findings	Audit View	Recommendation	Priority	Agreed Action Plan	Who and When
				High	Agreed	Director and Executive Director of Finance 31 August 2016
7.2	<p>Constitutional Compliance</p> <p>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.</p> <p>Since 12 September 2014, the County Farms Advisory Board has not been taking recommendations to the Economic Sub-</p>	Without clear controls there is an increased opportunity for fraud and the misuse of public assets. (1.12)	<p>The decisions of the Managing Director in relation to the County Farms function to be reported to the Policy and Resources Committee.</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</p>	High	<p>Agreed.</p> <p>Agreed.</p>	<p>Executive Director of Finance (in consultation with the Managing Director)</p> <p>by 31st August 2016</p>

Ref.	Findings	Audit View	Recommendation	Priority	Agreed Action Plan	Who and When
	<p>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 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</p>		<p>the Executive Director of Finance and presented to the relevant Committee. (1.13)</p> <p>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)</p>		<p>Agreed</p>	<p>Head of Law</p> <p>From 19 January 2016</p>

Ref.	Findings	Audit View	Recommendation	Priority	Agreed Action Plan	Who and When
	Economic Development Sub-Committee as appropriate. (1.9, 1.10 and 1.12)					
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</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> <p>Once the</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>to the Council. (1.10)</p> <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>The Hierarchy of decision making on property matters procedures (June 2014), mentioned in the Council's Financial</p>		<p>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>The details of interim changes required (pending any Constitutional changes) for the</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</p>

Ref.	Findings	Audit View	Recommendation	Priority	Agreed Action Plan	Who and When
	<p>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>		<p>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>			<p>Director of Finance</p> <p>by 31 August 2016</p>
7.4	<p>Policy and Procedures</p> <p>The County Farms Policy and procedures are not fit for purpose.</p> <p>Criteria, arrangements and reporting for the promotion of tenants to larger farms are inadequate. (3.2.1)</p>	<p>Inadequate policies and procedures can lead to errors, financial and reputational damage and a lack of transparency.</p>	<p>The County Farms Policy and procedures need to be fully reviewed and approved by the relevant Committee.</p> <p>Criteria, arrangements and reporting for the promotion of tenants to larger farms need to be strengthened.</p>	High	Agreed.	<p>Head of Property (Interim) and Executive Director of Finance</p> <p>by 31st August 2016</p>

Ref.	Findings	Audit View	Recommendation	Priority	Agreed Action Plan	Who and When
	<p>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> <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. (3.2.2)</p>					

Ref.	Findings	Audit View	Recommendation	Priority	Agreed Action Plan	Who and When
7.6	<p>Terms of Reference</p> <p>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</p>	<p>Members and Officers may be open to accusations of impropriety or conflict of interest over the procedure used for allocating tenants.</p>	<p>As per 7.2.</p> <p>A report with recommendations should be prepared by the Executive Director of Finance and presented to the relevant Committee.</p>	<p>High</p>	<p>Agreed.</p>	<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>consider ..allocations'. This is taken to mean the selection of tenants for the farms, which is covered by a 'Lettings' procedure.</p> <p>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)</p>					
7.7	<p>Allocating Holdings</p> <p>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</p>	<p>The transparency and not going to open tendering may be questioned. The Council could be open to accusations of impropriety or conflict of interest.</p>	<p>As per 7.2.</p> <p>A report with recommendations should be prepared by the Executive Director of Finance and presented to the relevant Committee.</p>	<p>High</p>	<p>Agreed.</p>	<p>Executive Director of Finance</p> <p>by 31st August 2016</p>

Ref.	Findings	Audit View	Recommendation	Priority	Agreed Action Plan	Who and When
	estate..', is not clearly set out in the Farm Re-Letting Policy. (3.4)		Details should be entered into the Farm Re- Letting Policy regarding the process criteria and authorisation for allocating holdings, not open competitively.			
7.8	<p>Role of the County Farms Advisory Board</p> <p>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)</p>	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.	<p>Executive Director of Finance</p> <p>by 31st August 2016</p>

Ref.	Findings	Audit View	Recommendation	Priority	Agreed Action Plan	Who and When
7.9	<p>Interviewing and selecting tenants</p> <p>Records were found to be incomplete for selection of tender applicants. There is inconsistency in the shortlisting criteria that were used.</p> <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</p>	<p>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 and how they have complied with procedures.</p> <p>The Council could be open to accusations of impropriety or conflict of interest.</p>	<p>As per 7.2.</p> <p>A report with recommendations should be prepared by the Managing Director and presented to the relevant Committee.</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>	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
	recorded. (3.7)					
7.10	<p>Policy framework and Guidance</p> <p>The 'Guide for prospective tenants' does not include the up to date policy and 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</p>	Policies and guidance that are unclear or out of date may lead to errors or omissions.	<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>	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
	described in the guidance. (3.7)					
7.11	<p>Tender process</p> <p>Only one person was involved in the opening of Tenders and completing the process for 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 Head of Property (Interim) should ensure two people involved in the tender opening and shortlisting process.</p> <p>The date and time tenders are received should be recorded.</p>	High	Agreed. This will be actioned for the next round of lettings.	<p>The Head of Property (Interim)</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</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>A regular monitoring system should be set up by the Head of Property (Interim) to ensure tenants are fully complying with</p>	Medium	Agreed. Additional resources have been secured to support the Estates Management.	<p>The Head of Property (Interim)</p> <p>From</p>

Ref.	Findings	Audit View	Recommendation	Priority	Agreed Action Plan	Who and When
	farm business tenancy agreements (3.8).	The Council could be open to accusations of impropriety or conflict of interest.	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 the Managing Director should decide upon a course of action to be taken, in line with the County farms Policy.			February 2016
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</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</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
	<p>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 Managing Director and the Corporate Compliments and Complaints team and that procedure. (3.9)</p>		<p>into the Council's Compliments and Complaints process.</p>			

Ref.	Findings	Audit View	Recommendation	Priority	Agreed Action Plan	Who and When
7.14	<p>Conflicts of interest</p> <p>Conflicts of interest for Members and Employees are not included as an agenda item at County Farms Advisory Board meetings.</p> <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</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>	<p>Conflicts of interest should be formally recorded and the Head of Service advised.</p> <p>Members or employees with a conflict of interest should withdraw from decisions relevant to their declared interest.</p>	Medium	Agreed.	<p>The Head of Property (Interim)</p> <p>From next meeting.</p>

Ref.	Findings	Audit View	Recommendation	Priority	Agreed Action Plan	Who and When
	close personal relationship with any Councillor or employee of NCC. (3.10)					
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>

Ref.	Findings	Audit View	Recommendation	Priority	Agreed Action Plan	Who and When
7.16	<p>Sub-letting Policy Monitoring</p> <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> <ul style="list-style-type: none"> - the present 	<p>Where policies are unclear that may lead to the risk of errors, omissions or misuse of public funds. 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>A clear unambiguous policy is required.</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>	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>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</p> <p>- Land is sub let (Contract Farming) (3.16)</p>					

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	<p>Good Practice Guidance</p> <p>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)</p>	<p>Best practice advice should be noted and exploited.</p>	<p>The Head of Property (Interim) should consider the guidance and develop an action plan to be approved by the relevant Committee.</p>	<p>Medium</p>	<p>Agreed</p>	<p>The Head of Property (Interim)</p> <p>By 31st August 2016</p>

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.]

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- 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

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- 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.

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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)

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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.