

VOTE 31 - AGRICULTURE, FOOD AND FORESTRY

30. Disallowances by EU Commission

The Department of Agriculture and Food submits a detailed claim each year to the EU Commission itemising all expenditure incurred and amounts received on behalf of the FEOGA Guarantee Fund. The Commission, having carried out selected audits of the expenditure and receipts declared, gives a decision on the correctness and validity of the transactions and, arising from this, determines what adjustments should be made. If these adjustments involve disallowances of expenditure they give rise to a charge to the Vote, although where the amounts disallowed are recovered from individual traders, any resultant receipts are brought to the credit of the Vote.

A total of £70,483,677 was charged to the Vote in 1996 as outlined in Table 6. This amount comprises disallowances imposed by the Commission following the clearance of the 1992 claim and the finalisation of the 1990 and 1991 claims, clearance of which had been deferred pending the outcome of a special inquiry by the Commission. There are also charges in respect of legal settlements and costs.

Table 6 - FEOGA Disallowances

<i>Intervention Beef^a</i>	£	£
Intervention Beef Storage 1990	26,222,656	
Intervention Beef Storage 1991	<u>24,020,456</u>	50,243,112
Intervention Beef Tendering 1992	8,861,000	
Multiple Beef Tendering 1990/91	<u>9,613,206</u>	18,474,206
<i>Intervention Beef</i>		
Financial penalty on late payment for intervention beef, incorrect calculation of losses and failure to credit FEOGA where the minimum deboning yield was not achieved, late declarations plus various adjustments		426,867
<i>Intervention Butter</i>		
Penalty in respect of breach of controls		62,096
<i>Premia Schemes</i>		1,016,984
<i>Export Refunds</i>		
Penalty in respect of payment delays	13,962	
Penalty in respect of release of security	<u>73,222</u>	87,184
<i>Legal Settlements and Costs</i>		<u>173,228</u>
		<u>£70,483,677</u>

^a Ireland has initiated appeal proceedings in the European Court of Justice against the disallowances imposed in respect of Intervention Beef Storage (£50.2m) and Beef Tendering Procedures (£18.5m).

31. Administration of Premia/Headage and Arable Aid Schemes

The Department administers the market regulation and production support schemes under the Common Agriculture Policy (CAP). Direct production support to farmers takes the form of premia/headage payments under various schemes amounting to some £747m annually. The funding of premia schemes is met in full by FEOGA, while headage and other schemes are part funded by the Exchequer. Following the CAP reform in 1992 the EU established an integrated administration and control system covering aid schemes for arable crops, beef and veal, sheepmeat and goat meat. As a means of exercising control over scheme payments the system envisaged the establishment of a database of all farmers, farm holdings and eartagged animals. In order to be considered for inclusion in these schemes, a farmer must submit an area aid application in which the applicant declares the area of his whole land holding. The application is supported by maps of the relevant land parcels, the purpose of which is to identify the farm upon which the various aid schemes are being claimed.

As a result of the CAP reform measures, the annual number of applications received from farmers increased from 432,000 in 1992 to 667,000 in 1996 with a corresponding increase in the value of payments from £351m to £747m. The number of cheques issued has increased dramatically over the same period due to the increased levels of applications and to the fact that, in the case of two schemes, payment is made by way of advance and final instalment. The total number of payments made in the period 1993-1996 was of the order of 3 million while the overall value of those payments was £1,633 million.

32. Controls over Cattle Identification

The Department is responsible for administering the programme for the eradication of disease in cattle and for the programme of cattle premia and headage grants. Although the programmes operate independently and have fundamentally different objectives, they both involve the same pool of animals and the same farmers and use the same control and identification structures. For example, both programmes rely heavily on the eartag number *viz.* a unique alphanumeric identifier, recorded by the district veterinary office (DVO) in respect of each animal presented for disease control tests and on the complementary cattle identity card which is issued to the owner. The data on animals and their movements provided by the disease control programme and the information provided by the applications for premia and headage result in the Department having access to a large volume of information from both sources on both cattle and applicants.

During 1996, an analysis was undertaken by my staff of the computer records of payments issued under the special beef and suckler cow schemes. The special beef scheme is for male animals while the suckler cow scheme is for female animals. During 1996, £167.1m was paid under the special beef scheme while £157.7m was paid under the suckler cow scheme.

The analysis pinpointed significant incidence of the same animal eartag number being recorded under both schemes which, potentially, could be indicative of a high level of overpayment. Detailed examination by my staff of a sample of these cases by reference to disease control records showed that

- There is no systematic programme of computerised or manual cross-checking between premia applications and disease control records and any co-ordination of data between the various databases and files tends to be carried out on an exceptional basis.

- A small number of errors were due to incorrect entry of data to the computer system.
- Animals recorded in disease control reports as female were declared for the special beef scheme and in some cases were declared later for the suckler cow scheme.
- Animals were recorded as male when first tested for disease control purposes and as females in all subsequent tests. In most of these cases, replacement identity cards with the gender amendment were then issued by the DVO to the herdowner, apparently, without investigation of the gender change or if the premia had been incorrectly paid.
- Female animals which had not been declared for the suckler cow scheme were instead declared for the special beef scheme, indicating that the computerised control on matching eartags put in place for the 1996 suckler cow scheme was limited to animals declared under both schemes and may not reveal all overpayments.
- There was a high incidence of private veterinary surgeons misrecording eartag numbers in disease control reports. Errors in relation to eartag numbers were not discovered until the actual herdowner applied for premia but valid applications for premia were rejected as the eartag numbers had already been declared by another herdowner.
- Although identity cards must be forwarded with all special beef scheme applications, some were accepted for payment without the cards.
- Several of the files examined revealed that herdowners submitted applications for all of their animals under every scheme, whether they were male or female, beef or non-beef breeds and the applications were accepted unless the eartags were rejected as having already being declared under a scheme.
- The disease control reports filed at the DVOs showed that animals on which premia had been paid were absent from the herd on the date of application or before the end of the required retention period.
- Re-tagged animals were accepted for premia payment without assurance that the animal had not already been declared under its original eartag. In many cases there was no indication of the original eartag number of the re-tagged animal, preventing any check on previous payments. The EU Commission has repeatedly drawn attention to the Department's lack of control over retagged animals.

These findings led me to the conclusion that

- Control over the system for recording and administering cattle eartags was insufficient for disease control purposes and for ensuring that overpayments of premia/headage grants did not occur.
- While much of the information necessary for effective control is already available to the Department it is not co-ordinated or integrated in such a way as to allow effective cross checking to prevent incorrect payments.

In response to my inquiries the Accounting Officer stated that

- While there is no formal integrated system operating between the divisions dealing with animal disease control and livestock headage and premia payments, nevertheless informal contacts between the divisions are the norm given that DVO and livestock personnel are accommodated in the same network of local offices. The Department has established a liaison group in 1997 between the two divisions in order to address issues of common concern.
- In an overall context the examinations showed a reasonably low incidence of apparent matching eartags, some of which may have been attributable to clerical error rather than false declaration. In all some 7.5 million identity cards were received with special beef scheme applications in the period 1993-1996. Checking that cards accompany each application form is a manual exercise and it is quite difficult to ensure 100% accuracy. However, all staff have again been instructed to check such cards thoroughly and to bring any discrepancies to the attention of supervisors. In this connection, in line with the EU requirements, individual staff members have been issued with a detailed procedures manual and all transactions are subject to a percentage supervisory check.
- While the 1992 EU regulations for the completion of the integrated administration and control system for the reformed CAP schemes provided for computerised databases, including eartag numbers and cross-checks between those databases, this was not required until 1 January 1997 *i.e.* after the period covered by the audit. Nevertheless, following previous observations from audit the Department introduced in 1996 the system of cross-checking all eartags between the suckler cow and the special beef schemes. The cross checking was extended in 1997 and ensures that any errors identified are brought together and subject to full checks. Any overpayments arising from such checks are immediately added to the central overpayments register and are recouped automatically from subsequent entitlements.
- The Department carried out a preliminary examination of the data received in 1996/97 which established that some 4,500 animals which had been claimed for under the 1996 suckler cow scheme had previously been claimed and paid for under the special beef scheme. An examination of these cases at local office level confirmed entitlements to suckler cow scheme in 1996. A further preliminary examination of the data in respect of seven counties confirmed that 1,820 of these 4,500 cases gave rise to a total of 372 herdowners being overpaid. The Department is presently carrying out a complete examination of the remaining 2,680 cases and will report its findings to me as soon as that examination has been completed.
- With effect from 1 January 1996, in accordance with an EU Directive, the Department introduced a new system of identification and registration of animals. Though not required by the EU, the Department introduced a system of computerised registration of all cattle births. This data is captured in a central database and declarations made by applicants for suckler cow and special beef schemes in 1997 will be cross-referenced against this new central database. In addition, the recently launched national beef quality assurance scheme includes, as a key component, provision for a computerised movement monitoring system to be implemented by early 1998. This will enable the movement of all bovine animals to be traced over their entire lifetime. In the longer term all animal health data will also be captured on this system.

- It was not possible to estimate the number of female animals misrecorded as males or vice versa in disease control reports for 1994-1996. Recording of gender of animals at herd test is a function of the veterinary surgeon carrying out the herd test. While it is accepted that in a small number of cases the incorrect gender may have been recorded the Department has no evidence to suggest malpractice in the recording of such information. It is also accepted that in a small number of cases the DVO may have detected gender error and corrected the identity card but failed to take action in relation to premium payments issued under the original. 2 million calves are born and eartagged by veterinary surgeons each year and 10 million disease control tests are carried out on animals annually. Eartagging and recording of test data takes place on farm and is bound to result in some level of human error. Under the new system for identification and registration of animals, effective from 1 January 1996, individual farmers are obliged to eartag and record individually, within 30 days, the details of all calves born on their holdings. Veterinary surgeons are therefore no longer involved in recording the gender of a large number of animals simultaneously - something which can give rise to a higher error rate. Where errors are subsequently detected, the Department will be in a position to highlight such errors to the farmer concerned and, where necessary, take steps to prevent persistent errors.
- While it is not possible to carry out computerised cross checks because all disease control test data is not computerised, the Department carries out manual cross-checks against the information on disease control test reports in 8% of applications for headage and premia grants which are not subject to field inspection. A record of the results of such cross-checks is not systematically maintained. The Department is examining the cases noted on audit where animals were not presented for disease control test but were paid premia.
- Arrangements are now in place which ensure accurate recording of all retagging in order to avoid duplicate payment. Re-tagged animals not associated with the original tags are no longer eligible for payment and replacement identity cards issued to the farmers reflect this position.

The Accounting Officer also stated that the Department makes strenuous efforts to ensure that applicants for the various headage and premia schemes receive their just entitlements. In this context, in accordance with the charter of rights for farmers, the Department introduced in 1995 a review and appeals procedure for all farmers who are dissatisfied with decisions made under the schemes. The Department is obliged, under EU rules, to carry out a minimum number of field inspections based on risk analysis criteria. In the period under review the Department was fully compliant with this requirement. The Department is satisfied that such on-farm inspections reduce the risk of female animals being claimed for under the special beef scheme. The planned computerised movement monitoring system and the linking of the animal health data into that system in the longer term, will address any weaknesses in the present system.

33. Control over Herd Numbers in the Administration of Payments

Only registered herdowners, *i.e.* those issued with a herd number by the Department's District Veterinary Offices (DVOs) for animal disease control purposes, are eligible to apply for payment under premia and headage schemes. The Department relies on the herd number to act as the unique identifier for individual farmers. Acceptance of applications under the schemes and release of payment both depend on the validity of the quoted herd number being confirmed by computer. There were 249,000 herd numbers on the computerised herd master file in May 1997, of which

162,000 were active. In reality, many farmers can have two or more herd numbers. For example, herds which are several miles apart and owned by the same farmer are identified by separate herd numbers issued by DVOs for disease control purposes. The herd number is a key element in the control of headage and premia payments and every herd number, whether active or dormant, on the system has the potential to be used to obtain such payments.

During audit the following matters were noted

- The existence of multiple valid numbers allows greater scope to avoid scheme restrictions, such as the limit on the number of animals or acreage of land holding which can be used for scheme purposes. Instances of this were noted on audit.
- A farmer must transfer his/her holding on entry into the early retirement scheme (ERS) and is no longer eligible for premia or headage payments. Some farmers continued to receive payments under the schemes even though they had already retired. Although the Accounting Officer had assured me in August 1996 that arrangements were being made to ensure that the herd number was transferred or cancelled before payment of the ERS pension, this arrangement was still not in place at the time of audit in March 1997.
- Herd numbers were not deleted when holdings were transferred and cases were noted where arable aid payments were made to the registered farmer even though the application form was submitted by another farmer. No check appeared to have been carried out as to entitlement to payment.

In response to my inquiries regarding controls over herd numbers, the Accounting Officer stated that

- In view of the different requirements of the system designed to identify herds for disease control purposes and to make payments under EU schemes, he acknowledged that the system is not always the best way of identifying and controlling the eligibility of applicants for premia and headage payments. While it seems that the system is working reasonably well the Department nevertheless is addressing, within the context of re-development of its accounts system, the setting up of a client database which will assign to each individual a single unique identification number and will allow the most comprehensive cross-checks on all data for that individual relating to all Department schemes.
- In relation to applicants with more than one herd number, the client database will be the ultimate solution to the possible improper use of multiple herd numbers by the same person. Steps already taken by the Department will prevent future growth in the incidence of such multiple herd numbers. The problem of how to identify existing multiple herd numbers within the present system is being examined and the solutions adopted will be communicated to me as soon as possible.
- The problem of withdrawal of herd numbers from early retirement farmers is being examined urgently, within the context of the present arrangements, in order to eliminate any possibility of future overpayment. I will be advised as soon as possible of both the outcome of this examination and progress in recovering overpayments which have already arisen because of this problem.
- Overpayments arising from the use of a second herd number are recorded on the overpayments computer file and recovered from other payments falling to be made

legitimately to the applicants concerned. The manner in which the data was written to that file does not permit the circumstances giving rise to any particular overpayment (whether due to a second herd number or whatever) to be identified. However, a list of 124 secondary herd number cases was referred, in June 1997, for investigation and appropriate action, including recovery of any overpayments that have arisen. I will be informed of the outcome of such action.

- The issue of ensuring that herd numbers cannot be used to obtain fraudulent payment is being addressed in the context of the Department's general examination of herd numbers.

34. Land Parcel Identification System and Overlapping

As part of the EU's CAP reform measures, the Department was required to introduce by 1 January 1996 a computerised land parcel identification system. The contract for the recording and identification of land parcels was awarded to a private firm (the contractor) in June 1995. Farmers submitted application forms for area aid supported by Ordnance Survey maps which were sent by the Department to the contractor. A computer database was created by the contractor by digitizing the Ordnance Survey maps and the files were then returned to the Department. Each plot is denoted by boundary lines and, once computerised, is given a unique identification number which incorporates the herd number of the applicant. Plots or parts of plots which were recorded on more than one application were flagged as overlaps. The maps produced from this process were issued to farmers with pre-printed 1996 application forms and applicants were requested to correct any mapping errors which had arisen in 1995. A departmental project board was created to oversee the implementation of the project and a consultant was appointed to assess the project and provide guidance to the project board.

During audit it was noted that

- In July 1996, the contractor advised my staff that 120,000 plots had been flagged as possible overlaps during the original mapping process – this could indicate overpayment, as aid was paid on the basis of the acreage declared on the maps. The Department was then requested to make the record of overlap cases available for audit and a file of 24,000 cases was provided in January 1997 which the Department stated was the full record of overlap cases at that time. The Department explained that the remainder had been resolved but its computer system could not retrieve those resolved cases. The information provided was inadequate for audit purposes and following a further request the Department forwarded in March 1997, a computer list of 10,794 overlapping plots ranging in area from 1 hectare to 21 hectares.
- The minutes of the project board and the consultant's reports revealed that the issue of overlapping plots had already been raised on numerous occasions since late 1995. Among the matters raised was a proposal to have the Department's inspectorate examine a sample of overlap and overpayment cases and prepare a report which might be shown to the EU Commission. It was also proposed that overlapped maps be returned to applicants to recheck their applications for errors.
- The contractor kept a register of all movements of area aid application files with the Department but no such record was maintained by the Department. A comparison between files registered as received by the contractor for computerised mapping and the

Department's record of payment of arable aid premium revealed 1,437 payees, in receipt of approximately £7m in arable aid, whose files had not been registered as received by the contractor. As there was a risk that there was no documentary evidence supporting these payments a sample of 34 of these files was requested for audit purposes in November 1996 but only 15 had been received by May 1997 while a further 16 were received in July 1997.

Due to the possibility of large scale overpayments having arisen I raised the matter with the Accounting Officer who informed me in July 1997 that

- Under the relevant EU regulation the land parcel identification system did not have to be completed until 1 January 1997 (extended from the original date of 1 January 1996 because of the impossibility of compliance with that date by many member states). The system was not completed substantially until March 1997. The EU Commission was kept fully apprised of all the problems and delays relating to the development of the system. Where the digitisation was not finalised the EU agreed to all 1996 payments being made, provided no fault lay with the applicant and provided applications with incomplete information were not accepted.
- The estimate of 120,000 cases of overlap was in the nature of guesswork on a 'worst case scenario' basis rather than a firm estimate that could be backed up by supporting data and was given some nine months before the project was substantially completed.
- The number of apparent overlaps fell from the original estimated 120,000 due to
 - ▶ in a small number of cases, applications for the same parcel of land being received under two herd numbers
 - ▶ some digitizing errors made by the contractor
 - ▶ the Ordnance Survey maps submitted not, in many cases, taking account of land rearrangements made since mapping took place. To resolve these problems, Department staff obtained detailed Land Commission and Land Registry maps and used these, in conjunction with orthophotography, to outline plot boundaries accurately in rearranged areas. In most cases this eliminated the apparent overclaims made by the farmers involved. The Department issued about 13,000 letters in February 1997 and the replies to these are being examined to see whether area overclaims were involved and, if so, whether these gave rise to overpayments, which will be recovered from 1997 payments as agreed with the EU Commission. By March 1997, 10,974 cases were unresolved.
- The 1,437 shortfall between the Department's payment file and the contractor's list of cases registered as received is probably accounted for by the contractor's failure to register certain cases received. The documentary evidence existing in support of the payments in these cases comprises their actual area aid applications. The Department is satisfied from the checks carried out to date on a sample of these files that the payments to these 1,437 cases are in order. However, in order to be certain of this, the Department is now reviewing all 1,437 cases and will provide the results of that review to me.

- The three outstanding files were being assembled for transmission to my Office and the delay was due to the contractor needing so many of these files for completing the computerised mapping process.
- Given the limited resources at the time, the Department left the maintenance of adequate records of the files and their movement to the contractor. Some extra Departmental resources have since been put in place and arrangements made to ensure that during future updates of the system by the contractor, the maximum number of files will be retained in the Department but a record will be kept of any files forwarded to the contractor.

35. Computerised and Manual Payments

The Department operates a computerised system for headage and premia payments. All relevant details about the applicant and the animals on his/her application are recorded on the system and retained on the computerised master file. When the applications are validated the system generates automatic payments. The data on the master files, in addition to being an accounting record of applications and payments, also acts as a cross-check with other applications in the scheme to prevent incorrect payments, including payment of headage/premia on the same animal twice. In cases where there are problems with applications, stops can be entered against an applicant's file to prevent payment. If resolution is delayed until after a certain point, payments are subsequently processed manually. Manual payments may also arise for a number of other reasons *e.g.* change of ownership. There should be a stop on the computer file for every manual payment.

Up to November 1996, a total of 18,683 manual payments, amounting to £11,073,213, were made on beef headage and premia schemes (including extensification premium) for the period 1993 to 1995 but the applicant and claim details upon which those payments were made were not recorded on the computer system.

A comparison of the manual payments of special beef premium and extensification premium with the stops file for these schemes revealed that in 64% and 62% of cases, respectively, there were no stops on the computer payments file in respect of applicants who were in receipt of manual payments.

A random sample of 30 manual payments examined by my staff revealed that in three cases computerised payment had also issued. A subsequent detailed audit of a targeted sample of 47 applicants, identified as possibly being in receipt of duplicate payments, revealed 43 overpayments amounting to £60,452 of which 28 were detected on audit by my staff while at least half of the remainder were payments returned by the applicant. In 7 of the overpayment cases the automatic payment preceded the manual payment and vice versa in the remaining cases.

In view of the risk of duplicate payments being made in the absence of adequate controls between the computerised and manual systems, I inquired why administrative and control procedures failed to guard against such duplication and whether these systems would be reviewed. I also inquired as to the reason for large numbers of manual payments on a computerised system and what action was proposed to reduce or eliminate manual payments.

In response the Accounting Officer stated that

- In the context of the substantial increase in the value of transactions the number and value of manual payments represents only a tiny fraction of the total number and value of payments made in the period 1993-96.
- After the audit the Department carried out an analysis of all of the 3,919 manual payments issued under the special beef premium scheme in 1994 and 1995 and determined that 65 of these were duplicate payments. In 12 of these cases the overpayments which arose have already been recovered. In all other cases letters have issued to applicants requesting refunds of the overpayments. On checking another 24 cases of possible overpayments for another beef scheme forwarded by my Office to the Department, 12 were discovered to be duplicate payments amounting to £4,511. The duplicate payments were mainly due to the reactivation of herdnumbers. Steps have been taken to notify the relevant sections as soon as herdnumbers are reactivated.
- While agreeing that any duplicate payment is unacceptable, the level of error is reasonably low considering the new arrangements put in place in 1993, the volume of applications, the different schemes involved, and the linkage between the schemes concerned.
- The procedures in place for issue of manual payments are clear and instructions have issued to all local offices to ensure that stop payment indicators are input to the computer system in all cases where it is deemed necessary, for whatever reason, to issue a manual payment. The Department accepts that these instructions do not appear to have been followed in a small minority of cases. The Department will now issue revised guidelines with a view to ensuring full compliance with the procedures.
- It has not been possible to develop an integrated computer payments system as yet because of the extra workload and computer requirements associated with the implementation of the overall CAP reform arrangements. In the longer term, the whole area of computerised payments is being addressed in tandem with the re-development of the Department's accounts system. The proposed new system will include the following components
 - ▶ A client database to hold basic details of all the Department's clients. A payment will not issue to anyone who is not registered on the client database and it will be possible to report by client on all payments made via the payment system. Accounts division and all operational divisions will have access to this system.
 - ▶ A payments system to generate and record all payments.
 - ▶ A debtors ledger to record amounts owing to the Department and payments received by the Department.
- The new system will allow for automatic electronic capture of what presently constitutes manual payments. In the meantime, the Department is examining the whole procedure for making manual payments with a view to putting new procedures in place for the 1997 scheme payments.

36. Duplicate Payments

Each line division of the Department is responsible for ordering its own goods and services and for authorising payment. Procedures vary from division to division, *e.g.* some maintain order books while others do not. Each division is responsible for ensuring the validity of payments, that payments are traceable to properly kept records and that payment instructions have proper authority. Payments are made by the accounts division on instruction from the relevant line division, which provides details of the name, address, amount payable and the subcode to which the expenditure should be charged. Supporting documentation in the form of invoices/scheme listings are generally provided. The forms and supporting documentation are checked by accounts staff for accuracy and authority but, beyond processing payment, there is no central control procedure in accounts division which would prevent duplication of payments in situations where procedures in the line division do not ensure the validity of payment.

Details of duplicate payments discovered on audit by my staff have been brought to the Department's attention on three occasions in the last four years and the Department was asked to introduce controls to prevent further occurrences. The explanations provided indicated that the problem lay in errors by line divisions in the handling and authorisation of invoices and claims. Errors included a line division processing the same invoice twice, either because the invoice was not endorsed on the first occasion or because a photocopy or delivery docket was also authorised. More than one division authorised payment in respect of the same goods or service often because an original invoice was sent to one division and a photocopy to the other, usually because the original was thought to have been mislaid. Premia payments were also duplicated, with divisions authorising payment twice, apparently unaware that identical claims had either been processed a short time previously or were being processed at that time. Duplicate payments noted on staff claims for travel and subsistence arose also because claim copies were forwarded in the mistaken belief that the originals had been mislaid and both were processed for payment.

The following are examples of duplicate payments arising in recent years

- In May 1995, following a stocktake by Departmental staff, an overpayment of £173,000 was recouped from a company on foot of two invoices issued for the same order. Equipment was rejected and returned to the supplier in May 1994, but the replacements were also invoiced and paid in full in 1994. As both invoices were authorised, accounts division processed payments in the normal way, unaware of the duplication.
- In March 1994, a duplicate payment of £4,287 was issued to an organisation as a result of the processing of a duplicate invoice. The overpayment was brought to the Department's attention by my staff in August 1995, but during audit the following year similar duplicate payments of £1,902 in January 1995, £2,594 in March 1995 and £3,117 in June 1995 were noted. All payments were processed by accounts division following receipt of authorisation from the line division.
- In May 1996, an invoice for £39,061 and a credit note for £10,287 was received from a company. The division prepared a payment demand to accounts division for £28,774. However, when the file was returned from accounts division after payment, it was immediately noticed that the full amount of the invoice £39,061 together with the amount of the credit note £10,287 had been paid. This represented an overpayment of £20,574. The company gave a refund on notification by phone.

- In two separate cases during 1996, duplicate cheques relating to BSE compensation, amounting to £152,000 and £73,568 were prepared following a request from the line division. The duplicate cheque for £152,000 was cancelled and was returned by the farmer on request shortly after issue. The other cheque did not issue and was cancelled when the duplication was discovered by line division.
- During the audit of 1996 payments a sample of 100 payments with a high risk of duplication were examined and following review, 10 duplicate payments were identified, 6 of which had not been known to the Department.

While recognising that the Department has to process a large and varied volume of payments from many sources, in view of the continuing problems in this area I requested the Accounting Officer's observations on the adequacy of the present system and whether any consideration had been given to introducing some centralised control on ordering and payment functions.

The Accounting Officer informed me that

- Established procedures provide that when all payment files are returned from accounts division they are checked in the line divisions to ensure that payments made correspond with instruction. The necessity to carefully examine the documentation supporting payment instructions forwarded by divisions and to differentiate invoices, credit notes etc. has again been stressed to staff in accounts division. Where original invoices have not been received and only photocopies are available, the officer in the line division is required to certify that no previous payment has taken place.
- For equipment purchases, all orders are now assigned an order number which suppliers must quote on invoices and when invoices are received they are checked against the order number and marked paid.
- As regards BSE, there were 73 confirmed cases of BSE in 1996 compared to an average number in previous years of 14. Each case generates a number of payments and the increased volume of work was handled by one member of staff. The duplicate payments occurred when the officer concerned was on annual leave and officers who were not totally familiar with the system were substituting. In December 1996, the division introduced a new control system.
- While any duplicate payment represents a system failure, and is regretted, it would appear that the number and value of known duplicate payments made annually represent a very small fraction of one percent. Divisional checks on payments executed and ongoing work on files give rise to a high level of detection.
- The Department has commenced the implementation of a major new computerised accounts system, which should be in place by late 1998. The solution to the problem of duplicate payments lies in the introduction of this new system, allied to the revision of accounting practices in line divisions and accounts division which this will involve.
- In the short term, an instruction will issue to all authorising officers in line divisions requiring that they maintain a register of all payment instructions sent to accounts division and that on receipt from accounts division of evidence of payment, they note in the register that the correct amount was paid and payment date. The divisions will also be required to

notify accounts division, verbally and in writing, of any discrepancies discovered in this process.

- Accounts division is setting up a register to record particulars of all duplicate payments coming to its attention, including the reasons for the occurrence, with a view to instigating preventative measures. It is also planning to use an audit package in routine trawls of payments to identify and rectify on an ongoing basis any duplicate payments uncovered.

37. Collection of Land Annuities

Paragraph 64 of the 1993 Report refers to the buy-out scheme introduced in 1993 to deal with land annuity arrears. The buy-out scheme provided for

- The capping at 10% of the interest rate applying to annuities and the rescheduling of the repayment period.
- The offer to annuity payers not in arrears of a buy-out option at a discount of 50% of the outstanding advance, to be exercised by 31 May 1993.
- The write-off of all annuities with half yearly instalments of less than £10.

In September 1994 the Department estimated the cost of the buy-out scheme to the Exchequer as follows:

	£
Capital	8,500,000
Annuity interest forgone	7,500,000
Write-off of small annuities	<u>347,000</u>
	<u>£16,347,000</u>

The Memorandum to Government in 1992 proposing the buy-out scheme indicated that, if the proposals were accepted, collection procedures would have to be strictly enforced both to secure timely payment and to ensure against a future build up of arrears.

During the course of audit it was noted that arrears had increased since 1994 as follows:

	£
March 1994	2,635,019
March 1995	3,246,044
March 1996	3,688,755
March 1997	3,576,631

Tests carried out by my staff indicated that, at the end of 1996, 81% of the arrears outstanding had been incurred since the buy-out scheme and approximately 50% of all annuities were in arrears.

In a targeted sample of nineteen cases examined on audit the annuitants had benefited from the 1993 buy-out scheme but, at the end of 1996, annuity arrears in these cases amounted to £114,070 while

payments received since 1993 amounted to £3,266. The action taken in these cases can be summarised as follows

	No. of Cases
No action taken since 1992	7
Files could not be traced	2
Files with inspectors for follow-up action	5
Annuitants had agreed to reduction of grants receivable against their arrears	2
Some correspondence but no conclusive action	3

There were three other issues which appeared to be indicative of the Department's lack of diligence in managing land annuities collection *viz*:

- In paragraph 43 of the 1992 Report the Accounting Officer stated that, following a Government decision on the matter, it would be possible to transfer collection responsibilities from county registrars to the equivalent of revenue sheriffs by the end of 1993. However, in May 1996 the Department notified the Department of Justice that the proposal to replace registrars would be deferred and that a limited number of warrants would be issued to county registrars. No warrants had been issued up to November 1996 and none had been executed since 1989.
- The 1992 Report also drew attention to the inadequacies of the computer system which was incapable of reconciling individual account balances with the total of arrears and that it was intended to replace it with a new system. This system was not operational by November 1996.
- In June 1994, the Accounting Officer also advised that as the Attorney General had expressed doubts as to whether the current legislation gave the necessary legal authority to abate annuities or to reduce capital owing in the event of redemption of annuities, the matter of getting statutory authority was being addressed, but by December 1996 this had not been finalised.

Due to the continuing unsatisfactory position regarding the collection of land annuity arrears and the overall delay in finalising matters since 1992, I requested the observations of the Accounting Officer who stated that

- A factor in the increase in the arrears was that some farmers who had high repayments and who were in arrear were unable to avail of the 1993 buy-out scheme. While the interest rates on their annuities were reduced to 10% the repayments were still excessive having regard to the size and earning capacity of the farms. In this connection it was agreed, in the context of the Partnership 2000 negotiations, that the Departments of Agriculture and Food and Finance would enter into discussions with farm organisations to consider ways of rescheduling payments in individual cases.
- Department of Finance approval has been obtained to reschedule annuities in cases where the annuity is deemed to be too high. This will mean that the existing arrears will be capitalised and the farmer will pay a further reduced annuity over an extended repayment period. It will be a condition of the rescheduling that the farmer will allow the Department to offset any headage and premia payments if the annuity is not paid promptly.

- Some collection staff had to be assigned to headage and premia schemes due to the growing volume of work associated with those schemes. Land Commission inspectorate staff were also redeployed to deal with new agriculture schemes. Consequently, the Department was unable to pursue defaulters as diligently as would have been desirable and collection work in the years 1993 to 1995 was principally confined to issuing bills and recording cash payments. In addition, the reconciliation of payments under the 1993 buy-out scheme turned out to be very time consuming due to the limitations of the computer system and was not finished until 1996.
- Staff were reassigned full-time to collection work in 1995 and 150 major defaulters were selected for visits by Inspectors in 1996. Some £150,000 was collected as a result of these visits and there has been an improvement in the overall arrears position. As part of the general strategy to reduce the arrears it is intended that Inspectors will be deployed full-time to visit defaulters, report on the reasons for non-payment and make recommendations as to what action should be taken.
- The Department of Justice was asked in writing to appoint revenue sheriffs in place of county registrars for the purpose of enforcing warrants against defaulters but had reservations about doing so. The Department of Justice has, however, suggested that the county registrars be given a further opportunity to enforce warrants and that the position be reviewed in the light of results. Arrangements are being made to issue warrants to county registrars in respect of up to 14 of the 150 defaulters visited. In future the Department intends to issue warrants for enforcement against farmers falling into arrears again.
- It is not possible to say how many cases and how much of the arrears could be deemed uncollectable. Some of the arrears could be statute barred but the right of the Department to recover the land covered by those arrears is not statute barred. The collection of arrears can thus be carried out by the threat of recovery or sale of the land if that proves necessary.
- Due to limitations in the computer system it proved impossible to continue the process of reconciling individual account balances after 1979. A new computer system is almost ready to go operational and while it will not be able to reconcile existing accounts it will be able to perform reconciliations on new agreements starting at the May/June 1997 gale.
- Proposals for Government to obtain statutory authority for the Government decisions of 1989 and 1992 on annuity buy-out, write-off etc. together with necessary amendments to the 1965 Land Act and the Irish Land Commission (Dissolution) Act 1992 are being drafted.

38. Collection of Bog Rents

Non-agricultural lands, formerly owned by the Land Commission and now under the responsibility of the Department of Agriculture and Food, comprise mainly boglands, mountainside and forestry. The Land Commission also had turbary rights over a sizeable acreage of other boglands. Turbary rights entitle a person to utilise the resources of land which he does not own. Up to 1988, bogs (whether owned by the Department or where the Department had turbary rights) were let for turf cutting and the lettings were arranged annually through the Land Commission inspectorate. Rental demands were issued by the Department from the list of such lettings returned by the inspectorate.

According to 1987 statistics, annual receipts from bog rental amounted to £53,500 payable by 3,743 tenants.

In 1995, an internal review of procedures in the Department revealed that the collection of bog rents had fallen into abeyance since 1989. No rental demands had been issued in the intervening period indicating a potential loss to the State of some £400,000. Pre-1989 arrears of £56,287 which had not been pursued were sanctioned for write-off by the Department of Finance in 1996. In its submission for sanction the Department acknowledged that it was likely that some tenants had continued to cut turf since 1988 but the identities of most were unknown. The Department undertook to re-establish the billing procedure from 1996.

In view of the potential loss of £400,000 I inquired as to why the Department had not pursued the collection of rents since 1988 and the action proposed in relation to rents due but not paid. I also inquired as to whether the Department was satisfied that it had a complete record of all of its non-agricultural holdings and turbary rights, the commercial value of these holdings and rights and the Department's plans for the management of these assets in the medium and long term.

In response the Accounting Officer stated that

- Land Commission staff were diverted from this work to headage and premia schemes since the late 1980s. As a result, the practice of getting bog schedules signed by tenants and getting bills issued was not pursued as diligently as it should have been. In any case, the staff resources needed does not make the collection of bog rent cost effective and when faced with staff resource difficulties the Department had to make certain choices. Some inspectors did, however, get tenants to continue signing copies of old schedules annually and hand written bills were then issued for the relevant amounts.
- It is not possible to say precisely how much rent should have been collected between 1989 and 1995 because some bogs were sold off in the meantime and annual rents vary depending on quality of turf and demand for turf cutting rights. The annual rental collectable in the intervening years is estimated to have been about £50,000 per annum if all turbary rights had been let. It is estimated that only about a quarter of prospective lessees signed letting agreements in 1996 due to the non-availability of inspectors and the value of those lettings was £13,606, of which about £9,000 has been paid.
- The Department is satisfied that all receipts to 1995 have been properly brought to account.
- A central register of Land Commission lands, both agricultural and non-agricultural is maintained by the Department and a control procedure is in place to check that all lettable lands are let. According to the register, the Land Commission is still in possession of 2,698 hectares of non-agricultural land with an estimated value of £300,000.
- No complete record of turbary rights has ever existed and it would not now be possible, within current resources, to compile such a record. Moreover, the costs associated with such an undertaking would, in all probability, exceed the value of turbary rights involved. Neither is it possible to estimate the value of turbary rights on hand. A vast number of these turbary rights are, in reality, of no commercial value to the State. Many are located in inaccessible areas or in areas designated as being of special environmental interest. In some areas turbary cutters have established competing rights through long term use and in others the turbary has already been cut away and the land planted with trees.

- Given the uneconomic nature of the whole exercise of billing and collecting bog rents, the Department is currently considering the feasibility of dispensing with this particular scheme and any legal or other constraints will be considered in this context. In the meantime, as part of the general strategy to reduce arrears, inspectors will be deployed to visit tenants with a view to ensuring compliance with the existing requirements. Every effort will be made to ensure that all lettable lands are let.
- The Department intends to dispose of all Land Commission lands at the earliest possible opportunity.