



Comptroller and Auditor General

Report on Value for Money Examination

Department of Agriculture and Food

Administration of Premium and Headage Grant Applications

October 1998

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The report was prepared on the basis of information, documentation and explanations obtained from the bodies referred to in the report.

The draft report was sent to the Accounting Officer of the Department of Agriculture and Food. Where appropriate, his comments were incorporated in the final version of the report.

Report of the Comptroller and Auditor General

Administration of Premium and Headage Grant Applications

I have, in accordance with the provisions of Section 9 of the Comptroller and Auditor General (Amendment) Act, 1993, carried out a value for money examination of the administration of premium and headage grant applications by the Department of Agriculture and Food

I hereby submit my report of the above examination for presentation to Dáil Éireann pursuant to Section 11 of the said Act.

A handwritten signature in black ink, appearing to read 'John Purcell', with a large, stylized initial 'J' and a long, sweeping horizontal stroke at the end.

John Purcell
Comptroller and Auditor General

27 October 1998

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Summary

The Department of Agriculture and Food (the Department) administers a range of annual grant schemes for farmers producing livestock (mainly cattle and sheep) and certain tillage crops. Most of the funding for the schemes is provided by the European Union (EU) which specifies the rates of payment and rules about eligibility and how the schemes are to be administered. By the end of June 1998, a total of £786 million had been paid out in respect of 543,000 applications made under the 1997 schemes. Grant payments now amount to almost half of the aggregate income from farming.

Timeliness of Payments

Since grant payments are a significant element in the cash flow of farm businesses, the timing of payments to applicants is a critical issue. The Department aims to complete all the necessary processing and make payments to eligible applicants as quickly as possible within the time frame specified by the EU.

Payments under the 1997 sheep and tillage schemes were made fairly promptly but payments to many 1997 cattle scheme applicants were significantly later than they could have been. Delays in payment arose because the Department has ongoing problems with the computerised mapping system designed to capture details about each farmer's landholding and grant applications and because of extra work associated with Bovine Spongiform Encephalopathy (BSE) and agrimonetary compensation payments. Errors in applications also led to correspondence with applicants and consequential delays in processing of claims. Late inspections may have contributed to delays in payment in some cases.

While delays in payments of grant moneys have been a persistent feature of administration of the schemes, real improvements in bringing forward payment dates have been achieved since 1993. The Department has challenging target times for payments but has not yet fully achieved them.

In October 1998, 21,800 claimants' cases under the 1995, 1996 and 1997 schemes had not been finalised (5,100, 7,500 and 9,200 cases, respectively). However, the Department considers that most of the applicants (particularly the 1995 and 1996 cases) have no entitlement to payment.

Productivity and Costs

The overall cost of administration and inspection in 1997 is estimated at £18.1 million, equivalent to 2.3% of the grant payments made. The cost of administering individual schemes cannot be identified. Since 1993, the cost of administration has stabilised but

the imposition of EU financial penalties for failure to achieve required standards of timeliness and control has resulted in avoidable expenditure of over £9 million being incurred by the Exchequer

Measured in terms of cost and staff productivity, the levels of economy and efficiency achieved by the Department in administering the schemes have remained relatively constant since 1994.

There would appear to be scope for reducing inspection costs by better matching of staff to workloads and/or by substitution of temporary field resources for permanent staff to achieve possible savings arising from the seasonal nature of inspection work.

Inspection Procedures

Department staff carried out inspections of almost 77,000 applications under the 1997 schemes. Around 15% of cattle scheme applications and 24% of sheep scheme applications were inspected. Around 5% of tillage scheme applications were verified either by means of on-farm inspection or by examination of satellite photography. In the vast majority of the cases inspected, the applications were found to be in order.

Inspectors recommended the imposition of penalties in relation to around 3,700 (5%) of the 1997 livestock cases inspected. In over 900 of those cases, including nearly half of the sheep cases, the inspectors concluded that the applicant had been seriously negligent in making the application or had made a fraudulent application. As a result, the inspectors recommended that the applicant be barred from the scheme concerned for one or two years.

Recommendations made by inspectors are reviewed by supervisors before formal notice of penalties is given to the applicants concerned. Inspection decisions are also subject to review by administrative staff and by the appeals unit. While there is evidence that a significant proportion of recommendations on some schemes are not implemented, the Department does not monitor outcomes.

The results of the 1996 inspections indicated that there is very considerable variation from county to county in the level of irregularities discovered through inspection. This has implications for the management of inspection activity. The Department should systematically review the way inspections are carried out to ensure that the same standards are being applied everywhere. Quality assurance through supervisory review of inspection work and, in some cases, re-inspection, has been undertaken. Where there appears to be a higher incidence of irregularity, the proportion of cases inspected may need to be increased.

Risk-based selection of cases for inspection has been in use for all schemes since 1996. This was intended to increase the effectiveness of inspections in detecting irregularities. However, the results of the 1998 ewe premium inspection cases calls into question the effectiveness of the criteria used for risk-based selection.

Evaluating the Effectiveness of Grant Application Processing

The Department does not have reliable systems to evaluate the effectiveness of the administration of grant processing. Apart from limited targets for the timing of payments, no quantified performance targets have been set and the information systems are not geared towards providing performance indicators on areas such as the incidence, causes and means of discovery of errors and the tracking of the underlying level of irregularities occurring in the schemes. No formal programme evaluations of grant administration are undertaken.

Administration of Premium and Headage Grant Applications

1 Introduction

- 1.1 The Department of Agriculture and Food (the Department) administers a range of schemes which provide grants to farmers producing livestock (mainly cattle and sheep) and certain tillage crops. By the end of June 1998, a total of £786 million had been paid out in respect of applications made under the 1997 schemes. Around 93% of the amount paid out was provided by the European Union (EU).
- 1.2 Grants to producers of livestock accounted for 87% of the total paid out. Most of the schemes were available to qualifying farmers throughout the country (the premium schemes) but a few (the headage schemes) were restricted to qualifying farmers in the EU-designated disadvantaged areas (about three-quarters of the land-area of the State). Summary descriptions of the schemes are presented in Appendix A.

Operation of the Schemes

- 1.3 The administrative scale and extent of the schemes, as indicated in Figure 1.1, pose a considerable challenge to the Department.
- 1.4 The individual grant schemes are coordinated under the Area Aid programme. Under the programme, farmers who wish to benefit from the grant schemes are required each year to register details of their farms with the Department, including maps showing the location of their land and information about how it will be used.

Figure 1.1 Scale of operation of 1997 premium and headage schemes

Number of Area Aid registrations received	135,000
of which forage-only registrations	117,000
tillage and forage registrations	15,000
tillage-only registrations	3,000
Number of grant aid applications received	543,000
Grant applications per Area Aid registration	4
Total amount paid out (by end-June 1998)	£786 million
Number of eligible animals	12 million
Number of separate payments made	1,730,000
Average number of payments per Area Aid registration	12.8
Average number of payments per grant application	3.2

- 1 5 The Area Aid form is treated as the application form for grants in respect of tillage crops. Separate applications must be submitted for each of the livestock schemes at specified times of the year. Since many farmers qualify for grants under several of the schemes, they typically submit three, four or more grant applications.
- 1 6 The Department is required by the EU Commission to complete payments in respect of most premium grant applications made in a particular year by the end of June of the following year. Headage and tillage grants are normally paid in one instalment. Payments under most of the premium schemes are made in two or more stages. Further payments under other schemes are linked to applications made under premium schemes.
- 1 7 The costs of administration of the schemes are borne directly by the Department and are not recouped from the EU. The estimated annual cost to the Exchequer of direct administration of the schemes is over £18 million.
- 1 8 The schemes are operated by the Department under strict rules laid down by the EU Commission. These dictate the conditions for eligibility for payment, how the schemes are to be operated and the penalties to be imposed on applicants who fail to comply with the rules. Fewer than 3% of grant applicants under the 1997 schemes were penalised for non-adherence to the scheme rules. Over two-thirds of those were penalised because of late submission of application forms.
- 1 9 The EU rules also provide for financial penalties to be imposed on the Department itself for failures to administer the schemes in accordance with the requirements of the Integrated Administration and Control (IAC) System, including completion of payments within the prescribed timescale and the operation of sufficient checks and controls to ensure the correct payments are made to all qualifying applicants.

Inspection of Grant Applications

- 1.10 All applications for grant assistance are subject to administrative checks. In addition, a proportion of applications are subject to verification checks by Department officials to provide assurance that applications comply with the conditions of schemes.
- 1 11 For the livestock schemes, verification involves inspection visits to farms to examine the animals in respect of which grant applications have been made. All applicants are required to keep the relevant animals on their land holdings for specified retention periods, which vary from scheme to scheme. Inspections carried out after the retention period include examination of relevant documentation in respect of animals which have been disposed of. For tillage schemes, verification of application details is either by means of an on-farm inspection or by examination of satellite photography (remote sensing).

- 1 12 Prior to 1993, the Department carried out inspections on all applications for premium and headage grants. This resulted in very high financial costs for the Department and multiple visits to individual farms. Under the IAC system, verification checks are limited to a proportion of applications under each scheme on the basis that, if the verification programme is properly managed, the system can reach an acceptable standard of effectiveness at a lower cost, thus giving better value for money than the 100% verification approach.
- 1 13 Where an irregularity is discovered during an inspection, the inspector usually recommends a corrective reduction in the amount to be paid to the applicant in line with the regulations. If an applicant is considered to have deliberately caused an irregularity to occur, he or she may be barred from receiving any payment under the relevant scheme for two years. There is an appeal process for applicants who are unhappy with a decision relating to their application.

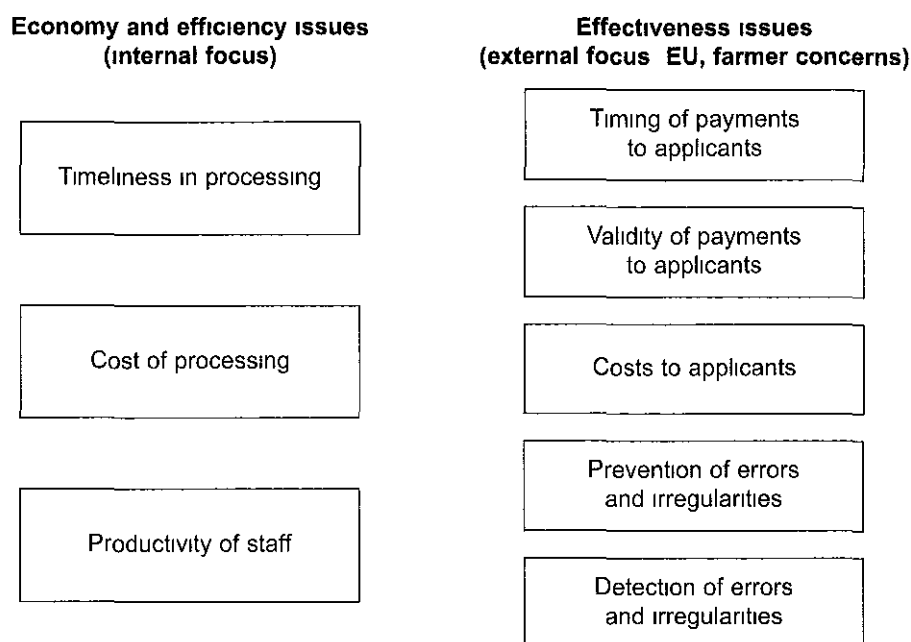
The Farmers' Charter

- 1 14 In 1995, the Department published a Charter outlining a range of commitments in relation to the services it provides to farmers. Overall, the Department's stated objective is the provision of "... a top quality, effective, efficient, expeditious and value for money service, particularly in relation to the headage, premia and arable aid payments system ..."
- 1 15 From the grant applicants' point of view, timely payment of amounts due is the primary consideration. The Department has specified target times for payment in the Charter but has not fully achieved them. This has given rise to complaints by individual applicants who do not receive payments on the due dates and by the farmer representative bodies.

Objectives of the Examination

- 1 16 This examination was undertaken primarily to establish the extent to which grant applications are processed economically and efficiently. In evaluating the Department's performance in those respects, it was necessary also to consider the balance struck by the Department between the achievement of economy and efficiency and the achievement of scheme objectives designed to meet the requirements of the EU Commission and the expectations of the farming community (see Figure 1 2).
- 1.17 Particular attention was given to examining the inspection system because it is a critical element in the provision of assurance that the payments made comply with the conditions of the schemes.

Figure 1.2 Value for money issues in processing premium and headage grant applications



1 18 The following specific questions were addressed in the examination

- How timely is the Department in processing grant applications and in carrying out inspections?
- Is the Department economic and efficient in processing grant applications and in carrying out inspections?
- Are inspections carried out in an effective way?
- Does the Department have appropriate systems to evaluate the effectiveness of the grant application process?

Scope and Methodology of the Examination

1.19 The examination focused primarily on the administrative processes involved in handling the grant applications and on the inspection process within the Integrated Controls Group of the Department's Agricultural Inspectorate

1 20 Reforms of the EU Common Agricultural Policy introduced in 1993 switched the emphasis in financial support for farming from intervention purchasing of farm products to direct grant schemes to farmers. This resulted in significant increases in the level of grant expenditure, in the number of grant applications and in the volume of grant payments made. Procedures for processing applications under the grant

schemes, including the arrangements for inspections, have constantly evolved since then. Consequently, where availability of data allows, the examination reviewed the trends in economy and efficiency of administration of the system over the years 1993 to 1997. The report also includes references to significant developments in relation to the 1998 schemes.

2 Timeliness of Grant Application Processing

- 2.1 Almost half the aggregate income from Irish agriculture in 1997 arose from premium and headage payments. As a result, the schemes are a major determinant of the structure and economic viability of agricultural activity and the payments made under the schemes are a critical element in the cash flow of farm business. The timing of payments is therefore a matter of very considerable importance to the farming community.
- 2.2 In processing applications for grant assistance, the Department has to ensure that the payments made are valid. At the same time, it must achieve efficiency by making the appropriate payments as quickly as possible, using the least possible amount of resources. In this chapter, the Department's performance is examined in terms of the timeliness of grant processing and of inspections. Resource use is considered in Chapter 3.

Timeliness of Grant Payments

- 2.3 EU regulations require that the Department should set premium scheme application dates which will allow sufficient time to carry out the required checking and validation procedures and to complete payments within specified time limits. EU regulations also specify dates on which the payments may commence, on condition that all checking and validation procedures are completed in relation to individual cases before payments are made to the applicants concerned. The Department makes the premium payments from borrowed funds and then recoups the amount from the EU on a monthly basis. Payments made after a specified date, outside of a small tolerance level, will not be funded by the EU.

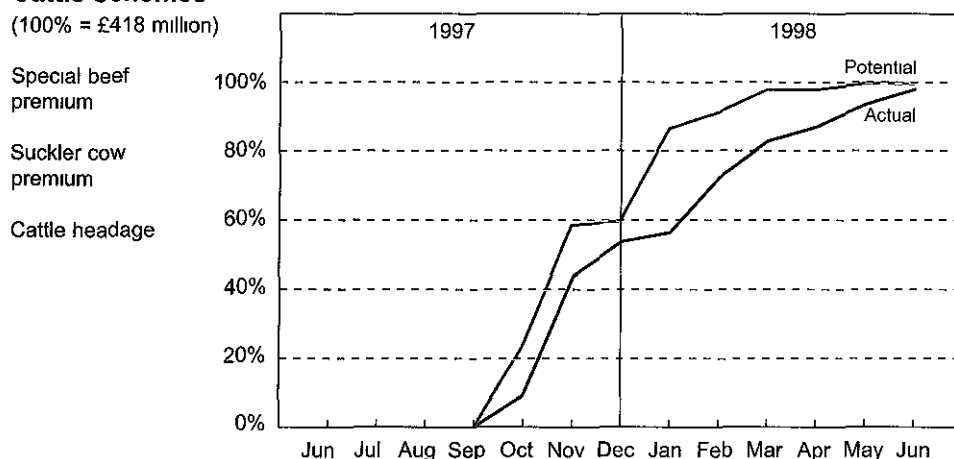
Timing of Payments in 1997

- 2.4 The payment targets set by the Department are the earliest permitted under EU regulations. This includes the setting of targets for advance payments under the premium schemes to improve the cash flow to farmers. However, monthly payment targets, against which ongoing performance in relation to timeliness of payments could be measured, have not been set. The payment targets are challenging, particularly in the light of the scale of operation. Furthermore, the decision to make advance payments means that the Department has reduced the period of time available in which to process claims and results in an increase of 20% in the number of payments to be processed.
- 2.5 Figure 2.1 shows the potential levels of expenditure over the period from 1 July 1997 to 30 June 1998 for the main 1997 cattle and sheep schemes and for arable aid. (This assumes that payments are made to all eligible applicants at the earliest due date.) The actual expenditure on the schemes is also shown.

Figure 2 1 Timing of expenditure on main 1997 premium and headage schemes - potential and actual payments, end June 1997 to end June 1998

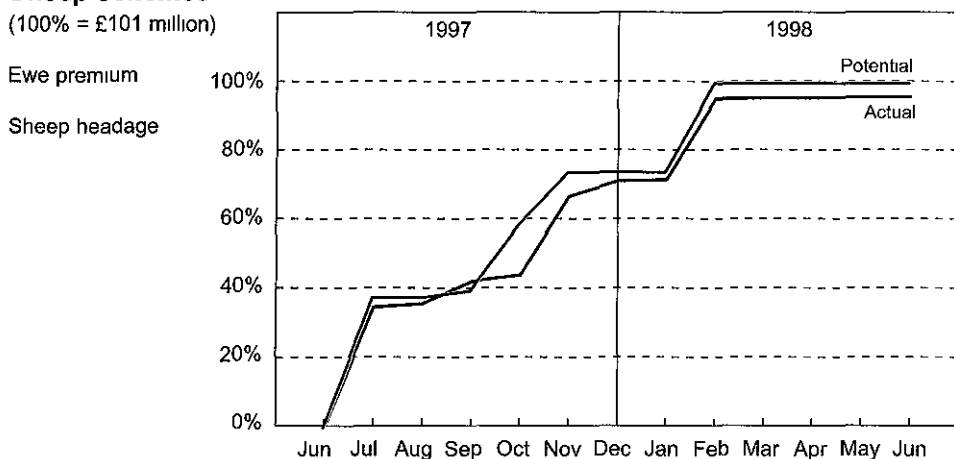
Cattle schemes

(100% = £418 million)



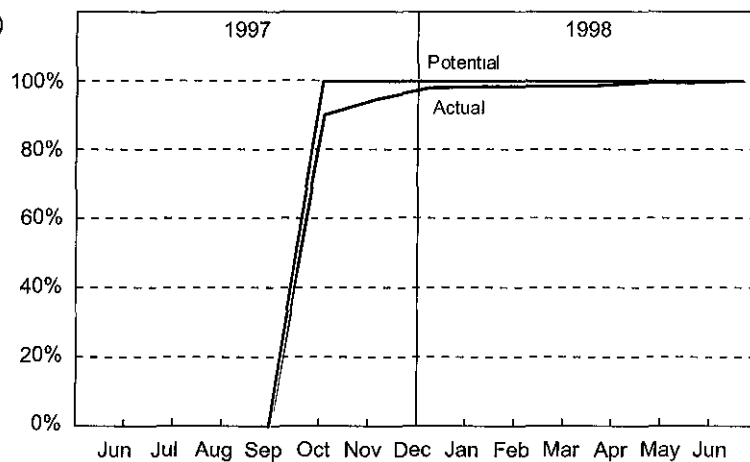
Sheep schemes

(100% = £101 million)



Arable aid

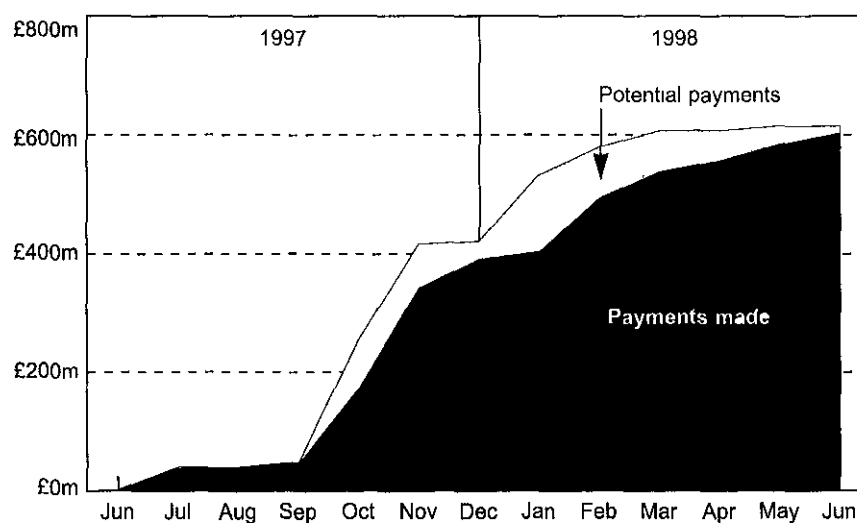
(100% = £95 million)



Source Potential - analysis by Office of the C & AG, actual - Department of Agriculture and Food

- 2 6 For the 1997 headage and arable aid schemes, the aim was to make payments in all eligible cases by the end of October. For the majority of livestock premium schemes, advance payments were scheduled to be made by the end of December. Balancing payments were to commence in January 1998 with the aim of completing most by the end of March 1998. In general, payments to eligible applicants for all schemes were to be completed by the end of June 1998.
- 2 7 Actual payments under the cattle schemes were behind potential payments for extended periods. The Department did not achieve Charter targets in a number of areas. For example, only 40% of target cattle headage payments were made by the end of October and balancing payments for cattle premium schemes did not commence in January 1998.
- 2 8 Payment performance was better for sheep schemes. Actual payments came close to potential payments and in some cases, payments were made earlier than expected. However, headage payments were completed for only 44% of applicants by the end of October. The best payment performance was achieved for the arable aid schemes with 94% of applicants being paid by the Charter target date.
- 2 9 The total amount of funding outstanding for payment on the major schemes was highest at the end of January 1998, at around 25% of the total estimated expenditure on the schemes (see Figure 2 2). Payments made since then reduced the amount outstanding. At the end of June 1998, around 11,500 cases had not been finalised (This represents 2% of the major schemes applications in 1997). By early October 1998, over 2,200 of these cases were finalised, with the applicants concerned receiving payments totalling £3.4 million.

Figure 2 2 Cumulative expenditure on major 1997 schemes^a at each month end, June 1997 to June 1998



Note ^a Special beef, suckler cow and ewe premiums, cattle and sheep headage and arable aid
 Source: Potential - analysis by Office of the C & AG, actual - Department of Agriculture and Food

Factors Affecting Timeliness of Payment

- 2 10 Delays in payment of grant moneys to scheme applicants have been a persistent feature of the administration of the schemes since 1993. These have been attributed to a variety of factors, some of which relate to administration of the application and payment process and others to errors made by applicants.

Administration Difficulties

- 2 11 Reform of the EU's Common Agricultural Policy in 1993 gave rise to a substantial increase in the volume and value of premium and headage payments and introduced much greater complexity to the system. The resources initially made available by the Department were insufficient to administer the system and there were very substantial delays in payments to applicants under the 1993 schemes. Additional resources were deployed in 1994 but because of the backlog from 1993, delays continued. As a result, the Department was the subject of considerable criticism from farmers' representative bodies. In response, the Department committed itself in the Farmers' Charter to target dates for payment of production support grants.
- 2.12 There continued to be problems about the timing of payments under the 1995 and 1996 schemes due to delays at various stages in the administrative process. A contributory factor to the delays in the 1996 schemes was the burden on the process arising from the implementation of measures to compensate farmers affected by falls in cattle prices caused by public reaction to information and debate about possible human health implications of Bovine Spongiform Encephalopathy (BSE). However, the more significant causes of payment delays in 1996 schemes were the problems experienced with the processing of Area Aid documents.
- 2.13 A land parcel identification system which was to serve as a central control mechanism for all grant schemes was in development from 1994 and was intended to be fully operational by 1 January 1996. (This was later deferred by the EU Commission to 1 January 1997.) However, the number of amendments required to the existing database on foot of the 1996 Area Aid applications was much greater than expected and this was compounded by significant unresolved technical problems with the system. As a result, around 26,000 applications could not be fully processed. Following consultations with the EU Commission, grant claims associated with these Area Aid cases were paid on the understanding that
- the underlying problem with the application was not due to the actions of the applicant
 - any overpayments made would subsequently be identified and recovered
 - verification checks were carried out on at least 5% of the problem cases

- 2 14 In 1997, the operation of the BSE and agrimonetary compensation package and continuing problems with the processing of Area Aid claims again impacted on the ability of the Department to meet the target payment dates. In late November 1997, the Department received permission from the EU to make payments in 38,000 cases which had not been fully processed, on condition that full processing was completed before the end of April 1998 and that any overpayments would be recovered. The Department has stated that the payment of balances under the 1997 cattle premium schemes did not commence in January 1998 because of Area Aid difficulties and because Ireland exceeded its national special beef premium quota in 1997, requiring adjustment of payment rates.

Errors in Applications

- 2.15 The complexity of the schemes and the relatively bureaucratic nature of the application process increases the risk that applicants may make errors in submitting claims. This can result in lengthy correspondence with applicants, leading to inefficient use of staff time and delays in payments.
- 2.16 Late applications are subject to a penalty deduction of 1% of payment due for each working day that the application is late. Claims over 25 days late are disqualified from payment. In 1997, almost 9,700 claimants were penalised for late applications.
- 2 17 Applications are checked for completeness as soon as possible after receipt. If there are obvious errors (such as the omission of the applicant's signature or absence of required support documentation) the applicant is contacted and asked to complete the application or to supply the necessary information.
- 2 18 Following receipt of an application, the Department carries out validity checks on the application details. In addition to manual checks of the documentation supplied, there are computerised checks including cross referencing of case details against
- herd/flock and animal identification numbers in existing permanent registration databases compiled for other purposes (for example, disease control)
 - previous applications under the same scheme
 - applications under other schemes.
- 2 19 The Department has stated that there is a high level of error in applications submitted. However, it has not carried out any analysis of the type of errors and the reason for their occurrence or of the frequency or reasons why additional information is required from applicants. This type of analysis is required to support the development of appropriate strategies to prevent high rates of error and consequential delays in processing of claims.

- 2.20 An understanding of the nature and incidence of applicant errors could identify if there are particular groups of applicants who might benefit from more targeted assistance with applications. For instance, special encouragement could be given to potential first-time applicants to make contact with Department staff to discuss their applications before submission. More generally, Department staff could meet or visit newly registered herd or flock owners to familiarise them with the schemes and the application process. However, targeted assistance would be time consuming and costly and should only be undertaken if there was likely to be a commensurate benefit in terms of reduced incidence of errors.
- 2.21 The Department has stated that failure by applicants to reply promptly to queries impacts on the timeliness of payments. As a result, some cases remain uncompleted for months or years. Outstanding queries are a contributory factor in payments being made outside of the EU specified payment period. Around 7,500 cases under the major 1996 grant schemes and 5,100 cases under the 1995 schemes had not been finalised by October 1998. The Department considers that, in most of these cases, there is no entitlement to grant assistance. However, it is not clear that the applicants concerned have been notified of this. The Department proposes in the future to specify a time limit for reply to queries and if the applicants fail to respond, cases will be finalised on the basis of the original information supplied.

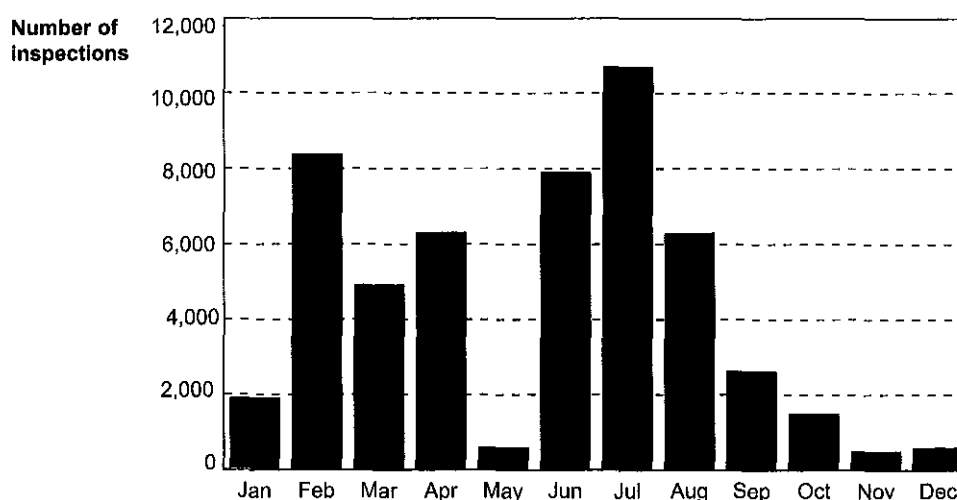
Timeliness of Inspections

- 2.22 Since the objective of an inspection is to verify the validity of an application, the best time to carry out the inspection is during the relevant retention period for livestock schemes or, for arable aid applications, when crops are growing or being harvested. The other constraint on the timing of inspections is the need to complete inspections before payments are due to commence.

Planned Timing of Inspections

- 2.23 The schedule of inspections for the 1997 schemes was planned to take account of the retention periods and the target payment dates. The plan envisaged
- ewe premium and sheep headage inspections would be carried out in the period February to April
 - suckler cow and cattle headage inspections would be carried out in the period June to August
 - arable aid inspections would take place in the months July to September
 - special beef premium inspections would be carried out throughout the year.

Figure 2 3 Planned timing of inspections in 1997



Source Department of Agriculture and Food

- 2 24 The combined effect of the scheduling of inspections was a highly seasonal programme of work, as Figure 2 3 shows.

Inspections within Retention Period

- 2 25 EU regulations specify that for each of the livestock schemes, at least 5% of applications should be inspected within the relevant retention period. The EU Commission imposed a penalty of £1.6 million on the Department primarily for failure to carry out the required number of inspections of 1994 special beef premium applications within the retention period.¹ The minimum inspection level within the retention period has been achieved globally for all of the main schemes in each of the years 1995 to 1997.
- 2 26 An analysis of the results of inspections indicate that there is no significant difference in the rate of irregularity discovered between inspections carried out within and outside retention. However, from a managerial efficiency point of view, it is in the interests of both the Department and the applicants to carry out as many inspections as possible within the relevant retention period.
- 2 27 By the time inspections are undertaken outside the specified retention period, the applicant may legitimately have sold some or all of the animals concerned. In such cases, the applicant is required to produce sufficient documentary evidence to establish that the animals were in his/her possession at the time the application was made and that they were held until the retention period ended. Inspections carried out in such

¹ The Department is appealing the penalty proposed for the 1994 scheme inspections

Table 2.1 Percentage of inspections on main livestock schemes carried out within retention period, 1995 to 1997

Scheme	Length of retention period ^a	Inspections within retention period		
		1995	1996	1997
Special beef premium	9 weeks	98%	78%	54%
Suckler cow premium	26 weeks	100%	100%	98%
Cattle headage	9 weeks	34%	48%	47%
Ewe premium	14 weeks	100%	100%	100%
Sheep headage	9 weeks	48%	57%	65%

Note a In the regulations retention periods are generally specified in periods of months
Source Analysis by Office of the Comptroller and Auditor General

circumstances are usually more time consuming than direct examination of the animals. They also mean that the applicants are more dependent on the quality and completeness of the documentation they maintain

2.28 For the period 1995 to 1997, as Table 2.1 indicates, the highest rates of inspection within the retention period were achieved for the schemes where the retention period was longest. The proportion of inspections of special beef premium applications carried out within retention declined very significantly between 1995 and 1997. The fall was mainly due to delays in receiving the relevant documentation from the special beef premium unit. In part, these delays were due to extra work in the unit related to the processing of BSE compensation payments.

2.29 Currently, the Department's objective is to ensure that, as specified by the EU, at least 5% of applications are inspected within retention. While it would be very difficult to carry out all inspections within retention, the Department should set progressive targets and consider the allocation of work for the purpose of increasing the proportion of inspections within retention.

Inspections Prior to Target Payment Dates

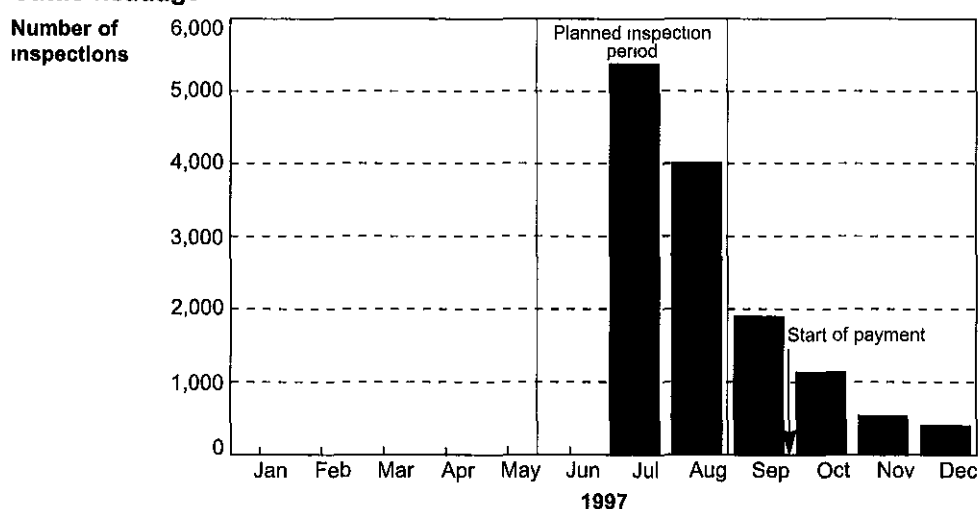
2.30 A computerised management information system was introduced in 1997 to capture data about suckler cow and cattle headage scheme inspections.² As a result, it is possible to identify when inspections were carried out in relation to those schemes in 1997. As Figure 2.4 shows, the inspections started a month later than planned (July rather than June) and continued after payments under the schemes began in October and November.

² The information system is being extended to cover inspections under all schemes in 1998

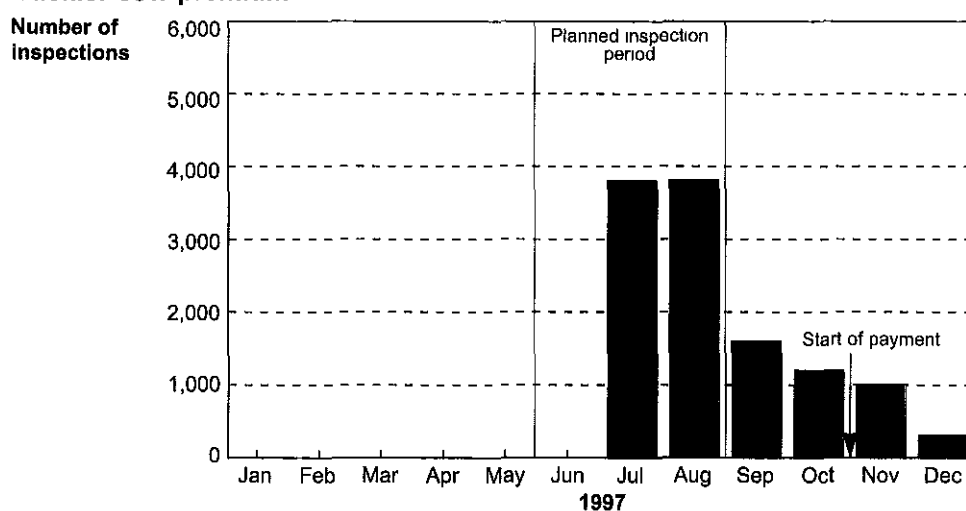
- 2.31 Around 8,000 of the suckler cow and cattle headage inspections (almost one third of the total) were carried out later than planned. As payments cannot be made until the inspections are completed, the delay in inspections played some part in the delays which occurred towards the end of 1997 in making payments to applicants under these schemes
- 2.32 Sheep scheme inspections in 1997 were completed by the end of the planned period (i.e. before the end of April) and well before any payments were due. The timeliness of inspections contributed towards the high level of timeliness of payment achieved under the sheep schemes

Figure 2.4 Timing of 1997 cattle headage and suckler cow premium inspections

Cattle headage



Suckler cow premium



Source: Department of Agriculture and Food

- 2.33 The EU requires that Area Aid and arable aid verification checks should be carried out before crops are harvested in order to verify that the area for which arable aid is claimed is cultivated under an eligible crop and that the land claimed as forage area is not under cultivation. The objective in the Department's 1997 inspection plan was to carry out all inspections between July and September but a substantial proportion of the inspections were carried out later. This probably impacted on the timing of payments to the applicants in question but since only a small proportion of claims are subject to inspection, late inspections could only have a relatively minor impact on payment target dates.
- 2.34 Area Aid and arable aid inspections were carried out late mainly because the cases were sent late to the inspectors. This occurred because of delays in the processing of Area Aid applications.

3 Productivity and Costs

- 3.1 The economy and efficiency achieved by the Department in processing grant applications and in carrying out inspections can be assessed in terms of staff productivity and costs. The main measures of economy and efficiency in these areas are summarised in Figure 3.1

Figure 3.1 Measures of economy and efficiency in processing of grant applications

Productivity measures	<ul style="list-style-type: none">• Average number of applications processed per head of administrative staff• Average value of claims processed• Average number of inspections per head of inspection staff
Cost measures	<ul style="list-style-type: none">• Total cost of processing grants• Level of EU penalties imposed• Cost of processing applications as a percentage of total grants paid• Unit cost of administering a grant application• Unit cost of an inspection

Cost of Administration and Inspection

- 3.2 The Department has very limited information about the costs associated with the processing of grant applications. Overall estimates of the cost of administration and of inspections can be compiled. It is much more difficult to identify the costs associated with administration of individual schemes or local offices. This restricts the Department's ability to analyse variations in the levels of economy and efficiency achieved and to identify areas where there is scope for improvement.
- 3.3 The overall cost in 1997 of processing grant applications under the schemes is estimated at £18.1 million (see Table 3.1). This represents an increase of 49% on the cost incurred in 1993. Most of the increase was in respect of the cost of administration, reflecting a substantial increase in the number of staff deployed to administer the schemes in 1994.
- 3.4 The figures shown in Table 3.1 include the cost of processing Area Aid applications but exclude the costs of development of the land parcel identification system. Total expenditure on the development of the system over the years 1995 to 1997 was £10.4 million, of which approximately £1.3 million was financed by the EU.

Table 3.1 Estimated expenditure on the processing of agricultural grants, 1993 to 1997

Year	Grant applications ('000)	Amount of grants (£m)	Processing costs (£m)		
			Administration	Inspection	Total
1993	506	502	6.7	5.5	12.2
1994	487	581	10.2	6.0	16.2
1995	474	675	10.8	6.2	17.0
1996	510	776	11.8	6.3	18.1
1997	543	786 ^a	12.4	5.7	18.1

Note a Amount paid under the 1997 schemes by end-June 1998

Source Analysis by Office of the Comptroller and Auditor General

Processing Cost Relative to Grant Payments

- 3.5 The economy achieved by the Department in processing grant applications can be assessed in terms of the amount spent on processing grant applications, compared to the level of grants paid out. In the period 1993 to 1997, expenditure on processing grant applications fluctuated between 2% and 3% of the total amount paid out.
- 3.6 The Department has not set targets for the achievement of economy in processing grant applications.

Composition of Expenditure

- 3.7 All the additional resources provided for processing grant applications in the period 1993 to 1997 were targeted at the administration side. Spending on inspection decreased from 45% of total spending in 1993 to 32% of total spending in 1997.
- 3.8 The extra resources on the administrative side were used mainly to increase the number of administrative staff, including computer staff working directly on the schemes. The number of administrative staff increased by 50% between 1993 and 1994. There was a further, smaller increase in numbers in 1996.
- 3.9 The number of inspection staff working on the schemes fell from 209 in 1993 to 182 in 1997. As a result, the ratio of inspection to administration staff has fallen significantly. In 1993, there was one inspector for every 1.5 administration staff. By 1997, this had fallen to one inspector for every 2.9 administration staff.

EU Penalties

- 3.10 The penalties imposed by the EU Commission should be regarded as costs associated with the processing of the grants. They have been levied because of failures by the Department, whether through inefficiency or the deployment of insufficient resources, to carry out grant processing and verification to the required standard of timeliness and control.
- 3.11 Table 3.2 sets out the amount of penalties imposed on the Department to-date. The penalties are computed in relation to the operation of the schemes each year but may not be imposed until much later. As a result, the total amount to be levied in respect of the 1995, 1996 and 1997 scheme years is not yet known. The Commission has identified deficiencies with the inspection process in relation to the 1995 and 1996 scheme years and is likely to propose penalties as a result.
- 3.12 The amount of EU penalties levied is an indicator of the level of efficiency achieved by the Department. It should adopt the elimination of such penalties as a performance target.

Table 3.2 Financial penalties imposed on the Department for non-compliance with EU regulations, 1993 to 1997

Year	Late payment penalties (£m)	Control failure penalties (£m)	All penalties (£m)
1993	0.1	1.3	1.4
1994	0.9	2.8	3.7
1995	2.7	n a	n a
1996	1.3	n a	n a
1997	n a	n a	n a

Note 'n a' indicates that a determination has not yet been made in respect of penalties for the period in question

Source Figures supplied by the Department of Agriculture and Food

Resource Efficiency in Administration

- 3.13 Most of the 1994 increase in the number of administrative staff was in response to the heavy backlog of claim processing under the 1993 schemes. Because the increase in staff numbers was so great and occurred in recognition of an inability to complete the task with the existing level of resources, trends in efficiency indicators are only meaningful after 1994.

Productivity of Administrative Staff

- 3.14 The number of applications received in the period 1994 to 1997 averaged around 1,000 per head of administrative staff, with very little variation from year to year (see Table 3.3).
- 3.15 The average value of the claims processed per head of staff increased by nearly 20% between 1994 and 1995 and by a further 9% in 1996. This reflects both increases in the rates of grants payable and the increased use of schemes under which top-up payments (such as extensification premium) are made to applicants for other schemes. This includes payments of £64 million in 1996 as part of the BSE compensation package and £72 million in 1997 under the BSE/agrimonetary compensation package, which were made on the basis of applications already received for premium schemes.
- 3.16 If EU penalties for late payment of grants to applicants are included in the cost of administration, the average cost of processing an application was £29 in 1995 and £26 in 1996.

Table 3.3 Productivity of administrative staff, 1993 to 1997

Year	Number of administrative staff	Applications per head of staff	Average value of claims	Unit cost of administering applications
1993	325	1,560	£990	£13
1994	484	1,010	£1,170	£21
1995	483	980	£1,400	£23
1996	527	970	£1,520	£23
1997	525	1,030	£1,450	£23

Source Analysis by Office of the Comptroller and Auditor General

Resource Efficiency in Inspections

- 3 17 In evaluating the Department's performance in relation to the economy and efficiency of inspections, variations in the quality of inspections must be taken into account. For example, it would be possible to increase the average number of inspections carried out by inspectors by reducing the quality, and hence the likely effectiveness, of individual inspections. Conversely, improving the quality of inspections within existing resource levels might reduce the level of efficiency in terms of timing or average number of inspections carried out. Changes in inspection procedures are considered in Chapter 4.

Productivity of Inspection Staff

- 3 18 The total number of inspections carried out by the integrated control inspectorate has varied considerably from year to year (see Table 3.4).
- 3.19 The average number of inspections per head of staff would be a useful measure for target setting and for comparing the performances of the inspection teams in different locations. In setting targets, some allowance for local circumstances, such as the average size and composition of herds to be inspected, might be appropriate. However, the Department's current management information systems are not sufficiently developed to allow inter-office comparisons of workloads and staff productivity to be made.
- 3 20 The Department is aware that there is a mismatch between the volume of work to be carried out in particular areas and the number of inspectors deployed in the respective offices (see Figure 3.2). Average work loads are lowest in the counties along the south and north-west coasts and are highest in the midland and western counties. Many inspectors in the less busy offices are temporarily redeployed from

Table 3.4 Productivity of Inspection staff, 1993 to 1997

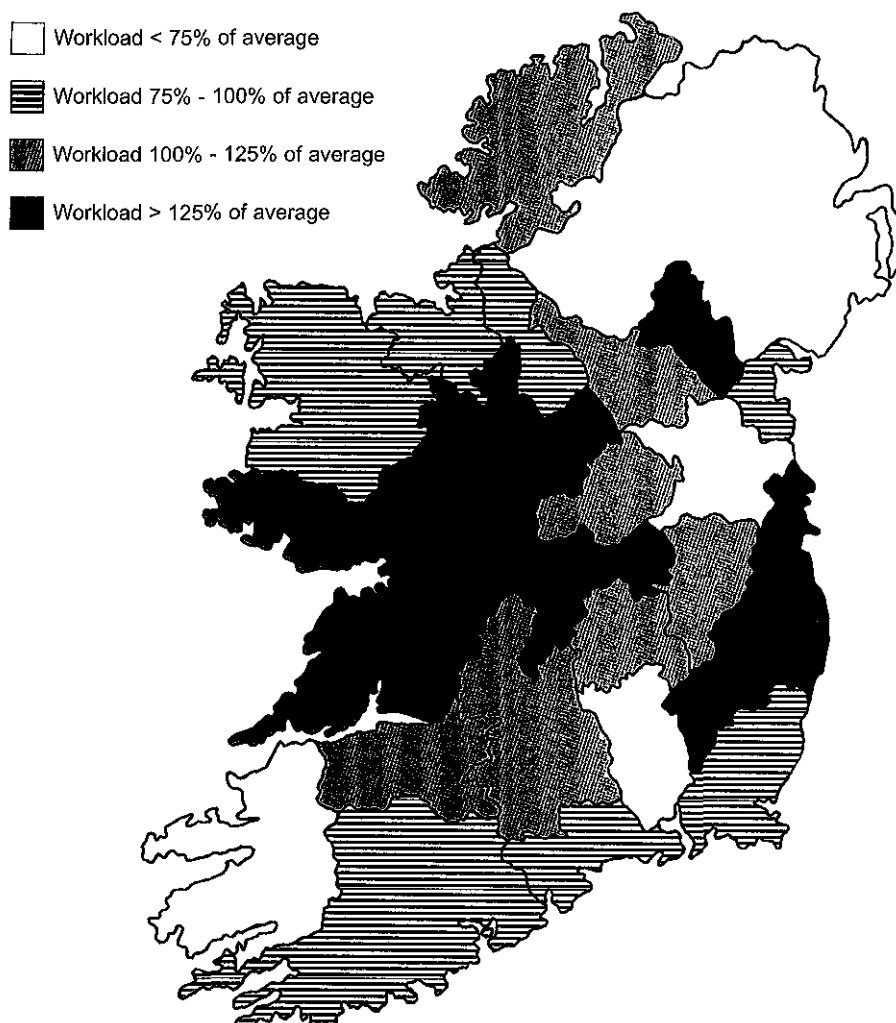
Year	Number of inspections	Number of inspection staff	Inspections per head of staff
1993	94,800	209	454
1994	97,700	235	416
1995	108,700	221	492
1996	93,400	222	421
1997	76,800	182	422

Source Analysis by Office of the Comptroller and Auditor General

their bases to help in carrying out the workload in other areas but given the pattern of imbalances, this kind of rebalancing necessarily involves very long journeys and high travel and subsistence expenditure

- 3.21 The existence of geographical and seasonal imbalances in the workload poses a risk to the cost effectiveness of the organisation of inspections. There would appear to be scope for reducing inspection costs by better matching of staff to workloads and/or by substitution of temporary field resources for permanent staff to achieve possible savings arising from the seasonal nature of inspection work. A benchmarking exercise which compared performance internally between offices and then externally

Figure 3 2 Average workload per head of field staff as a percentage of the national average, by county, 1998



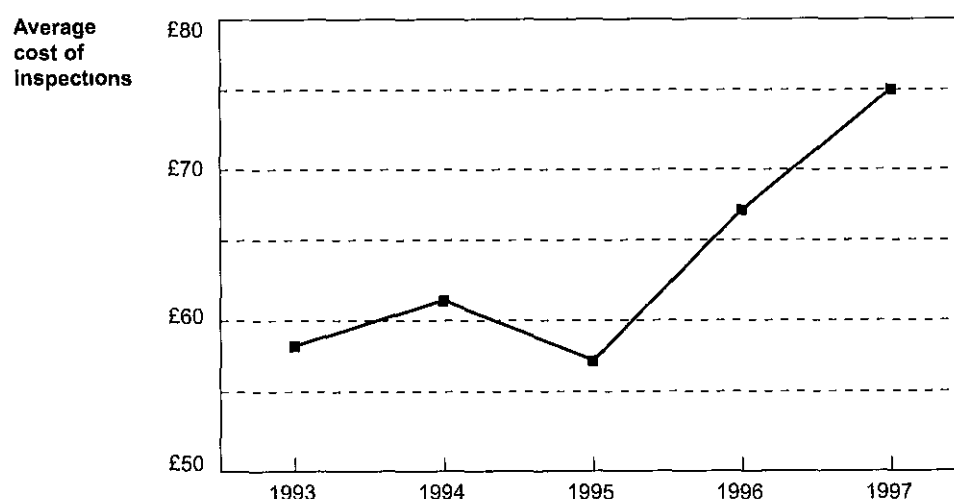
Source: Department of Agriculture and Food

against a suitable agency would assist in the process of finding the most appropriate approach. The Department's management information systems should be developed to allow the work load to be identified and the level of resources provided in each location should be related to the workload.

Cost of Inspections

- 3 22 The average cost of carrying out an on-farm inspection in 1997 is estimated at £75 (see Figure 3.3). Although overall spending on inspections fell between 1996 and 1997, the number of inspections also fell. As a result, the average cost in 1997 represents an increase of almost 12% on the previous year and was the highest unit cost in any year since 1993. The estimated unit cost of inspections in 1995 is distorted because of the exceptionally large number of inspections carried out in that year.

Figure 3 3 Average cost of inspections, 1993 to 1997



Source: Department of Agriculture and Food

- 3 23 While the number of inspections carried out fell between 1993 and 1997, there was a 39% increase in the level of overall expenditure on inspection travel costs. Travel costs associated with each inspection increased from an average of £7.70 in 1993 to £13.19 in 1997. This reflects the costs associated with temporary transfer of staff between offices but is also related to a number of changes in inspection procedures designed to increase their timeliness and effectiveness. These changes are discussed in Chapter 4.
- 3 24 Lack of reliable management information prohibits analysis of performance in relation to the cost of inspections on a scheme-by-scheme or office-by-office basis. This limits the Department's ability to identify where inspection procedures are particularly effective and areas where there may be scope to improve the level of efficiency achieved.

4 Inspection Procedures

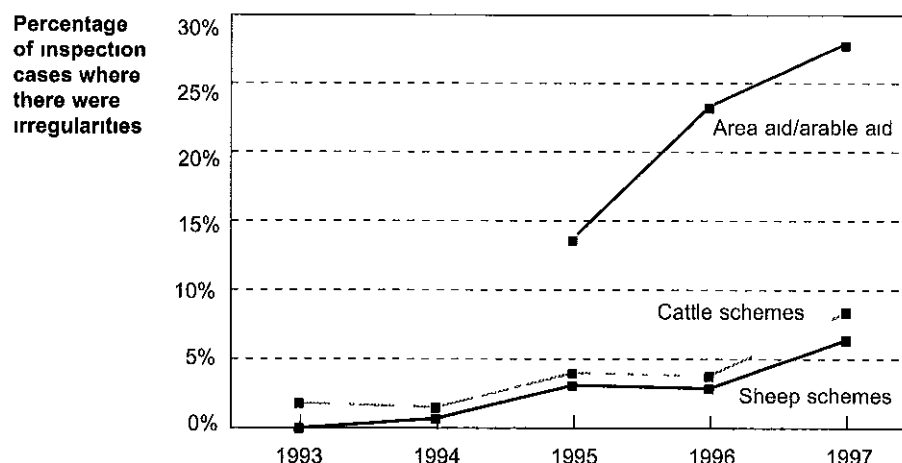
- 4.1 The objective of an inspection is to verify that the details included in the grant application, on which a payment decision will be based, match the situation on the landholding in question. In carrying out the inspection, the inspector may find that the application is in order or that there are irregularities. Depending on the nature and scale of the irregularities found, the amount of grant payable may be reduced and penalties may also be imposed on the applicant.
- 4.2 Inefficient inspection procedures could add unnecessarily to the workload on the applicant and also increase the cost to the Department of carrying out the work. On the other hand, inspections need to be thorough enough to ensure that the details of the claims are fully verified and that they are likely to detect irregularities where they occur. The Department must also ensure that all applicants subject to inspection are treated fairly. In designing and carrying out its inspection procedures, the Department has to strike a reasonable balance between these conflicting considerations.
- 4.3 In this chapter, inspection results are examined as a background to considering how three aspects of inspection procedures (selection of cases for inspection, notice of inspections to applicants and appeal of inspection decisions) contribute to achieving balance between the efficiency objectives of the Department.

Results of Inspections

- 4.4 In most cases, inspections find that the relevant details about animals, crops or land included in an application are correct and that other conditions, such as observance of the retention period, are complied with.
- 4.5 When an inspector discovers that the animals, crops or land presented for inspection do not correspond to the details given in the application, he informs the applicant of his findings and of the likely penalty to be imposed, if applicable. The formal inspection decision is notified to the claimant by the inspector's supervisory officer who bases his decision on the findings of the inspection and any other relevant information. Before a penalty is implemented, the inspection decision is also checked by administration staff and, in some cases, the decision may be revised.³
- 4.6 Figure 4.1 shows the results of inspections carried out for the main cattle, sheep and Area Aid/arable aid schemes in the period 1993 to 1997. The livestock inspections found each year that more than 90% of the applications were valid and the cases were

³ In this report, the recommendations of the inspecting officer are in general referred to as the results of inspections. For the period 1993 to 1997, there is no data relating to the actual number of penalties imposed as a result of inspection findings.

Figure 4.1 Percentage of inspection cases where irregularities were found, by type of scheme, 1993 to 1997



Source: Department of Agriculture and Food

cleared for payment. Despite an upward trend over the period, irregularities were found in less than 10% of the livestock cases inspected in 1997. There was a much higher rate of discovery of irregularities (28%) in Area Aid/arable aid inspections. In many cases, irregularities in Area Aid applications (e.g. in the amount of land declared for forage) may have had implications for payments under cattle and sheep schemes.

Penalties for Irregularities

- 4.7 The penalties for non-compliance with scheme regulations, which are laid down in the EU rules, are substantial and increase quickly in line with the scale of the irregularities found. For instance, if any animals are found to be ineligible, the applicant loses the amount claimed on those animals and, by way of a penalty, the amount payable on the remaining (eligible) animals is reduced by a set percentage. No grant is payable on eligible animals if more than 20% of the animals claimed for are found to be ineligible. Similar penalties are imposed if land areas are found to have been overstated for Area Aid and arable aid schemes.
- 4.8 In cases where the irregularities are deemed to have been caused by serious negligence, the applicant is debarred from the scheme for one year. Where the irregularities are believed to have been intentional, the applicant is debarred from the scheme for two years i.e. the year of application and the following year.
- 4.9 Around 40% of the irregularities found during inspections of applications under the main cattle schemes in 1997 were classified as obvious errors (see Figure 4.2) and did not give rise to penalties. Over half the irregularities found during cattle inspections warranted reductions in the eligible payments rather than full rejection of the claim.

Figure 4 2 Type of irregularity found during inspection of applications under major 1997 schemes

Different types of irregularities have different implications in terms of impact on the amount of grant assistance payable to the applicant

Obvious errors

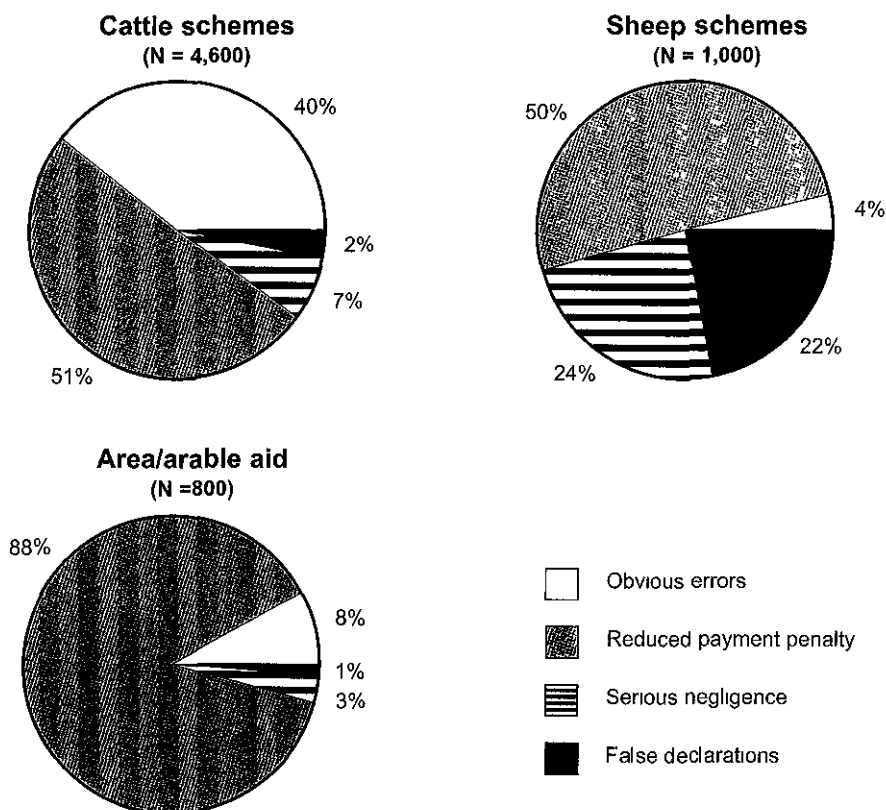
These are cases involving minor mistakes on the part of the applicant in completing the form e.g. an arithmetic error. The corrections are noted and documented. In about 60% of cases, the correction does not result in a reduction in the amount of grant claimed. In the other cases, the correction results in a reduction in the amount payable. The amount payable is never increased as a result of discovery of an error whereby the applicant sought less than he/she might have been entitled to.

Irregularities liable to penalty (reduced payment penalty)

Where less obvious errors occur or the applicant has been negligent in some respect in making the application, some of the animals, crops or land may be deemed to be ineligible within the terms of the scheme. In those cases, the amount of grant payable is reduced. In addition, penalties are imposed on the applicant in the form of a percentage reduction in the amount of grant for which the applicant is eligible.

Irregularities due to serious negligence or false declaration

In cases where the irregularities are deemed to have been caused by serious negligence on behalf of the applicant, the full claim is rejected. In cases where irregularities are believed to be deliberate, the claim is rejected entirely and the applicant is also debarred from applying for the scheme in the following year.



Source: Department of Agriculture and Food

- 4 10 Very few of the irregularity cases discovered during sheep inspections were categorised as having arisen due to obvious error. In half the cases where irregularities were discovered, the grant payable was reduced. Almost a quarter of the irregularities found were serious enough to warrant full rejection of the applicants' claims. In 22% of the sheep inspections where irregularities were found, the irregularities were believed to be deliberate and it was recommended that the applicants be debarred from payment under the scheme for two years. This suggests that the irregularities found in sheep inspections tended, on average, to be more serious in nature than those found in cattle cases.
- 4 11 Only a small proportion of the irregularities found during Area Aid/arable aid inspections were judged to be due to obvious errors. Most of the irregularities found (88%) involved reductions in the amount claimed rather than an outright rejection of the claim. A debarment under the Area Aid scheme means a debarment under all of the schemes which are linked to the Area Aid application.

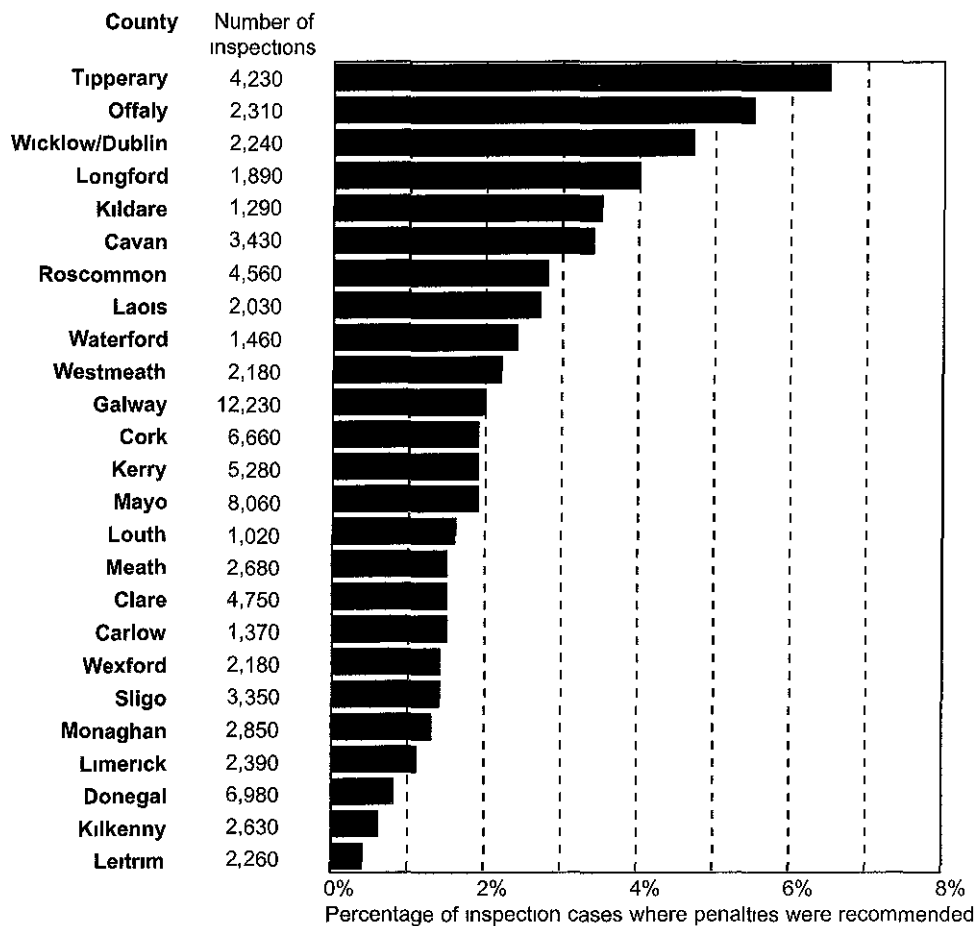
Deterrent Effect of Penalties

- 4 12 Knowledge that there are likely to be serious consequences for applicants who allow irregularities to occur may have a deterrent effect on the incidence of both intentional and unintentional irregularities. To achieve this effect, there has to be a reasonable probability that the irregularities will be detected. In addition, the applicants have to be aware of the consequences and regard them as seriously undesirable.
- 4 13 Because the penalty regime is so progressive, discovery of irregularities can clearly have major implications for an applicant's income. Farmer representative bodies and the farming press view the penalties as disproportionate to the scale of the irregularity and on occasion the Department has been criticised for imposing them. However, it has no discretionary power in this respect and is obliged to impose the specified penalties when irregularities are detected.

Geographic Variation in Penalty Imposition

- 4 14 Analysis of inspection results on a county-by-county basis reveals that there are very considerable variations in the incidence of penalty cases. In 1996, penalties were recommended in 2.2% of the 88,000 livestock inspections carried out. As Figure 4.3 shows, penalties were recommended in 6.5% of cases in County Tipperary. By comparison, penalties were recommended in less than 1% of inspections in Counties Donegal, Kilkenny and Leitrim. Wide geographic variation was also evident in the results of Area Aid and arable aid inspections.

Figure 4.3 Percentage of 1996 livestock inspection cases where penalties were recommended, by county



Source: Department of Agriculture and Food

- 4.15 The extent to which penalties are imposed in different areas is a combination of the underlying incidence of irregularities in the applications submitted from each region and the way in which inspections are carried out. The Department has only recently begun to capture on computer the data necessary to facilitate analysis of the contribution of each of these factors to the regional variation which occurs.
- 4.16 It is important that there should be consistency, fairness and transparency in the way in which inspections are carried out and in any penalty decision made. Consequently, the regional variation in the proportion of cases where irregularities were discovered has implications for the management of the inspection process. Where the rate is substantially above the national average, there is a good case for raising the proportion of cases inspected to increase both the detection rate and the deterrent effect. Where the rate is substantially below the national average, the Department should review the way in which inspections are carried out to ensure that procedures are being properly implemented.

- 4 17 The Department is conscious of the need to ensure that the standard of inspections carried out across the country meets the requirements of the schemes. It has put in place a number of procedures to control the quality of the work including
- *Supervision of Inspectors*
Supervisors accompany inspectors on a proportion of inspections (14% in 1997). In addition, about 20% of inspection reports are formally reviewed by supervisory officers. However, the Department does not hold data relating to the results of these supervisory reviews.
 - *Internal Control Unit*
An internal control unit was put in place in 1997 to provide assurance that inspection procedures are carried out competently and with due care. The list of inspected files for each scheme is examined by the unit and a sample of files is rechecked. This involves a full documentation check of the files and a re-inspection to validate the original result. Analysis by the Department of the results of these checks revealed that, in many cases, the inspection paperwork was unsatisfactory and that in 12.5% of re-inspection cases the decision of the original inspection was revised. While such revisits add to the inspection workload on the applicants in question, they are a necessary quality control on the inspection function and should provide reassurance to the Department and the applicants of the equity of the inspection process.

Selection of Cases for Inspection

- 4 18 The effectiveness of an inspection system can be assessed in terms of the proportion of irregularities in the population which it succeeds in detecting (the 'detection rate'). If 10% of applications are checked, it would be reasonable to expect that at least 10% of the irregularities in the population would be discovered. It should be possible to improve the detection rate either by increasing the proportion of cases checked or by targeting for selection cases where there is a greater risk that irregularities will arise.

Number of Inspection Cases

- 4 19 The EU regulations for the grant schemes specify that verification checks should be carried out on at least 10% of livestock scheme applications and on at least 5% of Area Aid applications. It also specifies that a higher level of checks should be carried out if there appears to be a significant incidence of irregularities in particular geographic areas or with particular schemes.
- 4 20 As Table 4.1 shows, the Department carries out more inspections of applications under the main livestock schemes than the minimum specified. The inspection rate is highest for sheep schemes. For all schemes, the percentage of applications checked

Table 4.1 Verification checks as a percentage of applications, by scheme, 1993 to 1997

Scheme	Verification checks as % of applications				
	1993	1994	1995	1996	1997
Special beef premium	14	13	19	14	13
Suckler cow premium	22	25	29	19	15
Cattle headage	18	18	20	18	15
Ewe premium	34	40	33	33	24
Sheep headage	n a	n a	33	33	24
Area Aid/arable aid	2	1	6	5	5
All schemes	14	15	19	16	13

Note 'n a' indicates that the data was not available

Source Analysis by Office of the Comptroller and Auditor General

has fallen in recent years. The level of verification of Area Aid/arable aid applications (by inspection and remote sensing) was just above the minimum specified

- 4.21 The high rate of inspection of sheep schemes appears to be warranted on the basis of the seriousness of the irregularities found and the incidence of cases believed to be due to deliberate false declarations. The level of inspections carried out on a county-by-county basis cannot readily be identified to establish if the highest levels correspond with the highest rates of discovery of irregularities

Risk-based Selection of Inspection Cases

- 4.22 Since only a proportion of applications are inspected under each scheme, some method is required for selecting the cases for inspection. The basic choice is between random methods of selection (where every applicant has an equal chance of being selected) and risk-based methods of selection where certain types of applications have a higher probability of being selected. Risk-based methods involve identification of those characteristics of applications which are believed to increase the risk of irregularities occurring. The development of the risk-based approach should increase the overall efficiency of the inspection process.
- 4.23 The Department has, since 1996, used a risk-based approach to the selection of cases for inspection under all schemes. When application details have been input to the processing system, a special programme is run to select the required proportion of cases. In 1997, the livestock scheme cases selected for inspection included
- all new applicants under the relevant scheme

- all cases where the number of animals claimed for had increased significantly from the previous year
- all cases where the application indicates there has been a significant increase in the quota of animals which may be held by the applicant
- all cases where the applicant was penalised under the scheme the previous year
- a proportion of herds/flocks above a certain size (selected randomly within the group)
- a proportion of the applicants who have not been inspected within the past five years (selected randomly within the group)

Similar risk categories were used to select cases for Area Aid and arable aid inspections.

- 4.24 The cases selected using the automated risk-based system are supplemented in two ways. Where an applicant selected on the basis of risk criteria under the cattle or sheep headage schemes has also made an application under the corresponding premium scheme, inspections of both applications are carried out at the same time. Further cases are selected on a manual non-random basis based on criteria determined by the Department e.g. selection of all applicants in a number of townlands.
- 4.25 Although risk-based selection of cases is intended to increase the detection rate, the Department has no method for evaluating the extent to which it succeeds in this respect. However, pilot developments in relation to the 1998 ewe premium inspections give some insight into the Department's effectiveness.
- 4.26 The Department inspected 9,080 ewe premium applications (around 20% of the total) in 1998. It selected 880 cases for inspection on a random basis and the remainder on the basis of the Department's risk criteria. Table 4.2 compares the results of the inspections for each group.
- 4.27 Penalties were imposed in a lower percentage of cases selected on the basis of risk assessment than on those selected randomly. This suggests that risk analysis is failing to identify the highest risks and is not helping to increase the detection rate. However, the value of the irregularities discovered in the two groups should also be taken into account and could indicate that the risk criteria are appropriate. For example, irregularities in large flock cases may put greater amounts of grant funding at risk than irregularities in cases selected randomly.
- 4.28 It is notable that the only risk criterion which resulted in a rate of imposition of penalties higher than that for cases selected randomly was the group where penalties had been imposed previously under that scheme. Furthermore, in a third of those

**Table 4 2 Proportion of 1998 ewe premium cases inspected
where penalties were applied, by method of selection**

Method of selection of cases for inspection	Percentage of cases where penalties were imposed
Random selection	2.6%
Manual non-random	4.5%
Automated risk-based selection	2.1%
<i>Increased flock size</i>	1.8%
<i>New applicants</i>	2.4%
<i>Increased quota</i>	2.5%
<i>Not inspected in past five years</i>	1.4%
<i>Penalties applied previously</i>	3.8%
<i>Large flocks</i>	1.4%
All cases where penalties were applied (Number of cases inspected)	2.5% (9,080)

Source Department of Agriculture and Food

cases, the irregularity found in 1998 was deemed to be both serious and intentional. This raises questions as to whether, despite their severity, the level of penalties imposed is an effective deterrent to those who are prepared to claim fraudulently.

- 4.29 Based on the results of the analysis of the ewe premium inspections, the Department decided to change its risk selection for other 1998 schemes. Inspections are being carried out on all applicants for a particular scheme who have been penalised for irregularities in that year under any of the other 1998 schemes.
- 4.30 For all 1998 schemes, the Department has introduced a random selection of claims as well as risk-based selection. It is intended to carry out analysis of the impact of the selection criteria on the detection of irregularity.

Notification of Inspection Visit

- 4.31 Under the EU regulations for carrying out inspections, applicants would ideally not be given notice that an on-farm inspection was about to take place. However, it is recognised that for practical purposes, some notice may need to be given. This must be limited to the strict minimum necessary and may not exceed 48 hours. In applying these rules, the Department adopts different practices for different kinds of schemes.

Notice of Cattle Inspections

- 4 32 Advance notice of inspection is given to almost all applicants under cattle schemes. In most cases, notification of up to 48 hours is given.
- 4 33 Part of a cattle inspection involves the reading of animal identification numbers from the animals' ear tags. To do this safely and quickly, the animals have to be brought together and driven through a cattle crush. Assembling the herd and moving them to where a crush is available can be very time consuming for the applicant, particularly if the animals are grazing on a number of separate land parcels. Unless some notice is given to the applicant, the time required to carry out an individual inspection would be greatly increased. There would also be a need for repeat visits to at least some farms where an unannounced inspection could not be carried out e.g. where the applicant was away at the time of the first visit.
- 4 34 The Department considers that, since applicants have to submit the identification numbers of the cattle in respect of which they claim assistance, there is only a low risk that someone else's cattle could be passed off to support a claim. It also carries out computer checks of cattle identification numbers (such as a check that each number is valid and that no other claim has been received in respect of that number) to guard against erroneous or fraudulent claims. The Department believes that this reduces the necessity for unannounced inspections.
- 4 35 In 1997, 5% of the cattle scheme cases inspected were unannounced. There was no significant difference in the results of inspections, in terms of the percentage of irregularities found, where the applicant was notified and where no notice was given.
- 4 36 Farmer representative bodies complain that too little notice is given in relation to cattle inspections. However, the Department is constrained by the EU regulations and so must restrict the notice to not more than 48 hours.

Notice of Sheep Inspections

- 4 37 There is no animal identification system in place for sheep. Applicants under the grant schemes are required to keep the appropriate number of sheep of the relevant kind for the specified retention period.
- 4.38 There are few administrative checks which the Department can perform on the details submitted in sheep grant applications. As a result, the Department's policy is to carry out as many sheep inspections as possible without giving notice to the applicants concerned. However, this has implications for the time taken to carry out an inspection and for the associated cost.

- 4.39 More than half of the ewe premium inspections carried out in 1997 were unannounced. In a number of areas, inspections of sheep on several adjacent farms were carried out simultaneously. Analysis shows that penalties were recommended in 6.3% of unannounced inspections compared to 2.1% of notified inspections. As a result, almost all sheep inspections in 1998 were unannounced.

Notification of Area Aid/Arable Aid Inspections

- 4.40 Although the Area Aid /arable aid inspection can almost always be carried out by the inspector without the direct assistance of the applicant, notification is normally given. However, the inspection report cannot be completed unless the applicant is present.

Review of Inspection Decisions

- 4.41 The recommendations made by inspectors are reviewed by inspection supervisors and by administrative staff before any penalties are implemented. Applicants are given the opportunity at various stages of the process to present relevant facts, to express their views on matters of judgment and to appeal the decisions of the inspectors. The proportion of inspection recommendations which are changed during the decision-making/review process can be used as an indicator of the quality of the process and its effectiveness in achieving fairness.
- 4.42 Applicants who are unhappy with inspection decisions can have their cases reviewed in two ways. The Department undertakes internal reviews of administrative or inspection decisions which are contested. It has also put in place an Appeals Unit which is independent of the Division which administers the schemes.
- 4.43 In general, the extent to which irregularities liable to penalties discovered during inspections are reduced or eliminated during the decision-making/review process is not known. For the 1997 schemes, inspectors recommended that a serious negligence/false declaration penalty should be applied in 920 cases. This would mean that no payment should be made to the applicant concerned for one or two years. However, the total number of cases where this type of penalty was applied (as a result of both administrative and inspection checks) was just 690. For the special beef premium scheme, the total number of serious negligence/false declaration penalties applied amounted to only 20% of the number of cases recommended by the inspectors. Thus, a considerable proportion of penalty cases are reduced during the decision-making/review process.
- 4.44 The Appeals Unit was set up in 1995 to consider appeals by scheme applicants against both administrative and inspection decisions made by the Department. While the available management information is limited, a survey of appeal cases undertaken

during this examination suggested that around one in twelve inspection penalty cases are appealed and that half of these appeals are decided in favour of the applicants either by the Appeals Unit or following review by the relevant administrative unit. This suggests that about 6% of inspection penalty decisions are overturned on appeal.

- 4.45 A number of unsuccessful appeals have been further appealed to the Office of the Ombudsman. Of those cases completed so far, none was decided in the appellants' favour following investigation.
- 4.46 There is evidence that a significant number of inspection recommendations are not implemented. The Department does not comprehensively monitor the eventual outcome of inspection cases, including those referred for internal review or for appeal. It also does not analyse the grounds for non-implementation of inspection recommendations.

5 Evaluating the Effectiveness of Grant Application Processing

- 5.1 The Department has many different objectives which it tries to achieve in processing grant scheme applications (see Figure 5.1). Some of the objectives are stated explicitly while others are implicit in the administration and verification procedures adopted.

Figure 5.1 Departmental objectives in processing of grant applications

- Pay applicants as quickly as possible
 - Ensure payments are valid
 - Minimise the occurrence of errors and irregularities
 - Detect the maximum number of errors and irregularities which occur
 - Minimise costs borne by applicants
 - Ensure transparency and fairness to all applicants
- 5.2 The task for management is to maximise the effectiveness of the Department by striking an appropriate balance in the achievement of each of the objectives while also achieving an acceptable level of economy and efficiency in the use of taxpayers' resources.
- 5.3 The Department currently does not have adequate systems to evaluate the effectiveness of its operations. The essential elements of such an evaluation system are
- quantified and measurable targets for each of the objectives
 - collection and analysis of reliable and relevant data about achievement in relation to each of the targets
 - periodic evaluation of the effectiveness of grant processing and, if necessary, consequential adjustment of procedures and resource deployment.

Setting Targets

- 5.4 Other than in relation to the timing of payments, the Department has not set quantified or measurable effectiveness targets for processing premium and headage grant scheme applications.
- 5.5 The targets set for the timing of payments relate to individual schemes and, in some cases, to payment instalments. This makes it difficult to identify how effective the Department is in overall terms in making grant payments to applicants as early as possible. It would be preferable for the Department to set composite effectiveness targets (based on the time targets for individual schemes) such as the time profiles for

the amount of money to be paid and the proportion of cases to be fully cleared by each end month

- 5.6 The Department could verify all applications by inspection or remote sensing to try to ensure that all payments made are valid. However, since this could only be done at a considerable cost, the Department verifies samples of applications which allow it to identify, with a statistically-based level of confidence, the proportion of payments which are valid. In evaluating effectiveness in terms of validity of payments, the Department needs to set a target confidence level
- 5.7 The Department has committed itself in the Farmers' Charter to providing all its services, including the processing of grant applications, in a fair and transparent way. It has established a customer service programme which involves changes in the way it provides its services to applicants e.g. one-stop shops, information services and confidentiality of interviews. An extract from the Customer Service Action Plan 1998 to 2000 is shown in Appendix B. In partnership with the farmer representative bodies, the Department is monitoring the implementation of this programme. However, it has not established any effectiveness targets in relation to the impact of service delivery on customers, such as in terms of the workload imposed on scheme applicants. The Department should explore the setting of customer service targets in respect of these objectives in the context of developing customer services and identifying the level of customer satisfaction.

Performance Measurement and Analysis

- 5.8 The Department's management information systems are underdeveloped. This inhibits measurement of the Department's performance in relation to the achievement of economy, efficiency or effectiveness. Much of the information required for a performance management information system is already collected but is not readily accessible. Some elements are being developed e.g. the computerisation of management information on the inspection side. Because the processing system is so complex, the Department should draw up a framework for a comprehensive performance measurement system to ensure that performance in all the elements of the system can be monitored and that efforts at improvement can be targeted where they are likely to have most effect.
- 5.9 In developing performance monitoring and analysis systems, the Department needs to give priority to two areas: analysis of the incidence, causes and means of discovery of errors found during the processing of applications and the identification of the underlying level of irregularities occurring in the scheme applications.

Errors Found During Processing of Applications

- 5.10 The Department has stated that errors discovered during processing of applications lead to time-consuming correspondence with applicants, absorbing staff time and resulting in delays in payment. It has not identified how or why these errors arise and so is relying on impressionistic evidence in deciding how best to tackle the problem and where to direct resources. Formal analysis of even a sample of cases could improve the Department's ability to deal with these errors.
- 5.11 The balance in the level of resources used for administrative checks of applications and verification checks (inspection and remote sensing) may also be addressed in terms of relative effectiveness in finding errors and irregularities. However, the Department's management information systems do not identify how irregularities are found. Consequently, it is unable to evaluate how effective the different checks are. This undermines management decision making regarding resource allocation e.g. in assessing the likely cost-effectiveness of developing computerised checks further.

Identifying the Level of Irregularities

- 5.12 Assurance about the overall level of compliance with scheme regulations can only be given if there is a reliable means of establishing, or at least estimating, the extent to which irregularities occur in applications under the various schemes. The Department currently has no system for producing such estimates. As a result, it cannot give reliable assurance that the payments made on foot of scheme applications are validly based. It also has no benchmark against which to determine how effective it is in deterring or detecting irregularities.
- 5.13 The easiest and cheapest method of estimating the extent of irregularities in the grant applications received is to inspect a sample of applications selected on a random basis. Assuming that the sample is big enough to be representative and that the inspections are carried out properly, the level of irregularity detected should be a statistically reliable indication of the level of irregularity occurring in the population of all applications.
- 5.14 As well as identifying the number of irregularities which arise, the results of the inspections of randomly selected cases should also be analysed to estimate the potential cost of the irregularities if they are not discovered. This estimate should be based on the potential payments in respect of ineligible animals, land or crops. The value of penalties levied on eligible payments as a consequence of finding irregularities should not be included in the estimate of cost of irregularities.

Choice of Verification Method

- 5 15 The Department fulfils the EU requirement that at least 5% of Area Aid/arable aid applications are subject to verification checks by using both on-farm inspections and remote sensing.
- 5 16 Remote sensing checks involve the comparison of application details with information about land use derived from satellite imagery. The Department selects a number of geographic areas and checks the details of all applicants in the areas in question. If this analysis indicates that the situation on a landholding is at variance with the details in the aid application, the landholding is visited by an inspector who ascertains the factual position. Over 4,000 applications were examined by remote sensing in 1997. Inspectors carried out 343 follow-on inspections and found 119 cases (3% of those subject to remote sensing checks) where there were irregularities.
- 5 17 Almost 2,900 of the 1997 Area Aid and arable aid cases were also selected for on-farm inspection on the basis of risk criteria and the local knowledge of inspectors. Almost 28% of those cases were found to have irregularities.
- 5 18 The difference in the percentages of irregularities discovered in cases verified through remote sensing (with follow-on inspections) and those verified only by inspection raises questions about the relative cost-effectiveness of the two methods in detecting irregularities. Since there was no random selection of cases, it is not possible to measure the effectiveness of each verification method.
- 5 19 Although the Department lacks systems for evaluating the relative effectiveness of the approaches to verification of applications, it has made increasing use of the remote sensing approach in recent years. In 1998, only remote sensing checks will be carried out on applications received from selected counties.

Programme for Effectiveness Evaluation

- 5 20 The processing of premium and headage grant applications involves a large number of separate but interdependent activities. Many of these can be evaluated in terms of how effective they are in achieving their immediate objectives and some work is being done by various sections in developing evaluation systems. This may assist in making some improvements in how efficiently work is done. However, the priority for the Department should be in terms of evaluating the overall effectiveness of the system in meeting Departmental objectives for the schemes. No work along these lines is currently being undertaken.

Appendices

Appendix A : Summary of Premium and Headage Grant Schemes

The following tables set out, for each of the 1998 premium and headage schemes

- the conditions and payment rates (Table A 1)
- the application and retention periods and target payment dates (Table A 2)

The premium schemes are open to qualified applicants throughout the State. The headage schemes are restricted to applicants in the disadvantaged areas who

- are registered landowners aged 18 years or over
- occupy and farm at least three hectares
- undertake to continue in farming for at least five years from the date of first payment under the schemes
- have submitted area aid application forms in the year of the grant application
- supply Revenue and Social Insurance numbers if applying for total headage payments of more than £500 in any year.

There is an overall limit of £4,000 per applicant for all headage payments. Additionally, only the first 60 livestock units on a holding qualify for the full rate of headage grant, livestock units in excess of 60 qualify for payment at half rate. (For male cattle aged 24 months and over and for suckler/dairy cows, each animal is equal to 1 livestock unit, for male cattle under 24 months, each animal is equal to 0.6 of a livestock unit, for ewes and goats, each animal is equal to 0.15 of a livestock unit.)

Table A 1 Conditions and payment rates for premium and headage schemes

Scheme	Eligible animals/crops	Other conditions	Rates of payment in 1998
Special beef premium	Castrated male cattle aged 10 months and 22 months	Cattle identification documents must be submitted with application	£90 per head for animal at 10 months and at 22 months up to a maximum of 90 animals per category per application
Suckler cow premium	Suckler cows of beef breeds which are used for rearing calves for beef production	Applicant must hold a suckler cow quota	£140 per animal
Cattle headage	Cattle (of which not more than 10 may be dairy cows) in more severely handicapped areas	See general conditions for headage schemes (above)	First 8 livestock units - £84 each if beef cows, £40 if other cattle Next 22 livestock units - £84 each if beef cows, £33 if other cattle Next 10 livestock units - £84 each if beef cows, nil if other cattle Maximum payment £3,360
Beef cow headage	Up to 30 beef cows in less severely handicapped areas and coastal areas with specific handicaps	See general conditions for headage schemes (above)	£75 per animal
Extensification premium	Cattle claimed for under suckler cow and special beef premium schemes	Herdowners must have a stocking density of less than 1.4 livestock units per hectare	£30 per animal or £43 per animal if stocking density is less than 1.0 livestock unit per hectare
Deseasonalisation slaughter premium	Castrated male cattle slaughtered in licensed meat export premises between 1 January and 10 June	Only payable on animals which have already qualified for payment under special beef premium	Rate of payment is dependent on the period in which animal is slaughtered
Ewe premium	Female sheep that have lambed or are 1 year old	Applicant must hold a sheep quota	Determined by EU Rate in 1997 was £12 per animal. An additional premium of £5 was paid to applicants in disadvantaged areas
Sheep/goat headage	Sheep (hoggets and mountain breeding ewes) and goats	See general conditions for headage schemes (above)	£10 per sheep/goat up to a combined limit of 200 animals
Equine headage	Up to 30 mares	See general conditions for headage schemes (above)	£70 each on first 8 mares £66 on next 22 mares
Arable aid. general scheme	Cereals, oilseeds, proteins, linseeds	Producers must set-aside (leave fallow) a minimum of 5% of their total arable land	Per hectare Cereals £274 Maize silage £261 Oilseeds £503 Proteins £396 Linseed £530 Set-aside £347
Arable aid simplified scheme	Cereals, oilseeds, proteins, linseeds	Restricted to claims of up to a maximum of 15.13 hectares of cultivated land	£274 per hectare for all eligible crops

Table A 2 Application and retention periods and target payment dates for premium and headage schemes

Scheme	Application period in 1998	Retention period	Charter target payment date
Special beef premium	Up to six applications under each age category (10 and 22 months) between 1 January and 4 December	Two months after application is lodged	Advance payment (60%) to commence on 1 November Where retention period is completed by 1 November, advance payments to be made by 31 December In all other cases, advance payments to be made within 60 days of the end of the retention period Balancing payments to commence in January of following year and be completed by 30 June
Suckler cow premium	1 May to 25 June	Six months after application is lodged	Advance payment (60%) to commence on 1 November and be completed by 31 December Balancing payments to commence in January of following year and be completed by 30 June
	1 October to 31 October	Six months after application is lodged	Full payment to be made within 30 days of end of retention period
Cattle headage	1 May to 29 May	Two months after application is lodged	Full payment to be made by the end of October
Beef cow headage	1 May to 29 May	Two months after application is lodged	Full payment to be made by the end of October
Extensification premium	No application	Not applicable	Payments to be made in the period April to June
Deseasonalisation slaughter premium	Up to six separate applications up to final closing date of July 10	None	Payment to be made within 60 days of application
Ewe premium	9 December 1997 to 9 January 1998	100 days after closing date for receipt of applications	Payment of each instalment (normally three) to commence within seven days of formal EU adoption in line with the regulations governing the scheme and to conclude within one month
Sheep/goat headage	9 December 1997 to 9 January 1998	Two months after application is lodged	Full payment to be made by the end of October
Equine headage	1 May to 29 May	Two months after application is lodged	Full payment to be made by the end of October
Arable aid* general scheme	Closing date for applications 15 May	None	Full payment to be made by the end of October
Arable aid* simplified scheme	Closing date for applications 15 May	None	Full payment to be made by the end of October

Appendix B: Extracts from Department of Agriculture and Food Customer Service Action Plan 1998-2000

Customer service: specific undertakings

Our offices are open to the public from 9.30 a.m. to 12.30 p.m. and 2.00 p.m. to 5.00 p.m. Monday to Friday. Telephone service is available from 9.15 a.m. to 12.30 p.m. and 2.00 p.m. to 5.30 p.m.

Standards of service

Service by telephone: we will

- respond quickly and courteously,
- be helpful and provide the information required,
- try to deal with the enquiry without passing the call to another extension,
- take the enquiry and telephone number and call or write back if the enquiry cannot be answered quickly,
- indicate when you can expect to hear from us and arrange to call at a time which is convenient for you, if calling back is necessary,
- give contact names in all telephone communications to ensure ease of ongoing transactions.

Callers to public offices: we will

- be courteous and fair in our dealings,
- deal with enquiries as quickly as possible,
- respect client's privacy and provide private interview rooms at all public offices,
- ensure that queues are kept to a minimum,
- keep our offices clean, safe and accessible, particularly for people with disabilities

Written correspondence: we will

- reply to letters as soon as possible and issue an acknowledgement if we do not expect to reply to your letter within 10 days;
- send an interim reply explaining the position, if we cannot issue a final reply within 20 days,
- write as clearly as possible,
- only use technical terms where this is absolutely necessary,
- ensure that all letters carry
 - a contact name
 - telephone number
 - reference

Forms and leaflets: we will

- use simple and clear language in forms and leaflets,
- explain precisely what is required,
- not ask questions that are unnecessary,
- make forms and leaflets freely available.

Applications/claims: we will

- make a decision as quickly as possible on receipt of a valid (i.e. fully completed and supported by necessary documentation) application,
- deal with all applications consistently and impartially in accordance with the relevant rules and regulations,
- give reasons for our decisions,
- advise you of your right to, and procedures for, appeal of our decision if your application is unsuccessful.

Information and openness: we will

- supply our clients with all the information needed to deal with the enquiry,
- provide information that
 - is clear,
 - is timely,
 - is accurate,
 - meets the needs of people with disabilities.
- provide information about services and schemes in clear simple language,
- try to help as best we can, if another State Agency is involved,
- give reasons for decisions

Review of service standards and monitoring of progress

Procedures for review of standards and monitoring of progress in implementing this action plan will be developed in consultation with staff and customers.

The systems will include the selection of appropriate performance indicators for measuring progress. Progress will be reported and reviewed with both customer and staff representatives on a regular basis.

In addition to consultation with customers on specific issues, systems will be developed for regular review of general standards of service on a sectoral basis with customer representatives. We will seek to ensure the participation of individual customers in the process, and to seek their views through the conduct of surveys and the provision of comment cards at regular intervals.

Preparation of specific quality statements

There are two dimensions to the quality of service provided. Most obvious is the personal experience in terms of accessibility, and the timeliness and manner of service delivery. Equally important is the quality of the actual service provided, which will at least correspond with examples of best practice in comparable situations in both the public and private sectors. Standards of service will be addressed by the preparation of specific statements of the quality of the service to be provided in respect of all our services. Standards of service will be stated either generally or in the case of individual services as appropriate.

The standards adopted will reflect the needs of customers (as established through the consultative process provided for under this action plan) and the capabilities of the organisation. They must also be challenging but realistic and measurable, and provide a clear basis for monitoring performance. Where appropriate, quality of services will be assured by accreditation by recognised independent outside bodies. Particular importance will be attached to the introduction of measures which will lead to accreditation of the Department's laboratory and inspection services.

Simplification of Documentation

Subject to regulatory constraints we will, in consultation with our customers, seek to simplify procedures and to reduce unnecessary bureaucracy. Forms, explanatory and information leaflets will be reviewed with a view to making them simpler, clearer, and easier to complete.