Northern Ireland Assembly

Committee for Agriculture and Rural Development

OFFICIAL REPORT (Hansard)

Resource Accounts 2012-13: DARD Briefing

26 November 2013

NORTHERN IRELAND ASSEMBLY

Committee for Agriculture and Rural Development

Resource Accounts 2012-13: DARD Briefing

26 November 2013

Members present for all or part of the proceedings:
Mr Paul Frew (Chairperson)
Mrs Jo-Anne Dobson
Mr William Irwin
Miss Michelle McIlveen
Mr Oliver McMullan
Mr Ian Milne
Mr Robin Swann

Witnesses:

Mr Andrew Elliott	Department of Agriculture and Rural Development
Ms Sheryl Henderson	Department of Agriculture and Rural Development
Mr Sean McGuinness	Department of Agriculture and Rural Development
Mr Graeme Wilkinson	Department of Agriculture and Rural Development

The Chairperson: I welcome Graeme Wilkinson, assistant secretary, and Andrew Elliott, assistant secretary. They are joined by Sheryl Henderson, grade 7 accountant, and Sean McGuinness, grade 7 principal. As always, you are all very welcome to the Committee. Members will already have had a chance to read the papers. Graeme, if you could just address the main issues and provide more information, that would be very helpful. I remind members to keep their questions short and concise. If there is any time, we will go round again.

I also remind members that the resource accounts identify a risk around the governance and accountability of the Agri-Food and Biosciences Institute (AFBI). That is being investigated by the Public Accounts Committee (PAC). That Committee has primacy, and we should not stray into its territory at this time. We will get a chance to look at the results of the PAC's work. Are you leading off, Graeme?

Mr Graeme Wilkinson (Department of Agriculture and Rural Development): Yes. Thanks, Chair. Thank you for the opportunity to provide the Committee with a further briefing on the presentation that you received from the Assembly research team. The paper produced by the researcher is very comprehensive and highlights the key elements of the Department's annual report and accounts. I do not propose to reiterate the points raised in the document. However, my colleagues and I will be more than happy to address any specific questions that the Committee may have.

Hopefully, the annual report and accounts will have provided a useful insight into the work of the Department and, indeed, the very diverse nature of the work carried out by the various parts of the Department of Agriculture and Rural Development (DARD). From a financial perspective, we are managing an asset base of over £1 million and processing grants and subsidies across a range of sectors totalling almost £400 million per annum. Managing the financial challenges that a business of that size and complexity brings is a challenging process. However, as the Committee will recall, the Department had a successful outcome in the 2012-13 financial year, as the out-turn was managed to within 0·4% or £1 million. In addition to the need to manage our finances effectively, a key feature of our business is working within the confines of EU rules. An additional layer of regulation and scrutiny is required to satisfy EU audit requirements. The Committee will be aware that we continue to incur a disallowance penalty as a result of issues arising from farm maps. Andrew may want to say a little more about that.

You will see from the report of the Comptroller and Auditor General that he has qualified the Department's account as a result of that disallowance. He has also included an emphasis-of-matter paragraph in his audit certificate. The emphasis of matter reflects the degree of uncertainty in relation to the disallowance liability. To date, we have calculated the risk to the fund internally. However, the calculation needs to be verified by the Commission. We are awaiting the outcome of that process for the 2010 and 2011 scheme years.

The remainder of the research paper covers a number of parts of the annual report, including a statement of internal control, a comparison of out-turn with previous years' accounts, and an overview of the losses and special payments note. Chair, that concludes my introductory comments. My colleagues and I are happy to provide further clarification.

The Chairperson: Graeme, thank you very much again for being clear, concise and to the point. You have our research paper. It is very good and has assisted us as a Committee. The losses and special payments are dealt with on pages 139 to 141 of the resource accounts report. Attention is drawn to the losses in royalties income for AFBI and the writing off of £1·29 million of bad debt relating to EU structural fund schemes which closed in 2010. Can you tell us a wee bit more about that? How did that bad debt accrue, and how did it become so high?

Mr Wilkinson: That £1·2 million was identified during our year-end process. When we review our balance sheet, we look at debtors as part of that process. There was a debt of around £7 million that related to EU structural funds, dating back to the 2003-08 scheme. That scheme was worth around £100 million. During our review process, we identified that £1·2 million of that was not recoverable. That was identified and sent to the Department of Finance and Personnel for approval for write-off. In line with accounting practice, that is what we did with our accounts to make sure that we were not presenting any assets in the Department's balance sheet that were not recoverable. It is part of the year-end accounts process to identify recoverable amounts in our balance sheet.

The Chairperson: What measures is the Department putting in place to prevent such debt from accruing again?

Mr Wilkinson: The first thing that I will say about that, Chair, is that there is a degree of uncertainty in the process of producing estimates. I cannot give the Committee an assurance that we will not write off EU debts in the future because it is a difficult process. As Andrew knows, it may be the case that, when you present claims to the Commission, it has a different view and interpretation of the regulations and guidelines, and you have to write off certain amounts of money. We are going through that process currently. I cannot give the Committee an assurance that this will never happen again. It is part and parcel of working with the EU. What I will say is that the Department has strengthened its internal processes. One of the things that we have done is to make sure that the finance division is working much more closely with the business areas on tightening up the estimation process and making sure that it is validated and reviewed regularly. My team meets monthly and engages with the various business areas to make sure that the estimates that we include in the accounts are accurate, robust and auditable. We are doing that, but I cannot discount the possibility of this happening in the future.

The Chairperson: OK. I will move on to the realm of special payments. One payment exceeded £250,000. It was made to a company as compensation for an incident relating to animal testing back in 2006. What further details can you give us about that incident?

Mr Wilkinson: There is not much more that I can add to what is included in the notes to the accounts. We have made full disclosure in the accounts. That was an issue that arose between the Department and a company for which we were carrying out services. Because of actions on behalf of staff who are employed by the Department, an issue arose and we were required to pay compensation of £250,000.

The Chairperson: Why did it take the Department so long to reach a resolution? If it could have been resolved quicker, how would that have affected the final payment?

Mr Wilkinson: I am not sure of the background to it all. I recognise that the case went on for some time. I can only surmise that it was because of the prolonged negotiations in coming to a settled figure — the time between when the incident happened to finally reaching that settlement. My understanding is that those negotiations and the time that was taken reduced the initial liability to what it is now. Significant efforts were made by the Department to ensure that the least financial cost to the Department was incurred.

The Chairperson: OK. Thank you.

Mr Swann: There is reference in the resource accounts to the central investigation service and a number of fraud cases. Can you give us an update on how many cases were prosecuted and the value of that fraud?

Mr Wilkinson: I am sorry. I do not have those details with me today, Robin.

Mr Swann: We are not having much luck today.

The Chairperson: We can write and get that information from you. Have you any other questions, Robin?

Mr Swann: To be quite honest with you, Chair, I am disappointed that the information is not available because, with regard to tackling fraud, cross-compliance and everything else that is happening, I thought that one of the four officials that we have in front of us would at least have had some scope of the information that is available, because it is in the resource accounts. There is a specific heading for fraud.

Mr Wilkinson: Sorry, Chair. I thought that I was to here to talk about the resource accounts today. I appreciate that the resource accounts cover a wide remit of stuff. The questions put to us were those raised in the research paper. I am more than happy to talk about those. I am equally happy to provide Mr Swann with the information that he has asked for.

The Chairperson: OK. Fair enough.

Mr Irwin: With regard to the single farm payment and the 3,560 maps that were issued that were wrong and had to be reissued, I presume that incurred an extra cost. Have you an idea of what that cost the Department?

Mr Andrew Elliott (Department of Agriculture and Rural Development): Extra work went into resolving the problem when it was identified. I do not think that there were any very significant additional costs beyond what was already incurred to produce the maps. That problem, although it created a difficulty for individual farmers, did not actually weaken our control because the underlying data was still there. It just led to a lot of work behind the scenes to try to manage the fact that the fields were missing from the visible maps that we were producing for farmers. I would say that it did not put the best shine on what was otherwise a fairly successful introduction of a new mapping control.

Mr Irwin: I do not know about that. I suppose it shows that, if there is a problem with IT, it can create havoc in the whole system.

Mr A Elliott: Working with IT really goes to the heart of an awful lot of the work that we are doing. The complexity that we have now reached with schemes, the controls and how they interact with each other, from one farmer to the next, and so on, is quite remarkable. There is always a certain risk that something unforeseen can arise when you begin to produce new payments, maps, or anything. The good news is that we have a lot of quality control systems in place. What happened with that particular map issue was that, because it was the third batch — the first two batches had gone well — we were in a real hurry to get the maps out to give people time with them. We took a chance on the quality assurance of the last batch. In retrospect, that was a mistake. By and large, we have been very pleased with how the mapping system has been deployed this year. It looks as though it has been relatively accurate for a new mapping system. It has allowed us to make a lot more payments than we might have anticipated earlier in the year.

Mr Irwin: That is good.

The Chairperson: DARD's internal audit provided a satisfactory report for most areas, but it identified some concerns. The most important of those, which are outlined on page 73 of the resource accounts, are the review of the rural development division's administration and management of the axis 1 contract and:

> *"the processes for monitoring of the contract with Countryside Services Limited."*

and

> *"the completeness and accuracy of the Article 31 Report for 2011".*

Concerns were also raised about the departmental procurement review and the Loughs Agency, about which internal audit said that a procurement investigation could provide only limited assurances about the effectiveness of management controls. It stated:

> *"The key concerns related to the qualifications of the contracted project manager ... The procurement of the vessel ... The vessel's passages to ... Northern Ireland ... and concerns expressed by the Marine and Coastguard Agency".*

Can you explain why you could provide only limited assurances about the effectiveness of management controls?

Mr Wilkinson: Chair, I think I will let the expert provide the answer to that: the head of internal audit.

Mr Sean McGuinness (Department of Agriculture and Rural Development): I will go through them in the order that they appear as bullet points.

The Chairperson: It is the concerns identified on page 73 of the resource accounts about DARD's internal audit. I was talking about the review of the rural development division's administration and management of the axis 1 contract, and the completeness and accuracy of the article 31 report. The third issue was the departmental procurement review. The fourth was the Loughs Agency, the procurement investigation of which could provide only limited assurances over the effectiveness of management controls:

> *"related to the qualifications of the contracted project manager ... The procurement of the vessel ... The vessel's passages to ... Northern Ireland ... and concerns expressed by the Marine and Coastguard Agency".*

I want to explore those failings but I also want to ask why the Department is able only to provide limited assurances in those areas?

Mr S McGuinness: The first issue you referred to is the management of the axis 1 contract. We provided a limited opinion because of the number and seriousness of the recommendations. The key issue, however, related to an insufficient audit trail. There was a lack of documentation on the monitoring of the contract. There were variations in the contract that were not properly documented, and we could not reconcile the cost with the approved budget. As I said, we issued a limited opinion. We then performed a follow-up review and issued a report in September in which we provided a satisfactory opinion. We are happy that the majority of the key recommendations have been implemented effectively.

The Chairperson: That was September this year?

Mr S McGuinness: Yes. The article 31 return is a statistical return that the Department completes, detailing the results of the controls that it has applied throughout the year on the agriculture funds. Our concerns related to ongoing issues about the completeness of the return. One of them related to Forest Service's application of penalties to the woodland grant schemes and the other related to countryside management legacy schemes, where reductions and exclusions regulations were not properly applied.

We did a further follow-up review in the 2012 report return, and those issues remain. They are being taken forward by the head of the paying agency, who has set up a project group for the agrienvironment schemes and an article 31 working group to address the other issues that we have identified. As far as I am aware, he has asked for a detailed briefing from the heads of each of those areas on how they will address our findings.

The Chairperson: OK.

Mr S McGuinness: The procurement review, which was cross-departmental and very wide ranging, covered the Department, its two agencies and four non-departmental public bodies. Initially, we provided a limited opinion because of the number of recommendations that we made. We made something in the region of 80 recommendations. We recently performed a very comprehensive follow-up review and found that 72 of the 80 recommendations have been fully and effectively implemented. Two of the recommendations are ongoing and near completion, and we are satisfied with the action that has been taken on the remaining six. Recently, we issued a draft report to that effect, and we have provided a satisfactory opinion. We are happy with the way in which the recommendations are being implemented.

Your last point related to the procurement of a research vessel by the Loughs Agency. In response to allegations by an ex-employee, I instigated an investigation of that procurement exercise. I was unhappy with some of the control weaknesses, but there was no evidence of any fraudulent activity. A lot of the allegations were not substantiated, but some were. On the basis of that, we used the EU guidance on financial correction and proposed a 10% financial correction, which equated to £45,000. The Commission sat on our report for about a year and half. It passed it throughout its directorates and was not really sure what to do with it. It then passed it to its legal services, which came back with the view that procurement costs would not be eligible for funding but agreed that transformation costs could offset some of that. It looks as though there could be a further disallowance of somewhere in the region of £100,000 based on its view of that.

The Chairperson: OK. Thank you very much for your answer.

Mr Swann: I have a quick question. It is referenced in the research paper, so hopefully you have had a chance to look at it. For the third year running, the Auditor General has qualified the Department's accounts. Are you at all concerned about that?

Mr Wilkinson: Yes we are, certainly as far the work that we are doing to mitigate the cost of disallowance is concerned. You will also see from his report that the cost of disallowance is very significant. That is a cost to the Department that we do not need to have. I talked earlier about the public expenditure consequences of that, and Andrew and his team are doing significant work to try to reduce the cost of disallowance.

The last year in which we had confirmation of the rate of disallowance was 2009. It was 5·19% at that point, and we have been working out our calculations based on the risk to the fund. It is starting to reduce. It was 3·75% in 2010, 3·77% in 2011, and we now estimate the risk to the fund to be around 2%. The trajectory is on a downward trend, and that is a consequence of the investment that the Department has made and the work that it has done. The positive benefit of our investment and time has also been recognised by the Audit Office.

I chair the UK co-body that looks after all the various paying agencies. At my meeting last week with the co-body, it was very appreciative of the work that Northern Ireland has done to take forward the whole area of legality and regularity. Legality and regularity will be mandated audit requirements in the next programme. Our experiences and what we have learned from that process will stand us in good stead, and we will want to share our understanding of that with the wider EU bodies. The UK co-body has been very appreciative of the lessons that have been learned in that process. Andrew, do you want to say any more on that?

Mr A Elliott: Maybe Robin wants to come back in.

Mr Swann: No, go ahead Andrew. You jump in first.

Mr A Elliott: OK. We have done an awful lot of work on the three major causes of disallowance that caused the problems with the accounts. The three major causes — there were others — were the mapping controls, which the Commission decided were weak; the inspection control, which the Commission also decided was weak; and the method whereby we calculated overpayments and penalties, which the Commission did not agree with. Those three things combined to give us a 5% flat rate disallowance every year, which was a very large sum of money.

As for the method of calculating overpayments and penalties, we took three cases to the European Court of Justice. Those cases are still with the court and the paying agency continues to challenge the Commission's interpretation of the regulations. The other two were really very significant criticisms. We introduced a new mapping system in 2013. The evidence as to how accurate that mapping system is will become apparent in the next couple of months, but anecdotal feedback from inspectors is that it is pretty good: it is accurate, the boundaries are in the right place, and a lot of the ineligible areas are reasonably accurate. When they are vegetative and so on, ineligible areas change a little bit from year to year and there is always a degree of variation with those. However, overall, we are pretty confident that we have a good mapping control in place that produces a maximum eligible area, which is what the Commission requires.

We really put our on-the-spot inspections to the test with the audit of legality and regularity, and the Northern Ireland Audit Office has tested those areas for two years running. Although the Commission has not responded on either yet, it has carried out an audit and the informal feedback from the Commission auditors was very positive. I think that we have super on-the-spot control, and I expect that the findings of the Commission auditors, which we will hopefully hear about in the next two or three weeks, will endorse that. I suppose that a "super inspection" might be super for the Commission and us in recovering overpayments and so on, but, of course, it means that it will be tough on those farmers who claimed ineligible areas and so on. However, that is what we are expected to do to rid ourselves of this problem of disallowance.

Mr Swann: Graeme, did you say that you were down to 2%, or is that your target?

Mr Wilkinson: That is our estimate of the current risk to the fund.

Mr Swann: What percentage do you need to enable the Auditor General to stop qualifying your accounts?

Mr Wilkinson: The C&AG's view is that any disallowance is not what the Assembly has intended. My understanding is that he will want to qualify our accounts if we have any disallowance.

Mr Swann: OK. As a funding body, would you fund an organisation or individual with qualified accounts?

Mr Wilkinson: I am not sure of the context, Robin.

Mr Swann: I am thinking about Europe. If somebody comes to you for funding under an axis programme or the rural development programme, you will always ask for a set of accounts.

Mr Wilkinson: It would really depend on what the qualification was for.

Mr Swann: That is what I am saying. It is not black and white.

Mr Wilkinson: No. You would need to look at individual circumstances. I do not think that we could blandly make a decision just because somebody has a qualified set of accounts. In my view, you would look at individual cases.

Mr S McGuinness: The Department was and is hopeful that, when the disallowance falls below 2%, the Commission will look again at whether there is a need for any disallowance at all. I have to say that the experiences I have encountered in other paying agencies, including Denmark, where they brought the disallowance below 2%, was that the Commission continued to charge it right down to rather low levels. We will continue to engage with the Commission on that issue to see whether we can eliminate disallowance. Certainly, when I engage with Commission officials, and, indeed, European Court of Auditors officials, I am very active on the issue of just how precise and accurate everything has to be. It is extraordinary expensive to strip out that last little bit of error in area-based systems.

Mr Wilkinson: The only other thing that I would say, Robin, is that disallowance is not unique to DARD. From some of the costs and figures I have seen, I have learned that some of the countries are being charged disallowances in excess of £1 billion. It is a major issue right across Europe.

The Chairperson: I have one further question, relating to pages 117 and 118 of the resource accounts document. Other administrative and programme costs are shown in table 11, and there are specific lines where costs have changed significantly between current and previous years. Those include the costs for private veterinary practitioners, fees and expenses. Diseased animal compensation is up by 22%, and core and consolidated other expenses are up by 27% and 21% respectively. Will you explain the differential? Will you also explain what "other expenses" are and why they have jumped by 27%?

Mr Wilkinson: There are cost drivers behind each of the areas, Chair. You mentioned private veterinary practitioners and diseased animals compensation. The factor behind that was the increase in TB during that period. I know that the Committee is acutely aware of that.

As you might glean from the heading, a number of different things drive other expenses. It might be electricity, gas or heating. There are a range of different things in there. Another feature is inflation, which is running at 3%. We also factored in an increase of 2·7% for our pay bill. Depending on what cost you are looking at, there will be a 2% to 3% natural increase as a result of inflation, and that is what drives the cost of that. However, there are specifics in there, such as private veterinary costs and TB compensation, that we can explain.

The Chairperson: Yes, I understand that. You have explained that they are all smaller amounts that accumulate into your bracket of other expenses. How do you account and plan for that in the future? What implications do those rises have for the Department?

Mr Wilkinson: They have a significant impact on the Department and, as a result of those inflationary pressures, we are grappling with that as we look to the 2015-16 budget exercise. It forces us to think about how we deliver our programmes and schemes in future, and we will need to change the way in which we deliver them. Delivery through online services and IT is potentially a way that we can deliver efficiencies through the Department, and we need to look at that.

Going back to my earlier point about planning, we have been looking to the future to see what our operating model will look like. Things like moving our headquarters to Ballykelly will have a significant impact on our cost base and how we deliver our services.

The Chairperson: Up or down?

Mr Wilkinson: I was thinking about how we deliver our services operationally. That will have a significant impact. It is true to say that, from a public expenditure point of view, we are looking at reductions at our resource baseline in the future, and that is part of the Barnett consequentials. We will be looking at reductions, and we will have to live within our means. That will require us to look at how we deliver our services.

The Chairperson: Will the move to Ballykelly impact upwards or downwards?

Mr Wilkinson: Part of the business case process is to look at the overall costs of that and what impact it will have on our running costs. It will be a significant element of the consideration that we are developing.

The Chairperson: We are not anywhere near knowing that.

Mr Wilkinson: As I said, we are progressing well with that, and it is with our economists for quality assurance. We are getting very close to being able to pass our findings to the Executive.

The Chairperson: So you are saying that there could be incredible increases and impacts, yet the decision has been made to go to Ballykelly.

Mr Wilkinson: No. I am saying that we are looking at a reducing resource baseline, so we have to look at how we deliver our services in the future and our operating model. That will need to be considered as part of the business case process.

The Chairperson: OK. Thank you very much for taking the time to be here, your presentation and your answers to our questions. It was a pleasure, as always.