



House of Commons  
Committee of Public Accounts

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**The Sheep Annual  
Premium Scheme**

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**Third Report of  
Session 2003–04**

*Report, together with formal minutes,  
oral and written evidence*

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## The Committee of Public Accounts

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The following were also members of the Committee during the period of this inquiry.

Geraint Davies MP (*Labour, Croydon Central*)  
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### Committee staff

The current staff of the Committee is Nick Wright (Clerk), Christine Randall (Committee Assistant), Leslie Young (Committee Assistant), and Ronnie Jefferson (Secretary).

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## Summary

Sheep farming is a major component of Northern Ireland's rural economy. Between 1995 and 2002, £170 million was paid under the Sheep Annual Premium Scheme in Northern Ireland. The Scheme is a European Union support mechanism for sheep producers who receive a 'headage' payment for eligible sheep. The number of sheep for which farmers can claim is limited by sheep 'quota' and farmers are required to keep eligible animals on notified land for a period of 100 days after the claim application deadline. This 'retention period' normally runs between January and April.

Reimbursement of the Department's costs, by the EU, is conditional upon it managing the Scheme in accordance with EU regulations and having adequate control mechanisms in place. There is a history of defective administration. Due to control deficiencies identified in the administration of the Scheme across the United Kingdom by the European Court of Auditors, a disallowance was imposed on the UK by the European Commission between 1993 and 1997. Some £1.5 million of this was attributed to Northern Ireland.

On the basis of a Report by the Comptroller and Auditor General<sup>1</sup> the Committee took evidence from the Department of Agriculture and Rural Development on five main issues: increasing the effectiveness of farm inspections; raising the standard of flock records and markings; improving payment controls; applying penalties for irregularities; and combating fraud.

Overall, we found a catalogue of errors and control failures, all of which pointed towards a particularly slack regime. It seems to us that the Department has consistently neglected the interests of the taxpayers, over a long period of time, in favour of the interests of farmers. What is needed to successfully administer a scheme of this nature is to get the right balance between the efficient payment of income to farmers and the controls which protect the integrity of public money. The Department has clearly failed to do so in this case.<sup>22</sup>

We draw the following main conclusions from our examination:

- It is clear that this scheme has not received the close management and supervision that it deserves. The most damning aspect of the Department's handling is the extent to which key requirements of the scheme were repeatedly ignored, over a long period of time. Non-compliance was not confined to unscrupulous claimants—there is evidence that Departmental staff were at times complicit in turning a blind eye to the rules. As a result, the integrity of the scheme has been undermined. With non-compliance often leading to overpayment of premium, we can only conclude that the Department has been failing in its duty as custodian of the public purse.

1 C&AG's Report, *The Sheep Annual Premium Scheme* (NIA 75/02, Session 2002–03)

2 Qq 3, 88–89, 176

- The Department's failure to properly address the weaknesses in control, highlighted by the European Court of Auditors in 1994, was a serious error in judgement. Given the risk of disallowance for failing to enforce EU controls, the Department's disregard for the auditors' recommendations, especially on flock records and markings, was irresponsible. The Department has to understand that ignoring EU requirements is not an option as it creates a liability which the taxpayer may have to repay.
- We want to emphasise that a '£' of EU subsidy is as much taxpayers' money as any other form of voted money—this Committee makes no distinction between the rigorous safeguards we expect to see operated for EU subsidies and any other form of grant payment. The Department must be in no doubt that we expect all of its schemes to be administered in line with best practice. We welcome the Accounting Officer's assurance that he has accepted all of the recommendations in the C&AG's Report. However, we have asked the C&AG to re-examine this scheme in due course and to report on the outcome.<sup>3</sup>
- Our overall impression is that the Department has in the past been soft on fraud and this has contributed to unacceptably high levels of fraud within Northern Ireland agriculture. Indeed, having carefully examined the evidence, we are convinced that many fraudsters would have regarded an attempt to cheat the scheme as a risk worth taking, given the slackness in control and the Department's poor record of prosecution. We welcome the Accounting Officer's assurances that his Department now operates a policy of zero tolerance to fraud and that attempts to cheat the system are being tackled in a much more vigorous way. We expect to see a much improved performance when the C&AG next examines this or any other scheme in the Department.

# Conclusions and recommendations

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## Improving the effectiveness of farm inspections

1. It is of major concern that the level of discrepancies noted by the Department's inspectors, when accompanied on farm visits by the Audit Office, was many times higher than when they were not accompanied. It appears to us that, by turning a blind eye to irregularities during on-farm visits, some inspectors were complicit with farmers in claiming more money than they were properly due. The Department must ensure that all irregularities are reported by inspectors.
2. We were surprised to find that payments were being made for sheep that had apparently died, but which had not been reported or replaced. Decisions by inspectors to ignore well-established rules cannot be justified. It also sends out the wrong message to farmers, making it harder to enforce the rules on future occasions. This practice must stop immediately.
3. There is compelling evidence that the vast majority of sheep losses have not been reported, despite the requirement to do so. It is likely, therefore, that many payments of premium which were not properly due have been made. Given the large numbers of sheep involved, the overall level of overpayment is probably substantial. The Department must take action to ensure that all sheep deaths are reported, where premium has been claimed. Where farmers fail to comply, penalties should be rigorously applied.
4. We find the circumstances surrounding the Department's 1998 decision to allow payments for sheep at unnotified locations quite extraordinary. Not only was this contrary to EU rules, but the Department has no record of its decision, despite a senior official apparently travelling to Brussels to discuss the matter. This is astonishing. Unauthorised changes to EU rules are wholly unacceptable, not least because they carry the risk of disallowance. We take a very dim view of any breach of well-established rules, but especially where it is compounded by such shabby administration. We also want to make clear that this Committee will only accept explanations from Accounting Officers where these are adequately supported by documentary evidence.
5. Despite all farmers signing an undertaking to provide reasonable assistance during inspections, there were a number of cases where farmers had refused to help inspectors. Allowing farmers to get away with this is indicative of the slack control regime the Department has been operating. We welcome the Accounting Officer's undertaking that, from now on, any farmer who refuses to co-operate will not be paid.

## Raising the standard of flock records and markings

6. We find it disturbing that, some seven years after the European Court of Auditors reported that flock records were in a lamentable state, there appears to have been little improvement. It is utterly pointless to instruct farmers to maintain proper flock records and threaten to penalise them for non-compliance, but then fail to check and

enforce the requirement. The Department needs to get a grip on flock records and demonstrate to farmers that any failure to comply with the regulations will no longer be tolerated.

7. The Department's failure to properly address the weaknesses in control, highlighted by the European Court of Auditors in 1994, was a serious error in judgement. Given the risk of disallowance for failing to enforce EU controls, the Department's disregard for the auditors' recommendations, especially on flock records and markings, was irresponsible. The Department has to understand that ignoring EU requirements is not an option as it creates a liability which the taxpayer may have to repay.
8. We regard flock records as an extremely important control, with benefits over and above sheep annual premium—for example, they are a key source of information during disease outbreaks, as was demonstrated during Foot and Mouth in 2001. Because of these wider benefits, checks on flock records should not be confined solely to the retention period, but should take place throughout the year.
9. It seems to us that the Department's system of checking flock records is rendered completely useless by allowing a delay of up to 10 days to complete the check. In our view, the Department should make clear that it is up to farmers to ensure that their flock records are held on the farm and are available at all times for inspection. Failure to comply should result in some form of sanction.
10. Flock markings is another control measure where the Department appears to have paid scant regard to the findings of the EU auditors in 1994. We recognise that flock marking is not foolproof, but it can provide added assurance at inspection, as a counter to the fraudulent 'borrowing' of sheep. As with flock records, the Department needs to send a clear message to farmers that flock marking is obligatory and failure to comply with the regulations will no longer be tolerated.
11. While we welcome the Department's decision to introduce the individual tagging of sheep, we are concerned that the timetable for implementation appears open-ended. Although there could be some advantage in waiting for EU guidance, the resulting delay means that it may be some time before a system of tagging is fully developed and operational. We expect the Department to progress this issue at an early juncture.

### **Improving payment controls**

12. We find it worrying that the weaknesses in the Department's land identification systems leave it vulnerable to fraud. While the Department thinks it highly unlikely that there are major fraud problems in the database, we are not persuaded. Bogus land declarations have already been discovered and, with some 375,000 records still to be validated, the potential for other irregularities exists. With validation of the remainder of the database scheduled to take more than 10 years, the Department needs to consider how this exercise can be speeded up.
13. We welcome the Department's decision to introduce an automated 'Geographical Information System' to record and validate land holdings. We expect the



Department to ensure, however, that the range of concerns, identified within its existing land identification systems, are not repeated when the new system is implemented.

### Applying penalties for irregularities

14. We were surprised at the extent to which the level of penalties actually applied for claims irregularities in Northern Ireland has been lower than anywhere else in the British Isles. Penalties, properly applied, can provide a strong deterrent effect to farmers who might otherwise fail to observe the rules of the scheme. We welcome recent improvements and expect the Department to rigorously enforce the EU rules at every opportunity.
15. We regard the Department's decision not to introduce penalties for poor flock records and markings as very poorly judged. Given the high level of non-compliance with these key controls, the Department needs to toughen-up enforcement right away. When this Committee looked at the Sheep Annual Premium Scheme in England, we recommended a separate system of graduated penalties for shortcomings in flock records. We are in no doubt that the introduction of a similar system in Northern Ireland, to include flock marking, would go a long way to raising the overall standards.
16. We are keen that recommendations which we make for England are translated across to Northern Ireland. However, this has not been happening as effectively as it should have been. While we expect the Department of Finance and Personnel to play a pivotal role, we would also encourage Northern Ireland departments to liaise closely with their GB counterparts on all Public Accounts Committee reports.

### Combating fraud

17. Prior to the Audit Office examination, the Department's record in combating fraud was pretty abysmal. We welcome the Accounting officer's assurances that procedures are now much improved and we expect that, in future, every case of suspected fraud will be properly investigated; that decisions on all cases will be fully documented; that every realistic opportunity to prosecute will be vigorously pursued; and that successful prosecutions will be widely publicised as a deterrent to other would-be fraudsters.
18. It is worrying that one of the cases where no sheep were found at inspection involved an employee of the Department. We are disappointed that prosecution was not recommended, due to concerns about the standard of evidence. In a case where a civil servant deliberately seeks to exploit the rules within his own Department, we are of the firm opinion that the Department must make a particular effort and be seen to take strong action. This should always include disciplinary proceedings and, wherever possible, prosecution.
19. With some 230 of the Department's 3,750 staff currently claiming agricultural subsidies, the requirement for all staff to make a conflict of interest declaration is a useful procedure. We expect the Department to carefully consider each situation

where a potential conflict of interest exists and ensure that the risks are fully addressed.

20. Even though the Department has rotated 20% of inspectors each year, we are not convinced that collusion between farmers and Departmental staff has not been an issue. There were far too many situations where non-compliance with the rules was ignored by the Department. We expect the Department to ensure, through close supervision and monitoring, that any pattern of possible collusion is picked up at the earliest opportunity. Other measures, such as a programme of selected re-inspections should also be considered.
21. The degree of fraud discovered in the wake of Foot and Mouth was a quite staggering state of affairs, particularly in one of the affected areas where at least 58% of claimants had been attempting to cheat the system. We are not at all persuaded that this was a one-off situation. In our view, the Department's risk analysis is fundamentally flawed and needs to be re-examined as a matter of urgency.
22. While the Department estimates fraud in the scheme at £0.5 million each year, we think this figure is almost certainly understated. We saw plenty evidence of irregularities, including shortfalls of sheep, that went unreported. In our view, the actual fraud figure is likely to be substantially higher than £0.5 million. We would strongly urge the Department to look again at this matter.
23. Over the past 10 years, the Department has spent almost £1.4 billion on livestock subsidies. With such enormous sums of taxpayers' money at stake, the Department must make fraud a decidedly unattractive proposition, by ensuring that it has an effective inspection process, a rigorous prosecutions policy and penalties that far outweigh the potential gains from fraud.
24. We commend the Livestock and Meat Commission for drawing attention to the substantial inaccuracies within the Department's statistics on sheep marketings. We note the Department's assurances that it now has actual data on all marketings and no longer needs to produce an estimate.
25. Our overall impression is that the Department has in the past been soft on fraud and this has contributed to unacceptably high levels of fraud within Northern Ireland agriculture. Indeed, having carefully examined the evidence, we are convinced that many fraudsters would have regarded an attempt to cheat the scheme as a risk worth taking, given the slackness in control and the Department's poor record of prosecution. We welcome the Accounting Officer's assurances that his Department now operates a policy of zero tolerance to fraud and that attempts to cheat the system are being tackled in a much more vigorous way.
26. It is clear that this scheme has not received the close management and supervision that it deserves. The most damning aspect of the Department's handling is the extent to which key requirements of the scheme were repeatedly ignored, over a long period of time. Non-compliance was not confined to unscrupulous claimants—there is evidence that Departmental staff were at times complicit in turning a blind eye to the rules. As a result, the integrity of the scheme has been undermined. With non-

compliance often leading to overpayment of premium, we can only conclude that the Department has been failing in its duty as custodian of the public purse.

27. We want to emphasise that a '£' of EU subsidy is as much taxpayers' money as any other form of voted money—this Committee makes no distinction between the rigorous safeguards we expect to see operated for EU subsidies and any other form of grant payment. The Department must be in no doubt that we expect all of its schemes to be administered in line with best practice.



# 1 Improving the effectiveness of farm inspections

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1. In line with EU requirements, the Department conducts a programme of farm inspections during the retention period, on a sample of claims. Inspectors are required to verify that sheep numbers are as claimed (sheep are not individually identified and tend to be moved in groups), that sheep are on notified locations, are properly marked and that proper flock records are kept. An inspection report is prepared, which enables, prevents or reduces payment of subsidy. The C&AG's Report highlighted a wide range of weaknesses in the Department's inspection programme.<sup>4</sup>

## Raising the quality of inspections

2. The level of discrepancies noted by inspectors when accompanied by the Audit Office was many times higher than when they were not accompanied. When we suggested that inspectors had been turning a 'blind eye' to irregularities, we were told that they had been recording only those issues which they deemed likely to lead to the imposition of a penalty. We found this explanation wholly unconvincing—in the case of anomalies in sheep numbers, which is a penalty offence, over four times as many irregularities were noted when the Audit Office was present. The Accounting Officer accepted that the practice had been wrong and said that inspectors are now required to record all anomalies noted at inspection. It appears to us that, by turning a blind eye to irregularities during farm visits, some of the Department's inspectors were complicit with farmers in claiming more money than they were properly due. This is completely unacceptable.<sup>5</sup>

## Identifying sheep losses

3. During the retention period, farmers are required to report, within 10 days, the deaths of all sheep on which premium has been claimed, otherwise a penalty will be applied. We were surprised to note, therefore, a case highlighted by the C&AG where payment was made on 12 sheep that had apparently died, but which had not been reported. The inspector involved decided to accept the farmer's explanation that the deaths had occurred within the previous 10 days, during lambing, even though there was no evidence that these sheep had actually existed. Unfortunately, this was not an isolated case.<sup>6</sup>

4. In our view, the inspector's decision to ignore well-established rules cannot be justified. It also sends out the wrong message to farmers, making it harder to enforce the rules on future occasions. The Department said that now, in such cases, it requires farmers to show the inspector the carcasses of the dead sheep. However, if carcasses can be produced, then it is clear that the farmer is aware of the sheep losses and should have reported them.<sup>7</sup>

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4 C&AG's Report, Part 2

5 Qq 4–10, C&AG's Report, paras 2.31–2.32 and Figure 9

6 Qq 127–130, C&AG's Report, paras 2.33–2.35 and Case A

7 Q 128

5. In this particular case, there had been a total shortfall of 25 sheep, some 8% of a total claim of 303. If this was a typical level of loss during retention, we would expect annual sheep losses across Northern Ireland as whole to amount, at the very least, to some 96,000 (based on an eligible flock size of some 1.2 million sheep) and probably much higher. We asked how many notifications of sheep deaths the Department had in fact received. Data provided after the hearing, showed that, over the past five years, an average of 877 sheep losses per year had been reported. On average, reports of losses had been received from only 59 farmers each year, out of a total of some 9,500–10,000 claimants. This is in stark contrast to the findings of the Audit Office, which noted a shortfall in the numbers of sheep held in 35% of the farm inspections which it accompanied.<sup>8</sup>

6. In our view, there is compelling evidence that the vast majority of sheep losses have not been reported, despite the requirement under the scheme rules to do so. We are amazed that this shortcoming has not previously been picked up by the Department and acted upon. As a result of its failure to do so, many payments of premium which were not properly due are likely to have been made. What is particularly worrying is that, given the large numbers of sheep involved, the overall level of overpayment is probably substantial.

### Applying the Unnotified Locations Rule

7. EU rules require eligible sheep to be held at ‘notified’ locations. However, in 1998, the Department changed this policy, because it felt that other UK regions and Member States were not stringently applying the rule. Sheep at unnotified locations were therefore considered eligible in certain circumstances. We asked by what authority the decision was taken not to apply the EU penalties in such cases. The Department said that it had believed that it had lawful authority for this decision, based on what it described as a policy established in Great Britain following an EU audit. We do not accept this explanation. It is clear from the C&AG’s Report that this was not an established policy in Great Britain and that the EU rules should have been properly applied.<sup>9</sup>

8. The Department had told the Audit Office that its change in approach had been discussed and agreed with the EU auditors before being implemented, but that no evidence of this was available. It explained that the head of the policy branch had gone to Brussels to discuss the policy change, but no record was made of the meeting. We find this explanation astonishing. Maintaining proper records is standard procedure within the public sector and yet, in this case, which involved an extremely important change of policy and a senior official travelling to Brussels, we are asked to accept without proper explanation that there is no record anywhere. This is a disturbing insight into administrative practice within the Department.<sup>10</sup>

9. Unauthorised changes to EU rules are wholly unacceptable, not least because they carry the risk of disallowance. We take a very dim view of any breach of well-established rules, but especially where it is compounded by such poor administration. We also want to make

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8 Qq 174–176; Ev 17

9 Qq 51–55; C&AG’s Report, paras 2.49–2.53

10 Qq 56–61; C&AG’s Report, para 2.53

clear that this Committee will only accept explanations from Accounting Officers where these are adequately supported by documentary evidence.

### Securing the co-operation of farmers at inspection

10. All farmers sign an undertaking on the scheme application form that they will provide reasonable assistance during the inspection. Despite this undertaking, there were a number of cases where farmers had refused to help inspectors. This causes particular problems where the terrain is difficult, the weather inclement and an inspector is not familiar with the area. We asked why the Department had let farmers away with this and what it was doing to firm up its approach—did it, for example, disqualify the claim in such circumstances? We were told that the Department was reviewing its procedures for next year, with a view to requiring farmers to give more co-operation, and that sanctions would be considered.<sup>11</sup>

11. We considered this a weak response to the problem. On pressing the issue further, we found that the Department actually had the power to disallow a claim for lack of co-operation, but had never applied it. This was yet another example of the slack control regime which the Department has been operating. We welcome the Accounting Officer's undertaking that, from now on, any farmer who refuses to co-operate will not be paid.<sup>12</sup>

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11 Qq 159–160; C&AG's Report, para 2.13

12 Qq 161–167

## 2 Raising the standard of flock records and flock markings

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12. Flock records and flock markings are key controls required by the EU for the identification and verification of claimants' sheep. The disallowance of sheep premium imposed on the UK between 1993 and 1996, by the European Commission, was due in part to poor flock records and markings. The Department has issued guidance to farmers in recent years setting out the requirements on flock records, including a warning that, "if you fail to keep records or do not allow officials to inspect your records... you will lose all of the premium".<sup>13</sup>

### Improving flock records

13. On a farm visit, inspectors are required to verify that proper flock records are kept. The C&AG's report noted that, while accompanying the Department's inspectors on 26 farm visits, his staff found a high proportion of cases where flock records were either poor or non-existent. We asked why, seven years after the European Court of Auditors reported that flock records were in a lamentable state, there appeared to have been little improvement. We were told that the Department had been acting under a misunderstanding that, if an inspection was unannounced and carried out during the retention period, flock records were not that important.<sup>14</sup>

14. It is difficult to see how such a straightforward requirement could be open to misinterpretation, especially as the EU had told the Department in 1994 that its records were not up to scratch. We are left with the impression that this is one more example of tardiness on the part of the Department in its administration of the Scheme. It is utterly pointless to instruct farmers to maintain proper flock records and threaten to penalise them for non-compliance, but then fail to check and enforce the requirement. It is clear that the Department needs to get a grip on flock records and demonstrate to farmers that any failure to comply with the regulations will no longer be tolerated. Ignoring EU requirements is not an option.

15. The Department's view of flock records was that they do not give a high level of assurance as to the existence of sheep and that a headcount is therefore a better check. However, a headcount only provides a snapshot, with no assurance as to the position throughout the rest of the retention period or, indeed, the date when the claim for premium was submitted. We regard flock records as an important control, with benefits over and above sheep annual premium—for example, they are a key source of information during disease outbreaks, as was demonstrated during Foot and Mouth in 2001. Because of these wider benefits, checks on flock records should not be confined solely to the retention period, but should take place throughout the year.<sup>15</sup>

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13 C&AG's Report, paras 2.16–2.20 and Appendix 2

14 Qq 43–51; C&AG's Report, paras 2.21–2.24

15 Q 77; C&AG's Report, para 2.24



16. Where a farmer is unable to produce his flock records at inspection, the Department gives him a further 10 days in which to submit them for checking. We pointed out that this provides an unscrupulous farmer with the opportunity to falsify his records and obtain bogus back-up documentation. The Department responded that there was little more it can do in these circumstances. It seems to us that the Department's system of checking flock records is rendered completely useless by allowing a delay of up to 10 days to complete the check.<sup>16</sup>

17. The Department did tell us that it was taking legal advice to establish what is reasonable in terms of giving people time to produce records. If necessary, the legislation would be amended to enforce this. We find it hard to envisage many circumstances where the flock records would, legitimately, not be available at inspection. If the situation did arise, it should be very much the exception. In our view, the Department should make clear that it is up to farmers to ensure that their flock records are held on the farm and are available at all times for inspection. Failure to comply should result in some form of sanction.<sup>17</sup>

### Improving flock markings

18. Flock markings is another control measure where the Department appears to have paid scant regard to the findings of the EU auditors in 1994. The C&AG's staff noted, while accompanying the Department's inspectors on the 26 farm visits, that sheep had not been properly marked in 50% of the cases examined. The Department told the Audit Office that it did not regard flock markings as a key control because they were not unique and simply provided supplementary information. We recognise that the system of flock marking is not foolproof, but it can provide added assurance at inspection, as a counter to the fraudulent 'borrowing' of sheep. As with flock records, the Department needs to send a clear message to farmers that flock marking is obligatory and failure to comply with the regulations will no longer be tolerated.<sup>18</sup>

### Introducing sheep tagging

19. The Department intends to introduce the individual tagging of sheep. This follows the recognition, in the wake of Foot and Mouth, that it needs to be aware of all animal movements. We welcome the Department's decision, although the timetable for implementation appears to be open-ended. The Department explained that there has been a delay while it waits for the EU to come up with proposals on how tagging should be handled throughout the Community. While we recognise that there could be some advantage in waiting for EU guidance, we are concerned that the resulting delay means that it may be some time before a system of tagging is fully developed and operational.<sup>19</sup>

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16 Qq 117–125

17 Qq 125–126

18 C&AG's Report, paras 2.23, 2.29

19 Q 78; C&AG's Report, para 2.30

## 3 Improving payment controls

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20. The Integrated Administration and Control System (IACS) is an EU control on livestock and arable subsidies. It requires the unique identification and registration of land, to prevent or detect duplicate claims and payments. There are some 750,000 declared parcels of land in Northern Ireland. When IACS was introduced in 1992, Member States were required to validate farmers' land declarations. The Department decided to validate IACS using its own manual land identification system—the 'Field Management System' (FMS). The C&AG's report highlighted a range of concerns as to the accuracy of FMS, including the lack of documentation on the verification checks performed, acceptance of land details submitted by farmers without verification and use of out-of-date maps to validate holdings.<sup>20</sup>

### Detecting irregularities

21. These weaknesses have left the FMS and IACS systems vulnerable to fraud. In 2001, the Northern Ireland Assembly's Public Accounts Committee reported on an attempted fraud involving two claims on IACS forms for land which was not actually available for forage, including large areas of recreational land and a car park. In a bid to prevent fraud, the Department has an IACS inspection programme, whereby some 5% of declarations are checked each year. Because the check includes all new applications, less than 5% of the existing land holdings on the system are checked each year. By 2002, some 50% of the total declarations had yet to be inspected and verified.<sup>21</sup>

22. The Department's view is that it is highly unlikely that there are major fraud problems remaining in the rest of the database. It said that it had no evidence of widespread problems from its ongoing programme of inspections and there was no reason to expect that the remaining half will throw up any problems. We are not persuaded. Bogus land declarations have already been discovered in the database and, with some 375,000 records still to be validated, the potential for other irregularities does exist. Also, with less than 5% of existing holdings being checked each year, validation of the remainder of the database will take more than 10 years. In our view, the Department needs to consider how the validation exercise can be speeded up.<sup>22</sup>

### Introducing digital mapping

23. FMS maps are hand-drawn, a labour intensive process. With current developments in digital mapping and with a view to future EU requirements, the Department has decided to introduce an automated 'Geographical Information System' to record and validate land holdings. The new system is to be in place in 2005. We welcome the improvements that this will bring to the Department's administration of the sheep annual premium scheme.

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20 C&AG's Report, paras 3.7–3.11, 3.14

21 C&AG's Report, paras 3.15–3.17; 4<sup>th</sup> Report from the Northern Ireland Assembly Committee of Public Accounts, *National Agriculture Support: Fraud* (NIA4/00/R, Session 2000–01)

22 Q 74; C&AG's Report, para 3.18

We expect the Department to ensure, however, that the range of concerns, identified by the C&AG within FMS, will not be repeated when the new system is implemented.<sup>23</sup>

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23 Q 81; C&AG's Report, paras 3.22–3.28

## 4 Applying penalties for irregularities

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24. The Department only applies penalties where the European Commission requires it to do so—that is, for late submission of claims and shortages of sheep at inspection. The level of penalties actually applied for claims irregularities in Northern Ireland has been relatively low, compared with the rest of the UK.

### Increasing the rate of penalties applied

25. In a comparison of statistics across the British Isles for 1998, the proportion of the Department's farm inspections that led to reductions in claims was the lowest, by some measure—3.1% compared, for example, with England at 4.9% and the Republic of Ireland at 6.5%. Similarly, the proportion of scheme claims reduced as a result of checks was markedly lower in Northern Ireland than elsewhere. The Department conceded that the statistics reflected the more slack inspection regime which it had been operating. It pointed out, however, that the situation has been improving with 7.3% of inspections in 2002 leading to reductions in claims. While this is welcome, it does serve to underline the extent to which there was scope for improvement. A penalty system, properly applied, can provide a strong deterrent effect to farmers who might otherwise fail to observe the rules of the scheme. It is important, therefore, that the Department rigorously enforces the EU rules at every opportunity.<sup>24</sup>

### Introducing penalties for poor flock records and markings

26. On those aspects where there is discretion to apply penalties, such as poor flock records and markings, the Department has no penalty system. In making the policy decision in 1997, the Department estimated that a strict enforcement of rules on proper flock record-keeping would result in some 50% of cases being penalised. It decided not to enforce the rules on flock records right away, but to 'toughen-up' the following year. However, this toughening-up never materialised.<sup>25</sup>

27. The Department has stated that, provided the correct numbers of sheep are present at inspection, it has no authority to reduce the payment of premium, irrespective of the poor standard of flock records and markings. When this Committee looked at the Sheep Annual Premium Scheme in England, we recommended a separate system of graduated penalties for shortcomings in flock records. We are in no doubt that the introduction of a similar system in Northern Ireland would go a long way to raising the overall standards.<sup>26</sup>

28. We are keen that recommendations which we make for England are translated across to Northern Ireland. However, this has not been happening as effectively as it should have been. While we expect the Department of Finance and Personnel to play a pivotal role, the process would be enhanced if Northern Ireland departments were to liaise closely with

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24 Qq 146–149; C&AG's Report, paras 4.2–4.7 and Appendix 4

25 C&AG's Report, paras 4.8–4.12; 38th Report from the Committee of Public Accounts, *The Sheep Annual Premium Scheme in England* (HC 362, Session 1999–2000)

26 Q 16

their GB counterparts, not just on matters of policy, but also on Public Accounts Committee reports.<sup>27</sup>

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27 Qq 16–19

## 5 Combating fraud

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### Improving case handling procedures

29. Prior to the Audit Office examination, the Department's record in combating fraud was pretty abysmal. Case handling procedures were weak and many suspected frauds had not been pursued, without any explanations on file as to why not. In the three years prior to 2000, only 16 cases of suspected fraud were referred to the Department's Fraud Investigation Unit. In three of these cases, no further action could be taken because they had become statute barred as a result of delays in referral. Only one of the 16 cases led to a successful prosecution. In most of the remaining cases, the Department felt there was insufficient evidence to proceed with a prosecution.<sup>28</sup>

30. Given the widespread failings in the Department's administration of the scheme and the low level of prosecution, we questioned whether the Department had sufficient resources to operate the scheme. We were told, however, that resources were sufficient and that staff actually carry out more inspections than required by the EU. In our view, this makes the shortcomings in the scheme all the more damning.<sup>29</sup>

31. The Department accepted that there had been a shoddiness in its record-making but said that improved procedures now ensure that proper documentation standards are adhered to. It pointed out that the level of prosecutions had increased—in 2002, 20 cases had been referred to the Fraud Investigation Unit, of which 8 had resulted in successful prosecutions with 3 more cases pending. It also said that it was working more closely with the Director of Public Prosecutions to ensure that evidence stood up in court. In addition, after a successful prosecution, the Department now issues a press release naming the farmer, where he lives, the nature of his offence and the penalty imposed.<sup>30</sup>

### Addressing conflicts of interest and the risk of collusion

32. One of the attempted fraud cases reported by the C&AG involved a farmer who had claimed premium for 71 sheep but was found not to have any at inspection. What we found particularly worrying was that the case involved an employee of the Department. Prosecution was not recommended because, as regards the evidence, it was only the inspector's word against that of the farmer. In a case where a civil servant deliberately seeks to exploit the rules within his own Department, we are of the firm opinion that the Department must make a particular effort and be seen to take strong action. This should always include disciplinary proceedings and, wherever possible, prosecution.<sup>31</sup>

33. In evidence provided after the hearing, the Department said that 231 of its 3,762 staff are currently claimants of agricultural subsidies. Although the proportion is relatively small, the numbers involved are substantial. The Department told us that all staff are now

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28 C&AG's Report, paras 4.15–4.19, 4.26–4.30

29 Qq 75–76, 85

30 Qq 14–15, 62, 86–87

31 Q 83; C&AG's Report, para 4.27 and Prosecution Case B

required to sign a statement in which they declare whether there is any conflict between their own activities, or those of their family, and the work which they do for the Department. This is a useful procedure. However, it will only be effective if the Department carefully considers each situation where a potential conflict of interest exists and ensures that the risks are fully addressed, for example, through separation of duties and effective supervisory checks.<sup>32</sup>

34. We asked whether there was an increased risk of collusion between those administering the scheme and farmers, because the scheme involves European money. The Department said that it takes steps to ensure that collusion does not occur, including the rotation of some 20% of inspectors each year. Given the many examples in this scheme where non-compliance with the rules was ignored by the Department, we are by no means convinced that collusion has not been an issue.<sup>33</sup>

### Shortfall in sheep numbers discovered during the Foot and Mouth cull

35. The most serious fraud cases were those discovered during the Foot and Mouth emergency in 2001. Following the cull of animals which resulted from the outbreak, significant discrepancies in claims for sheep premium were found in three locations. Of 206 claims submitted from these areas, 108 (52%) had shortfalls between the number of sheep claimed and those counted during the cull. This included 17 cases where no sheep at all were found. The overall figures were later revised to 80 claims (39%) because, in 28 cases, the cull records compiled by the Department were insufficient to enable the discrepancies with the claims for sheep premium to be substantiated. Numbers recorded during the cull had not been confirmed in writing with the applicants, nor had there been a cross-check against flock records. It is extremely unsatisfactory that the 28 claims involved had to be paid in full.<sup>34</sup>

36. In one of the areas affected by Foot and Mouth, it is clear that at least 58% of claimants had been attempting to cheat the system. We found this a quite staggering state of affairs. As the attempted frauds only came to light through the Foot and Mouth outbreak, we were concerned as to how long this type of activity had been going on, how widespread it was and why the problem had not been flagged up by the Department's risk analysis. The Department said that it did not believe that the findings in this particular year were typical and suggested that it may have reflected an opportunistic response in the border area to a high market price for lambs in the Republic of Ireland in early 2001. We are not at all persuaded by this. In our view, the Department's risk analysis is fundamentally flawed and needs to be re-examined as a matter of urgency.<sup>35</sup>

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32 Qq 103–107

33 Qq 84–85; C&AG's Report, para 2.10

34 Q 11; C&AG's Report, paras 2.38–2.43 and Case C, p 52

35 Qq 11–13, 73, 90–102, 131–134, 142–146; C&AG's Report, para 2.47

## Estimating the total level of fraud

37. We were particularly interested in how much fraud there was across the Department as a whole. Surprisingly, the Department was unable to provide us with figures, but did say that it was in the process of developing a methodology to estimate this. As regards the Sheep Annual Premium Scheme, it had estimated fraud at some £0.5 million each year, based on an average 3% annual shortfall in sheep numbers noted at inspections. In our view, this estimate is almost certainly understated. We saw plenty of evidence that many irregularities, including shortfalls of sheep, have gone unreported. The actual fraud figure for the scheme, therefore, would be substantially higher than £0.5 million. We would strongly urge the Department to look again at this matter.<sup>36</sup>

38. Data provided by the Department showed that, over the past 10 years, it has spent almost £1.4 billion on livestock subsidies, including £178 million in the current year. With such enormous sums of taxpayers' money at stake, the Department must make fraud a decidedly unattractive proposition, by ensuring that it has an effective inspection process, a rigorous prosecutions policy and penalties that far outweigh the potential gains from fraud.<sup>37</sup>

## Discrepancies highlighted by the Livestock and Meat Commission

39. The Northern Ireland Livestock and Meat Commission recently highlighted the lack of reconciliation between the total number of marketed sheep, estimated by the Department from its annual census statistics, and the actual numbers recorded in various market outlets. For 2001, the Department estimated that 1,382,000 sheep were marketed, whereas the Commission's statistics for recorded marketings was 984,000, some 400,000 less. The Commission was concerned that these sheep may not have been there to begin with, thus casting doubt on the accuracy of census returns and claims for sheep annual premium. The Department said that, with improved controls introduced in the wake of Foot and Mouth, it can now reconcile the difference. Also, because it now has actual data on all marketings, it no longer needs to produce an estimate. It accepted, however, the inaccuracy of the methodology it had been using to estimate marketings. We commend the Livestock and Meat Commission for drawing attention to the substantial inaccuracies within the Department's statistics.<sup>38</sup>

## General comments

40. Having carefully examined the evidence, we are convinced that many fraudsters would have regarded an attempt to cheat the scheme as a risk worth taking. The reasons are apparent—six out of seven claims not selected for inspection, poor risk analysis, a slack inspection regime, a very low prosecution record and relatively modest penalties. The low level of risk to fraudsters was most starkly illustrated in the Foot and Mouth cull cases,

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36 Qq 150–158

37 Ev 17

38 Qq 20–43, 135–141; Ev 15–17



where the 17 farmers who were found to have no sheep at all could not be prosecuted because of a loophole in the Department's legislation.<sup>39</sup>

41. Our overall impression is that the Department has in the past been soft on fraud and this has contributed to unacceptably high levels of fraud within Northern Ireland agriculture. The Accounting Officer has assured us that his Department now operates a policy of zero tolerance to fraud. Among the initiatives introduced are a counter-fraud strategy and an anti-fraud forum. In addition, clear instructions have been now issued to all staff and training courses have been provided. We acknowledge that these are positive steps in the fight against fraud. However, the procedures will only work if they are properly applied. In our review of the Sheep Annual Premium Scheme, we noted that many of the weaknesses arose out of the Department's failure to properly apply existing control procedures.<sup>40</sup>

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39 Qq 66–73, 108–116; C&AG's Report, paras 4.31–4.32

40 Qq 14, 63–65, 168–171

# Formal minutes

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**Monday 1 December 2003**

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Allan  
Mr Richard Bacon  
Jon Cruddas  
Mr Frank Field  
Mr Brian Jenkins

Mr Nigel Jones  
Jim Sheridan  
Jon Trickett  
Mr Alan Williams

The Committee deliberated.

Draft Report (The Sheep Annual Premium Scheme), proposed by the Chairman, brought up and read.

*Ordered*, That the Chairman's draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 41 read and agreed to.

Conclusions and recommendations read and agreed to.

Summary read and agreed to.

*Resolved*, That the Report be the Third Report of the Committee to the House.

*Ordered*, That the Chairman do make the Report to the House.

*Ordered*, That the provisions of Standing Order No. 134 (Select Committees (Reports)) be applied to the Report.

Adjourned until Wednesday 3 December at 3.30 pm

## Witnesses

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**Wednesday 2 July 2003**

*Page*

**Mr Pat Toal, Mr Gerry Lavery, and Mr Ronnie Jordan**, Department for  
Agriculture and Rural Development, Northern Ireland

Ev 1

## List of written evidence

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Northern Ireland Department of Agriculture and Rural Development

Ev 15



# Oral evidence

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## Taken before the Committee of Public Accounts

on Wednesday 2 July 2003

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon  
Mr Ian Davidson  
Mr Frank Field

Mr Brian Jenkins  
Mr David Rendel

**Mr John Dowdall**, Comptroller and Auditor General for Northern Ireland, Northern Ireland Audit Office, further examined.

**Mr David Thomson**, Treasury Officer of Accounts (Northern Ireland), further examined.

### REPORT BY THE COMPTROLLER AND AUDITOR GENERAL:

#### The Department for Agriculture and Rural Development, Northern Ireland: The Sheep Annual Premium Scheme (HC 330)

*Witnesses:* **Mr Pat Toal**, Accounting Officer, **Mr Gerry Lavery**, Director of Finance, and **Mr Ronnie Jordan**, Director of Rural Payments, Department for Agriculture and Rural Development, Northern Ireland, examined.

**Q1 Chairman:** Good afternoon and welcome to the Committee of Public Accounts. This afternoon, because the Northern Ireland Assembly is suspended, we are taking a Northern Ireland topic. We are discussing the C&AG's Report on the Sheep Annual Premium Scheme and we have Mr Pat Toal from the Department of Agriculture and Rural Development. Would you please introduce your team.

**Mr Toal:** Thank you, Mr Chairman. On my left, I have Mr Lavery, who is the Director of Finance and on my right, Mr Ronnie Jordan, who is the Director of Rural Payments.

**Q2 Chairman:** And we have someone from the Treasury, an Officer of Accounts for Northern Ireland as well.

**Mr Thomson:** Yes.

**Q3 Chairman:** So, Mr Toal, what I would like to start with is a general question. I am sure you would recognise that what this Committee has always been about is trying to ask for a balance between the efficient payment of income to farmers, which we recognise is important, but also coupling that with controls to protect the integrity of public money. Do you agree that the balance was not right in respect of this scheme between those two aims of public policy?

**Mr Toal:** Yes. I think, Mr Chairman, that your question goes to the heart of much of the evidence that we shall give this afternoon. There is not only a need for a balance, but it is a balance which has to be restructed from time to time depending on changes in circumstances. We have sought to do that throughout the period covered by this Report. Firstly, we want to avoid making payments for sheep

that do not qualify for payment. We aim to operate the scheme in full compliance with European Union rules. I do accept that we have not always got that right and have not always been as diligent as we might have been, nor as rigorous as we should have been in requiring compliance, and I do regret that and I apologise for that. However, I would emphasise that I personally, and the Department corporately, have a zero tolerance of fraud and where we suspect fraud, we arrange for it to be investigated, we gather evidence and if that evidence is sufficient, we recommend prosecution to the Director of Public Prosecutions. The second point I want to make is that we are also conscious of our obligation to deliver a service to subsidy claimants, in this case sheep farmers. We want to make it easy for them to claim their entitlement and to prove the validity of their claim within the rules. In doing that, we rely heavily on our policy of conducting unannounced inspections at a high level during the time when the sheep are required to be on the farm. Farmers know that that is our approach, they understand it and they know what is required of them. Finally, as I have said, there is a balance between those two, the control of public money and the service to the claimant.

**Q4 Chairman:** You will find, Mr Toal, in the session that members' time is limited, so I have to ask you to give very crisp answers. I now refer you to page 44, figure 9, and paragraph 2.32. That is quite interesting because if we look at that figure, what we see is that the level of discrepancies noted by the inspectors when accompanied by Northern Ireland Audit Office officials was many times higher than when they were not accompanied. You accept that, do you?

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 Department for Agriculture and Rural Development, Northern Ireland
 

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*Mr Toal:* Yes, I do.

**Q5 Chairman:** So what this suggests to me is that your inspectors had been turning a blind eye to irregularities. Is that a fair criticism?

*Mr Toal:* I think, Mr Chairman, what was happening on the ground was that our inspectors were simply recording those issues which they had deemed to be relevant to the adjudication of the scheme, so they were not recording everything that they saw during the visits as they had done during the time when they were accompanied by the auditors.

**Q6 Chairman:** If that is right, look at that right-hand part of the column, anomalies in sheep numbers. That is a penalty offence, is it not?

*Mr Toal:* It is, yes.

**Q7 Chairman:** And you will see, looking down the figure, 8% and 35%, and it is a penalty offence, that four times as many irregularities were noted when the Northern Ireland Audit Office were present. How do you explain that, a penalty offence which your inspectors are turning a blind eye to?

*Mr Toal:* That is the number of discrepancies discovered during the inspections. Subsequently all of those are followed up by our payment section by contacting the farmer and by checking his records to check that indeed the anomaly has actually happened and that there is cause for a penalty to be applied.

**Q8 Chairman:** Why were four times as many irregularities noted when the Northern Ireland Audit Office were looking over their shoulder than when they were not? What is going on? You have not answered my simple question. What these figures suggest to me is that when we are talking about something which does attract penalty points, therefore, it is an important offence, your inspectors are clearly turning a blind eye to what is going on, are they not?

*Mr Toal:* No, because—

**Q9 Chairman:** They are complicit with farmers in claiming more money from the public purse than they should be.

*Mr Toal:* No. I accept, as I said in my initial remarks, that yes, we did not always get it right and since this Report has been published, our inspectors are now required to record everything that they see on the farm, not just what they think might be material to the adjudication.

**Q10 Chairman:** So they got it wrong and they have now learnt their lesson?

*Mr Toal:* Yes.

**Q11 Chairman:** Right, we will go on to the next question. If you now look at paragraph 2.43, page 51, we are now talking about the cull at the time of the foot and mouth outbreak. You did not cross-check the number of sheep found with the Sheep Annual Premium figures. In other words, the vet was

going on the farm, just counting the sheep, they were culled and he did not cross-check with how many the farmer was claiming for. Now, if you turn over the page and look at Case C, you will see that there was a farmer there who claimed 256 sheep, he was found to have none in fact later, but you paid him the full amount of premium because your records were so chaotic that you could not stand by what had actually happened. That is right, is it not? Is it not a rather staggering state of affairs?

*Mr Toal:* Can I just say that when the foot and mouth cull was carried out, it was done in circumstances of a national emergency. We at that time were in the middle of a disease outbreak which we were concerned would spread right throughout Northern Ireland, mindful of the way it had happened in Great Britain. The job of the vets was to get in there, to cull these sheep, to get them slaughtered, to get them—

**Q12 Chairman:** I appreciate all of that. Nobody is denying that you did a very good job and I will just put it on the record that actually you handled foot and mouth extremely well in Northern Ireland and we congratulate you, but unfortunately the purpose of this hearing is not to deal with how well you handled foot and mouth and how you prevented the disease. The purpose of this hearing is to try and establish how much of these frauds and fiddles are going on. Here you have a particular case, Case C, where the farmer claimed the premium for 256 sheep and there were none. This only came to light because of what happened with the foot and mouth episode. What worries me is how much of this is going on in Northern Ireland at the moment.

*Mr Toal:* The records that the veterinary officers kept were deficient in terms of the Sheep Annual Premium, but they were kept for a different purpose and, therefore, when we came subsequently to adjudicate on these claims later and when the farmers made the claims, with the passage of time, and remember officers could not get on to those farms because nobody was allowed to do that at that time, when that happened, people were able to produce evidence which we were unfortunately unable to discount. Now, I accept that in Case C—

**Q13 Chairman:** But how many Case Cs are there—dozens, hundreds? You do not know, do you?

*Mr Toal:* Well, the evidence does not suggest that there are that many because the number of inspections that we do are based on risk analysis and they are based on taking into account what has happened with previous claims. I think we would suggest that the situation in South Armagh was not typical of a normal year for the Sheep Annual Premium, and I agree with you that Case C was probably not handled in the best way it should.

**Q14 Chairman:** We have taken a consistently hard line on fraud in this Committee. However, when we read this Report, we found out that your record on fraud is pretty abysmal. We have got cases running out of time, only one prosecution in three years and so forth. Are you soft on fraud?

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 Department for Agriculture and Rural Development, Northern Ireland
 

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**Mr Toal:** No, Mr Chairman. As I said in my initial remarks, we have zero tolerance of fraud and that is a policy that we adopted since 2002 and which we have confirmed since 2002.

**Q15 Chairman:** Zero tolerance of fraud with one prosecution in three years. That is zero tolerance of fraud, is it?

**Mr Toal:** At that time we had one prosecution in three years. Since then we have referred substantially more cases for investigation. For example, in 2002 there were 20 cases referred and of those we have successfully obtained prosecutions in eight of them and three more are pending. In the current year, 2003, there are 48 cases which are subject to investigation. Obviously the time has not come yet by which to bring those to a conclusion, so I would like to suggest, Mr Chairman, that being the case, that we are not soft on fraud and we have perhaps learnt our lesson from the past. We now have an anti-fraud strategy in the Department and we have an anti-fraud forum which meets regularly under the chairmanship of a senior officer and we are taking a tough line on fraud.

**Q16 Chairman:** Thank you for that. Before we move on, can I ask the Treasury Officer of Accounts a question. We have looked at the Sheep Annual Premium Scheme in England in the previous Parliament and we suggested a system of graduated penalties for shortcomings in flock records. We are very anxious that any recommendations that we make for England are translated across. Is that happening in this case?

**Mr Thomson:** In this case, Mr Chairman, as I understand it, it has been discussed with the other territories, England, Wales and Scotland, the graduated penalties.

**Q17 Chairman:** It has been discussed, so what has happened?

**Mr Thomson:** Well—

**Q18 Chairman:** So nothing has happened?

**Mr Thomson:** I cannot respond to that, Mr Chairman. I do not have the details.

**Q19 Chairman:** Mr Toal, can you help us?

**Mr Toal:** We do have ongoing liaison with our colleagues both in Defra and in Scotland and in Wales and there are monitoring committees, I think you will find, which meet regularly, of officials to discuss common approaches to policy, et cetera, in the general area of grants and subsidies. I think I would have to agree that a read-across from Public Accounts Committee reports and Audit reports, we probably could improve in the way that we do that and we are now seeking to do that. We will have more regular meetings. We now have a biannual meeting of senior officers of the four departments and in the future we will ensure that that grouping looks at—rather than just policy—the audit aspect so that we are sure that we are doing the same thing throughout the United Kingdom.

**Chairman:** Thank you very much.

**Q20 Mr Rendel:** I want to ask you a few questions, first of all, about the census report in the year 2001. I understand that there was an annual census in the year 2001 which reported that there were 1,382,000 sheep. How was that figure arrived at and what is the former census figure there?

**Mr Toal:** There is an agricultural census carried out every year in the month of June for all livestock and that is done on the basis of sending forms out to farmers who make a return, a bit like the national census, if you like, except that we do it every year. That is then updated again in December.

**Q21 Mr Rendel:** And those forms, I gather, came back with 1,382,000 sheep in that year. How many of those were being claimed for?

**Mr Toal:** The figure is 1.12 million sheep were claimed for in 2003—

**Q22 Mr Rendel:** So 1,120,000 sheep? 1.12 million you said.

**Mr Toal:** Yes.

**Q23 Mr Rendel:** So that is a lot less than there were in the census.

**Mr Toal:** Yes.

**Q24 Mr Rendel:** So why were they reporting more in the census?

**Mr Toal:** The Sheep Annual Premium is based on animals on the farm during the retention period which is early in the year. Then more animals can be bought and normal commercial activity takes over later in the year where lambs have been born and animals can be purchased and sold, *etcetera*.

**Q25 Mr Rendel:** So you get a lot of lambs born after the retention period? I am not a farmer, but it seems to be fairly late in the year that the lambs are born.

**Mr Jordan:** There is a survey done twice a year. There is the census in June each year and there is also a sample survey in December. In fact when you look at the figures for sheep, they are quite high in June after the lambing period and considerably lower in December as of course marketings occur.

**Q26 Mr Rendel:** I entirely understand that, but in terms of the number being claimed for, I would not have expected that to differ from the June figure so much because of births. I would have expected them to take place before.

**Mr Jordan:** If you compare the December survey figures with the Sheep Annual Premium figures, they are quite close, although the claim figures are below the survey figures. I have a run of figures here from 1997 through to 2001—

**Q27 Mr Rendel:** Can we have first of all then the December figure for the year before, December 2000?

**Mr Jordan:** For December 2000 the total from the survey is, and these are the ones which are relevant to the scheme and there would be additional ones, such as rams, which do not qualify, but from the survey it is 1.4 million.

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Department for Agriculture and Rural Development, Northern Ireland

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**Q28 Mr Rendel:** So it is higher than the June figure.

**Mr Jordan:** No, I am not sure about the June figure. If you look at page 21 of the Audit Office Report, you will find a figure there for December 2000. That is December, but if you look at the next—

**Q29 Mr Rendel:** Sorry, it is page 21, you say, of the Audit Office Report?

**Mr Jordan:** Page 21, European Union sheep populations for December 2000 and that shows 1.5 million. That is December.

**Q30 Mr Rendel:** That was not the figure you gave me. You gave me a figure of 1.4. Does that include something else, that figure?

**Mr Jordan:** The 1.5 includes male sheep which are not eligible under the scheme, so the figure I gave you was out of that total, those that would be relevant to the scheme. On the next page, the distribution of sheep farms and populations, admittedly it is for a different year, but if you look at the bottom pie-chart again across different counties in Northern Ireland, if you add that up, it comes to 2.9 million. You get an enormous contrast between June—

**Q31 Mr Rendel:** I want, if I may, just to concentrate on this year. How many sheep were claimed for in the year 2001?

**Mr Jordan:** In the year 2001 it was 1.177 million. That is 84% of those identified in the December survey.

**Q32 Mr Rendel:** I am getting more and more confused now because I thought we had information from the National Audit Office which indicated that there were rather less than that claimed for. Mr Dowdall, the figure claimed for in 2001 I thought was 960 something.

**Mr Dowdall:** Yes, Mr Rendel, that is contained in Appendix 2 of the brief, if you look at that, the back of the brief, which is not an Audit Office figure.

**Q33 Mr Rendel:** I beg your pardon, yes, it is a Livestock and Meat Commission figure.

**Mr Dowdall:** And they were referring to the marketing of sheep.

**Q34 Mr Rendel:** So that is not the claim.

**Mr Dowdall:** I think the Department will be familiar with that figure as well.

**Q35 Mr Rendel:** So what is the difference between the marketable figure and the number which were actually marketed, the number in the census, which I thought was estimated afterwards?

**Mr Jordan:** Yes, the figure in the census and the survey are a snapshot at a point in time, the total number of sheep you have got at that point in time. The marketings are the throughput during a period, they are a flow over time, so from one point in time to the next you have additions due to births and reductions due to marketings or slaughterings.

**Q36 Mr Rendel:** So are you saying that the census figure, which I was saying was 1,382,000, I gather is what the Livestock and Meat Commission were arguing was the number in that summer?

**Mr Jordan:** That sounds far too low to me because for the census figure in June after all the spring births, it is over two million.

**Q37 Mr Rendel:** How would you expect that to compare with the number claimed for?

**Mr Jordan:** The number claimed for is at a different time of year when many of the lambs have been sold and the figure is much lower.

**Q38 Mr Rendel:** How would you expect it to relate to the number which were actually marketed?

**Mr Jordan:** I think what you are picking up on is the problem identified by the Livestock and Meat Commission in relation to the estimates of marketings whereby the estimates particularly of exports to the Republic of Ireland were too high.

**Q39 Mr Rendel:** But that was only in January and February in that year, was it not, because it was just before the—

**Mr Jordan:** It is the calculation of exports over a period of time.

**Q40 Mr Rendel:** I thought the difference that they were picking up was the difference in that year and they had said that there was a potential difference in exports, but that was rather uncertain, but that could only have been in January and February because after that you got the problem with foot and mouth and there were no exports after January and February. It sounds as if they have picked up a difference of some 400,000 sheep between the estimated marketings and the actual marketings. Of that 400,000, a proportion could have been exported to the Republic of Ireland in the early part of that year, the first two months of that year, but not surely 400,000.

**Mr Jordan:** They originally raised this issue in 2001, but that would have been in relation to the figures for 2000.

**Q41 Mr Rendel:** And the 2001 figures which they have also raised it for—what is your explanation of that?

**Mr Jordan:** It is a general issue around the statistical methodology which was used to estimate marketings whereby they took the census figure of stock at a point in time and the December survey figures of stock at a point in time. They used a factor to estimate how many births there were, they had information on slaughterings in Northern Ireland, they put those into a model and the residual element was how many they reckoned were exported to the Irish Republic. It became apparent in the wake of foot and mouth and the tighter export controls that the numbers exported to the Irish Republic were much less than the estimates said, so they looked into our methodology and concluded that the method for estimating births was too high and the reason it was too high was because the fertility rate



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which was used related to mature sheep, whereas in the total sheep population you have a mix of mature and immature sheep and immature sheep have a much lower fertility rate.

**Q42 Mr Rendel:** Are you happy that the estimate they are now using for the fertility rate is correct?

**Mr Jordan:** It is much stronger and we cross-check it against the Irish Republic's figure as well. The figure we are now using is 0.82 lambs per ewe and the Irish Republic's figure is 0.76 lambs per ewe.

**Q43 Mr Rendel:** I think, Chairman, if we may, can we ask for a note<sup>1</sup> on exactly what methodology they are now using to calculate the estimated marketings so that we can see whether that is in line now with the actual marketings. Can I move on to the flock records. The EU reported that the flock records were in a lamentable state in 1994. During this Report or the work done on this Report, the NIAO found that the situation was not much better. Why has it not been improved since then?

**Mr Toal:** Well, we had traditionally relied on a high level of unannounced inspections during the retention period to confirm the presence of eligible sheep and we only used that method of secondary control where we were concerned that there may have been fraud. Now, I accept that the approach that we adopted was due to a misinterpretation by us of the requirements in flock records and we should have been using them more diligently at the time, and we did not, but we are doing that as of now. As of this year all flock records are being checked. The farmer is asked to produce them and they are checked to ensure that the number in the records corresponds with the number for which the farmer claimed on day one of the retention period. They are checked to ensure, secondly, that at no time during the retention period has that number dropped below the numbers that are claimed for and, thirdly, that all the sheep that are there on the day of the inspection are accounted for in the records. Where that is not the case, we seek supplementary documentation to verify what the farmer has in his records.

**Q44 Mr Rendel:** I am delighted to hear that it is all now working perfectly and I look forward to the next NIAO Report to show that that is correct. Can you tell me though the answer to my question which was why you had not done this before the NIAO came in, given that you were told back in 1994?

**Mr Toal:** As I said, we were operating on the basis of unannounced inspections and we were relying on that to ensure that the right number of sheep were there because—

**Q45 Mr Rendel:** I know what you were doing, but why had you not done it better?

**Mr Toal:** Well, I accept that we did not do it better, but where there were discrepancies in the past we did ask for records to substantiate claims, but we were acting under a misunderstanding that if the

inspection was done unannounced during the retention period, then the records were not that important because they could be subject to—

**Q46 Mr Rendel:** But the EU had told you that the records were not up to scratch.

**Mr Toal:** They did.

**Q47 Mr Rendel:** Why did you not take notice of what the EU said in 1994?

**Mr Toal:** Well, because during 1994 we actually carried out inspections outside the retention period and then in 1997 we changed to doing them exclusively inside the retention period. That was one reason, but I am not putting that forward as an excuse.

**Q48 Mr Bacon:** May I start by repeating Mr Rendel's question. Why did you not take any notice of what the EU said? The answer you just gave was an explanation of the fact that you were doing inspections at a certain time, but that was not an answer to Mr Rendel's question which was why did you not take any notice of the EU.

**Mr Toal:** Well, I said that we should have.

**Q49 Mr Bacon:** So you did not, but you should have done?

**Mr Toal:** Yes.

**Q50 Mr Bacon:** Why did you not?

**Mr Toal:** I do not know if it was because we were relying on the unannounced inspections.

**Mr Field:** Saved by the bell!

**Mr Bacon:** No, he is not!

*The Committee suspended from 3.59pm to 4.07pm for a division in the House.*

**Q51 Mr Bacon:** Mr Toal, we were talking about the EU and your answer to Mr Rendel's question, which I repeated, as to why you did not take any notice of the EU to which you replied, "I do not know". I want to take you on from there and continue talking for a minute about the EU. On page 55, at paragraph 2.5, it talks about the number of instances where sheep were at unnotified locations, but penalties had not been applied. Could you first say by what authority was the decision taken not to apply the penalties?

**Mr Toal:** The decision was made following an assessment—

**Q52 Mr Bacon:** Sorry, but I did not ask you at what point in time the decision was made after something or before something else. My question was by what authority was the decision taken?

**Mr Toal:** It was made on the basis that we thought it was disproportionate to disallow sheep found on unnotified locations where they were near notified locations and where the Department was satisfied that they belonged to the claimant.

**Q53 Mr Bacon:** You are satisfied that there was lawful authority?

<sup>1</sup> Ev 15–18

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**Mr Toal:** What we took into account was the fact that these sheep were admitted under the established policy in Great Britain at that time and this policy had been explained at an EU audit and was accepted as reasonable.

**Q54 Mr Bacon:** So you did believe that there was lawful authority for the decision?

**Mr Toal:** We did.

**Q55 Mr Bacon:** To return to the European Court of Auditors, the point has been made earlier that there were criticisms in 1994 and still now the Northern Ireland Audit Office has severe criticisms. Why does it seem so difficult for you to get a grip after all these years?

**Mr Toal:** As I was saying earlier, in 1994 a proportion of inspections were done outside the retention period and it was in response to that criticism by the European Court of Auditors in 1994 that we changed our policy in 1997 by moving to unannounced inspections, all of which were inside the retention period. We thought at the time that that was a sufficient response to the Court of Auditors' findings in 1994.

**Q56 Mr Bacon:** On page 57, paragraph 2.53, the third bullet point, it says, "The Department said that its new approach was discussed and agreed with the EU auditors before being implemented. However, no evidence of this was available". What does that mean, that it was all done over the phone?

**Mr Toal:** No, I think, if I recall correctly, was this done at a wash-up meeting following an inspection?

**Mr Jordan:** The head of our policy branch actually went out to Brussels and had a meeting, but it appears that it was not recorded.

**Q57 Mr Bacon:** Not recorded in any way, and no note was taken of the meeting?

**Mr Jordan:** We checked the files and—

**Q58 Mr Bacon:** One thing the Civil Service is very good at is making file notes of meetings. It is standard procedure. A minister cannot have a phone conversation even for two minutes without it being recorded on a note somewhere in a file, so how could this extremely important change, this new approach not get recorded anywhere? This was not a two-minute phone conversation. This was, as you say, a trip to Brussels and there was a change of policy as a result of the trip to Brussels and yet there is no record of it. How can that be in an environment where everything gets recorded?

**Mr Toal:** It should have been recorded.

**Q59 Mr Bacon:** So why was it not?

**Mr Toal:** I do not know why. I accept that it would have been better had it been recorded, but I was also—

**Q60 Mr Bacon:** I am accurately describing what goes on, am I not, though I have never worked inside the Civil Service, but that is a more or less accurate

characterisation, is it not, that most phone conversations and so on are minuted on file notes? That is normal, is it not?

**Mr Toal:** Yes.

**Q61 Mr Bacon:** And yet this bloke gets on a plane, flies out to Brussels, he has a meeting, an important policy is changed, there is no record of it anywhere and you do not know why? You just think that it should have been done. That is basically what you are saying?

**Mr Toal:** Yes, that is right.

**Q62 Mr Bacon:** Moving on, page 79, paragraph 4.15, it says, "In the three years prior to 2000, 16 cases were referred . . . However, there were a number of other cases where referral was considered but not pursued. We found that the Department did not have a proper record of these cases". Once again why was there no record?

**Mr Toal:** And again I think that was probably just shoddiness in the making of records, but I would point out to you that following this audit, we have now introduced improved procedures to ensure that proper and full records of everything are kept of all the cases that are referred and, in particular, that we have fully documented records of those cases which are not referred for investigation and the reason why they are not.

**Q63 Mr Bacon:** In answer to an earlier question, you said that you have zero tolerance of fraud and you said, "This has been our policy since 2002". What was your policy before 2002?

**Mr Toal:** What I meant was that our policy was reinforced in 2002 after a hearing by the Northern Ireland Assembly Public Accounts Committee on a different fraud case.

**Q64 Mr Bacon:** So it was not that you had a policy which was less than zero tolerance prior to 2002 because that is what it sounded like?

**Mr Toal:** Well, I am sorry if it sounded that way, but I did not mean it that way. We have never been soft on fraud and we are certainly not soft on fraud now. What we did in 2002 following that hearing was that we tried to get our act together better and at that time we introduced our counter-fraud strategy and we introduced our anti-fraud forum and so on. We also now make it very clear to our staff what our attitude to fraud is, it is included in training courses and in the instructions that we issue to staff.

**Q65 Mr Bacon:** You mean training in fraud?

**Mr Toal:** No, we train our people—

**Q66 Mr Bacon:** Well, if you turn to page 50, figure 11, there is a column down the left-hand side which is the number of applications up to 20% short, the number of applications over 20% short and the number of applications with no sheep and underneath it says that the number of sheep short were 1,397 or 100%. I presume that means it was 100% short of the required number of sheep. If I were a farmer and wanted to claim some money, but

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I did not actually have any sheep at all, how would I go about it? How would I get away with it? That is what this is saying, is it not?

**Mr Toal:** What this is saying is that when we looked at the records following the cull in South Armagh, we discovered that there were 16 which subsequently became 14 farmers who did not have any sheep and we in fact did refer those for prosecution, but unfortunately we were unable to proceed because of the technical issue which was raised in an appeal case which sort of intervened in the period in the run-up to that time.

**Q67 Mr Bacon:** What was the technical issue?

**Mr Toal:** The technical issue was that we were unable to prove at the time the farmer had submitted his claim that there was an intent to defraud, so what we did immediately after that was that we amended the legislation to make it an offence not to notify the Department if the number of sheep has changed.

**Q68 Mr Bacon:** But it was zero to start with. I have no sheep theoretically and I want to claim some money from you because I know that there is a good chance I will get some, but how do I do it, or how did I do it and get away with it? If you have not got any sheep at all, how do you show something that you have not got? Do you borrow your neighbour's sheep for the day? I know that goes on in Greece. How is it done?

**Mr Toal:** Well, I am not an expert in the committal of fraud, but what people did was that they made claims in the hope that they would not be selected for inspection. These people were caught out because of the foot and mouth cull.

**Q69 Mr Bacon:** They would not have been otherwise? Would they have been otherwise if there had not been a foot and mouth cull?

**Mr Toal:** Well, they may have come up on the risk analysis for inspection, but obviously inspections were not conducted that year because of foot and mouth. Can I say that if this had happened prior to that appeal case, those people would have been prosecuted probably successfully because we had brought successful prosecutions prior to that.

**Q70 Mr Bacon:** It is often said that the paramilitaries in Northern Ireland are gangster rackets basically. Is there any connection between this level of fraud and the paramilitaries? You mentioned South Armagh.

**Mr Toal:** I am not aware of any connections.

**Q71 Mr Bacon:** Why is it then? I gave this to my researcher before I looked at it and said, partly joking, "Have a look at this. It is to do with agriculture in Northern Ireland, so it will be full of incompetence and fraud", and of course it is. Why is it that Northern Ireland seems to have this reputation?

**Mr Toal:** In relation to the Sheep Annual Premium Scheme?

**Q72 Mr Bacon:** In relation to the matter of agricultural subsidies, in this case the Sheep Annual Premium Scheme.

**Mr Toal:** Well, I am not sure that Northern Ireland does have that reputation.

**Q73 Mr Bacon:** It did to me. I thought I was joking, but I had not looked at the Report at that time and it turned out that I was right. It was purely a knee-jerk thought based on anecdotal information and it turned out to be more or less correct.

**Mr Toal:** As I said earlier, this was a one-off occurrence in that year of foot and mouth and there was no indication previously from the risk analysis that we had carried out from previous inspections that had been carried out that there was a particular problem in South Armagh, and that has not recurred. Obviously we have targeted those farmers in the years subsequent to that, but could I point out that elsewhere in the Report you will see that the level of disallowance in Northern Ireland for irregularities in this scheme has actually been quite low.

**Q74 Mr Bacon:** On page 70, the paragraph in the block, 3.18, it says that the Audit Office asked the Department for information on any cases where erroneous land declarations on the system had been found as a result of its checks, but no information on such cases was held centrally. The Department's view was, "it is highly unlikely that there are major fraud problems remaining hidden in the rest of the database", but they go on to say that half the land is not yet checked. How can you be confident in making that claim, that it is highly unlikely that there is major fraud remaining hidden?

**Mr Toal:** Well, we do not have any evidence from the ongoing programme of inspections that widespread problems have resulted and we have that half of the land already mapped, so there is no reason to expect that the other half will necessarily throw up any problems of this nature. We do, as a matter of routine, check all new applications and indeed it was in checking a new application that we were able to detect the fraud in 2002 that I referred to earlier, and in fact it was our Department which discovered that fraud, so I think we have a reasonable level of confidence, but we are progressing with the checking of these. Of course when we get the GIS system into place for mapping in 2005, that should result in a better approach.

**Q75 Mr Jenkins:** Do you have sufficient resources to do the job you are empowered to do?

**Mr Toal:** Yes, I believe that we do.

**Q76 Mr Jenkins:** You have the right number of inspectors, you feel?

**Mr Toal:** Yes. We conduct the number and we actually conduct more than the number of inspections that we are required to do under EC rules.

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**Q77 Mr Jenkins:** It states at paragraph 2.24 that you do not consider that flock records give a high level of assurance of the existence of sheep and yet you go on at one point in time and do a headcount. How can you be assured that the headcount of those sheep, if they are in existence, if they are in the field they should be in, were actually there last week or last month? It is a snapshot, is it not?

**Mr Toal:** It is, but we have relied on the fact that the inspection is unannounced to ensure that they are there because the farmer does not or did not know that we are not coming next week or were not coming last week. Therefore, the unannounced inspection, as I say, we have relied on, but, as I also said earlier, we should have paid more attention to records as well.

**Q78 Mr Jenkins:** Do you intend to tag sheep in the future?

**Mr Toal:** We do. It is our intention to have an identification and movement system for sheep, the same as we have for cattle. Indeed the reason we have not done that yet is because we were waiting for the EU to come up with this recommendation on how this should be done throughout the Community. We decided during the foot and mouth outbreak that we needed to have a handle on where the sheep were, where they had been and where they were moving to. Indeed in the Republic of Ireland, after foot and mouth, they introduced a system which is a manual system based on paper records and, having looked at it, we decided that it would not be appropriate for Northern Ireland. What we want is a computerised database which we would move to in accordance with EU rules in due course.

**Q79 Mr Jenkins:** If you have got your sheep marked and identified with a tag or any other system, that would still require keeping an address of the flock and the flock movements?

**Mr Toal:** Yes.

**Q80 Mr Jenkins:** So you are now in a position where you can give us an assurance that the farmer who has flock records inaccurately kept would be penalised?

**Mr Toal:** Yes.

**Q81 Mr Jenkins:** Do you intend to move to a system where you can identify the notified location rather than the present labour-intensive system of drawing up fields and when do you intend to move to an automatic system which can recognise and relate to a particular location on a GIS system?

**Mr Toal:** We will have GIS in place in 2005, but in the interim we have acted on the recommendation this year in this Report where we have used on a sample of claims the GIS technology to verify the location of sheep and to cross-check that with our own maps and that has in fact taken place. Because of that pilot exercise this year, it is our intention to roll that out to all inspectors for next year.

**Q82 Mr Jenkins:** So you would then be in a position to know that the sheep are there, the number of recorded sheep is accurate and you know the exact

location. What if they have gone across the border? What are you going to do to stop this cross-border movement of sheep?

**Mr Toal:** Prior to foot and mouth we had a derogation from EU rules on trade in live sheep between the Republic and ourselves, and we agreed this with the authorities in Dublin. After foot and mouth, things changed and suddenly, after foot and mouth, the Republic introduced stringent movement records on sheep moving from the north to the south with records kept on both sides of the border, and that is continuing and will continue so that we have records now. Obviously if they are moved illegally, then there is nothing we can do about that from the point of view of recording it and the same thing can happen, but the animals, if they are illegally moved, will disappear from the radar, as you have described it, in the future and that should give us something to go on in terms of pursuing this.

**Q83 Mr Jenkins:** I notice with Case B at paragraph 4.27 that when the inspector turned up at the location, the farmer was not there because it was an unannounced visit, the wife did not know where the sheep were and when the farmer came back, they got into a bit of a confrontation. He was sort of at the point of taking action against the farmer, but the farmer was an employee within the Department, so is he still employed in the Department?

**Mr Toal:** I do not know the answer to that, but I can have it checked.

**Q84 Mr Jenkins:** The difficulty is that with any agricultural involvement, the Department gets very close to what you consider to be your customers, the farmers. Is there is a degree of collusion between the Department and the farmers because this is European money? Is it your job or do you see it as your job to maximise the income of Northern Ireland farmers?

**Mr Toal:** I see it as my job to help the development of farming in Northern Ireland, but not by illegal means. Can I say that the Department does have rules about its employees indulging in agricultural activities and employees of the Department who do become involved as farmers have to sign a conflict of interest statement. In fact I think we all do now. Everybody in the Department signs a conflict of interest statement in which they declare that there is nothing of a conflict between activities either by that person or their family or whatever or their other activities and the work that they do for the Department, and that is something that we have introduced which we do pay particular attention to.

**Q85 Mr Jenkins:** Reading the Report, and that is why I did ask you about the resources you have available, if you had said that you felt you were under-resourced and the task was too big for the Department and that is why many of these gaps have appeared, I would understand, but if you had sufficient resources and these gaps have appeared, I think this Report is quite damning in several

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respects. There must be an element to a reasonable extent of collusion between the occurrence of fraud and your Department.

**Mr Toal:** We take steps to ensure that collusion does not occur, and, as is recorded elsewhere in the Report, inspectors are moved around so that they do not get too familiar with their clients. The fact that we have in the past and the fact that we do penalise people and the fact that we do refer people for prosecution shows that we are not soft on this and that we will not tolerate collusion.

**Q86 Mr Jenkins:** Your past track record on prosecution is not good, to be honest. You have now assured us that you will take much greater steps to bring cases of fraud before the courts.

**Mr Toal:** We already have done that.

**Q87 Mr Jenkins:** I hope that you gave it a lot of publicity and I hope that you tried to push the publicity angle to allow the farmers who are going to try to fiddle their rates to realise that the penalties are severe and it is not worth trying. Do you work with the Prosecution Office now more closely to ensure that the evidence you collect will stand up in court?

**Mr Toal:** We certainly are doing that and can I say in fact that when we obtain a successful prosecution, we have a policy that a press release is issued immediately after the court case, naming the farmer, where he lives, what his offence has been and what the penalty has been. We do that in all prosecution cases now that the Department brings under whatever scheme.

**Q88 Mr Davidson:** At the beginning you mentioned that you had a zero tolerance of fraud, but also that your customers were the farmers. To what extent do you think that your customers are taxpayers?

**Mr Toal:** When I referred to farmers as our customers, I meant in the narrow context of administering the scheme. Of course we are acting for the taxpayer and we are conscious of that.

**Q89 Mr Davidson:** Do you understand why it seems to me that in fact you view the farmers as much more important and your clients rather than the taxpayers? It seems to me that you have constantly neglected the interests of the taxpayers over a long period of time in favour of the interests of the farmers.

**Mr Toal:** No, I do not think that I intended to say that we saw farmers being more important than the taxpayers. As I have said on several occasions—

**Q90 Mr Davidson:** Okay. Page 49 and the graph that we have there, looking at the column for South Armagh, unless my arithmetic is wrong, 62% of the farms in South Armagh were cheating the system. Is that a fair assessment, if you add up 18, 27 and 17?

**Mr Toal:** That percentage of the farmers who were involved in the cull did have irregularities in their claims.

**Q91 Mr Davidson:** Is that a yes then?

**Mr Toal:** Well, no, but can I say that when—

**Q92 Mr Davidson:** No, no. Can you actually answer my question? I am in some doubt. Does it mean that 62% of the farmers in South Armagh that we have figures on here were cheating the system?

**Mr Toal:** Well, it translated to 58% actually when the figures were revised because we did make clear at the time we issued those figures that they would be subject to revision because that was raw data immediately after the cull and was subject to follow-up later on.

**Q93 Mr Davidson:** Was it felt that 58% of farmers in South Armagh, and looking over to the next page, if it is 58% down from 62% once you have revised it, am I right in saying then that 58% of farmers were cheating?

**Mr Toal:** Yes.

**Q94 Mr Davidson:** And they were gaining financial advantage from so doing?

**Mr Toal:** Yes.

**Q95 Mr Davidson:** What is the scale of money then that this 58% were actually gaining? Are we talking about a thousand, a million, not each, but overall?

**Mr Toal:** I do not know the answer to the question, but in fact they did not gain anything because they did not receive any payments.

**Q96 Mr Davidson:** Okay. Had we not caught them, how much would they have got away with? It is a fair assumption, is it not, for me to make that if this particular figure of 58% of farmers were caught cheating, then the year before 58% were also cheating, but they just were not caught? It is not an unreasonable assumption for me to make, is it, that if 17% of farmers did not have sheep at all in South Armagh despite claiming for them and in this year it came to light, then in the previous year it was 17% and probably the previous year before that it was 17% as well? Does that set of assumptions seem reasonable to you?

**Mr Toal:** As I said earlier, it is our view that that particular year was not typical and that for some reason or another sheep were not there when the cull was carried out and there are a number of reasons or speculations for that.

**Q97 Mr Davidson:** “For some reason the sheep were not there”. I am presuming that they were not on their holidays. I see the point that has been made in paragraph 2.47 that, “it may have reflected an opportunistic response in the border area to a high market price for lambs”, so I presume that that is your response, is it?

**Mr Toal:** That is part of it, yes.

**Q98 Mr Davidson:** So does it make the fraud more understandable or less reprehensible that there was a particularly high price for lambs on the Irish border that year? Are you saying that if there had been a lower price, they would not have cheated?

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**Mr Toal:** No, I am not saying that because I am not in a position to say that. What I can say to you is that of all of the risk analysis that we have carried out in that area prior to that period and the examinations and inspections that we have carried out in South Armagh in the two years subsequent to that have not shown this level of discrepancy.

**Q99 Mr Davidson:** I can well understand that in the two years subsequently people would have sharpened up their act. How can it possibly be that in a year where 58% of farmers are found to be cheating that your risk analysis did not identify this area as being an area of concern? Surely that means that there is something wrong with your risk analysis?

**Mr Toal:** I am not sure that there is, but what I would say is that prior to foot and mouth we had already commenced doing some inspections which included South Armagh and that those had not thrown up the type of irregularities described here.

**Q100 Mr Davidson:** How can you defend your risk analysis, which did not identify that an area was subsequently discovered to have 58% of the population indulging in fraud, as not faulty in some way? I am horrified to think then of what fraud there might be in an area which you did deem to have a high risk.

**Mr Toal:** I think one of the reasons was that once foot and mouth arrived, the possibility for us to enforce the regulations was removed because we were unable to put our inspectors on to the farms to carry out the inspections and that may be one of the reasons why sheep may have moved off these farms. The farmers knew that there was a standstill on the movement and the personnel were not going out.

**Q101 Mr Davidson:** So the farmers knew that there was a standstill and that made them more likely to move the sheep and cheat the system? Is that really what you are saying?

**Mr Toal:** I am saying that that is one possibility.

**Q102 Mr Davidson:** I presume you know more about agriculture than I do and if you are advising me that something is a possibility it is not just plucked out of thin air. It does not say much for farmers, does it? Give them an opportunity and they will cheat the system is what you are saying to me.

**Mr Toal:** This was a small group of farmers in a particular area.

**Q103 Mr Davidson:** Well, 58% is a fairly high percentage really. I wonder if I could turn then to page 85 where we have the case that has already been touched on, Prosecution Case B. Do you know how many employees in the Department are claiming from the Department for agricultural subsidies?

**Mr Toal:** I do not.

**Q104 Mr Davidson:** Can you identify that and give us a note on that?

**Mr Toal:** Yes, we can, we will let you have a note on that.<sup>2</sup>

**Q105 Mr Davidson:** Is that not something that is reasonable for us to expect you to have a feeling for, or to know?

**Mr Toal:** As I said, we have these conflict of interest statements—

**Q106 Mr Davidson:** I understand that.

**Mr Toal:** What I am saying is the information is available but—

**Q107 Mr Davidson:**—But is it not reasonable for us to assume that if you take this seriously you would have some sort of feel for it? You would know that it was 90% of your employees were claiming or virtually nobody at all. Do you have any feel for it?

**Mr Toal:** I do have a feel and I suspect it is closer to the latter than to the former because long before we had the conflict of interest statement we had rules in the Department which governed agricultural activities by our employees for that very reason, and indeed to protect the integrity of the Department.

**Q108 Mr Davidson:** I wonder if I could turn back to the previous page, page 84, Prosecution Case A, where farmers were caught claiming for 243 sheep that seemed not to exist. Can you tell me how much money they would have got had that claim been successful for the 243 because I want to just clarify penalties and gains. They have been fined £1,900 and costs of £1,000. How does that compare with what they might have got away with?

**Mr Toal:** I would say for that number of sheep £4,000.

**Q109 Mr Davidson:** Goodness me, so they would have got away with £4,000 and they ended up being fined less than £3,000. This is a risk worth taking, is it not? Any sensible, farmer given your record of enforcement, given your ability to supervise, given the reward versus penalty balance, would find it entirely rational to try and cheat the system?

**Mr Toal:** No, I do not think it is.

**Q110 Mr Davidson:** Explain to me the flaw then.

**Mr Toal:** Well, because when you count it up, the people were fined £3,800 plus £1,000 costs.

**Q111 Mr Davidson:** Explain that to me. Oh yes, there were two of them.

**Mr Toal:** Two fines of £1,900.

**Q112 Mr Davidson:** Right.

**Mr Toal:** That would have been a deterrent and of course as well as that they did not get the money that they were not entitled to anyway.

**Q113 Mr Davidson:** That is some consolation at least.

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<sup>2</sup> Note by witness: The Department of Agriculture and Rural Development currently has 3,762 staff and of that number, 231 are claiming agricultural subsidies.

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**Mr Toal:** I know. We do carry out unannounced inspections.

**Q114 Mr Davidson:** Let me just clarify then, you hardly catch any, of those that you do catch you hardly prosecute anybody, of those that are then fined or have penalties applied the penalties are not horrendously disproportionate. Accepting that I had forgotten there were two of them here, that was almost £6,000 for a gain that would have been £4,000. That is a pretty safe bet, is it not?

**Mr Toal:** Can I just point out, as Mr Jordan had indicated to me, the inspector found 757 sheep on the farm, they did not get paid for those and in addition to that their claim was disallowed for the following year, so it is a fairly hefty penalty.

**Q115 Mr Davidson:** That is fair. How many people then do you think would attract that level of penalty, say last year, in Northern Ireland, give me a rough figure, a feel for it? I am not sure whether or not this runs in the hundreds or runs in the tens or the ones.

**Mr Jordan:** It would be in the tens, I am not sure of the exact figure.

**Q116 Mr Davidson:** Say a maximum of ninety-nine, to be as generous as possible. When I look back at what happened in South Armagh where we had 58% committing fraud of some sort, and when we find there are less than 100 suffering that sort of penalty, you can understand why the entire Common Agricultural Policy is somewhat discredited.

**Mr Toal:** Can I point out to you, I mentioned earlier that we have referred 48 cases for investigation this year and of those 17 come from County Armagh so we are focusing in particular high-risk areas.

**Mr Davidson:** Thank you, Chairman.

**Chairman:** Mr Rendel has one or two extra questions he would like to ask.

**Q117 Mr Rendel:** If we could go back to the question of flock records for a moment. You say that the flock records are now being checked and you have a good system in place for making sure flock records are kept up-to-date throughout the year. What would happen now to a farmer if you went and inspected and found flock records were not present?

**Mr Toal:** What we are doing at the moment, as I explained earlier, is we are applying this three point check to his records to see that the number on the first day is the number claimed for, that the number throughout the period of retention never fell below the number claimed, and that on the day the corresponding number are actually there. If the farmer is unable to provide records on the day and that happens, then he is given ten days in which to supply those records.

**Q118 Mr Rendel:** So he just goes away and writes them up? He did not have them, you find that they are not there, so he goes back and writes out the paperwork?

**Mr Toal:** This is one of the reasons why we have relied more on the unannounced inspections than the written records because he could do that.

**Q119 Mr Rendel:** If you are telling him he has to keep records up-to-date, presumably he has got them on the farm, he does not keep them with his solicitor miles away.

**Mr Toal:** If I am stopped by the police and I am asked for my driving licence and I do not have it with me I am given a number of days to produce it.

**Q120 Mr Rendel:** Indeed you are but I would assume you go to the farm, ask for the records and I would assume he has the records on the farm.

**Mr Toal:** He could claim that he does not have them, he left them in the car, his wife is away shopping. There are circumstances where they may not be available on the day and we give him an opportunity.

**Q121 Mr Rendel:** If he claims they are in the car, he is very sorry and he will produce them for you in ten days, do you ever do a reinspection shortly after that? I would be a bit suspicious of somebody who said his wife had gone shopping twice running and they were still in the car?

**Mr Toal:** We do supervisory checks.

**Q122 Mr Rendel:** How regularly do you go back and check if somebody has said that the records are not there—and, as I say, I would normally expect him not to put his records in the car because there does not seem to be any good reason for putting records in your wife's car when she goes shopping if you are told to keep records of the number of sheep you have got on the farm—do you always go back and check straightaway?

**Mr Toal:** Where the records are subsequently produced we ask for documentary evidence to back up the claims that are made in the record book and we now have a dedicated record book for farmers to use.

**Q123 Mr Rendel:** What sort of documentary evidence do you have that the records he put in there remain?

**Mr Toal:** If he has replaced sheep they would be receipts from sale yards and that sort of thing.

**Q124 Mr Rendel:** If he has just said that he had those sheep there all the time and they are still there? It seems to me if you go along and count 500 sheep and he says, "Sorry, I have not got the records," and two weeks later he puts "1 January; 500, 2 January; 500", all the way through to the day you make your inspection, what check have you then got that that is what happened?

**Mr Jordan:** There is little more we can do in those circumstances where the numbers have been constant.

**Q125 Mr Rendel:** Effectively nobody actually needs to keep a record in the farm on the day because they can always get away with it when it comes to inspections, "Sorry, it is in the wife's car and she has taken it shopping". It seems to me this system is completely useless if you are prepared to accept this kind of thing.

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**Mr Toal:** We will not be accepting it as of next year because we are looking at our legislation, we are in the process of taking legal advice to establish what is reasonable in terms of giving people time to produce records, and if we need to change the legislation to enforce this, we will do that. I can give you that undertaking now.

**Q126 Mr Rendel:** I am delighted to hear that. What is the penalty if they do not have the records and cannot produce them in seven days or ten days or whatever the time is, not that I could ever see anyone being foolish enough not to have them.

**Mr Jordan:** If ultimately they do not produce records their claim is disallowed, even if the sheep are there. I am not aware of any instance where sheep were present where records have not been produced. Where sheep are missing and records are not produced they are investigated with a view to possible prosecution.

**Q127 Mr Rendel:** What proportion of sheep deaths are being reported within ten working days?

**Mr Toal:** I am afraid I do not know.

**Q128 Mr Rendel:** That does seem to be one problem we have had. For instance, in Case A on page 45 I see that the inspector went round and found there was a shortfall of 25 sheep. He said they had all died, you said up to 12 of those could have died within the last ten days so you accepted the claim for the 12 plus the 278 that you found, so you paid out for 290 and did not pay out for the other 13.

**Mr Toal:** Yes, but we do not accept that any more. He now has to show the inspector the carcasses of the dead sheep.

**Q129 Mr Rendel:** That was not done in this case? There was no evidence sought?

**Mr Toal:** It was not done. In subsequent years we did look for evidence of fresh graves but we will not be doing that any more either. Unless he can produce the carcasses of the sheep that he has not notified us about his claim will be penalised or disallowed.

**Q130 Mr Rendel:** Can I just check in that particular case, at the end of this paragraph on page 45 it says: "The remaining 13 were penalised according to the rules . . ." Does that mean you did not pay the premium for that or that the chap was fined in some way because he had claimed for the 13 which he had not reported as being dead?

**Mr Toal:** That means he would not have been paid for those 13 but then in addition to that his payment would have been reduced by an equivalent percentage, if it is less than 20%, if you look at the rules as they are set out. So in fact not only did he lose the premium for 13 sheep but he would have lost the premium for whatever percentage 13 represented of the number after the 13 had been deducted.

**Mr Jordan:** Up to a 10% shortfall in sheep, say if you are 9% short, we then pay on the sheep found less 9%. If it is between 10% and 20% we double the penalty and over 20% is a write-off.

**Mr Rendel:** Thank you very much.

**Q131 Mr Jenkins:** Just one or two points of clarification to help get things clear because when you answered Mr Davidson on figure 10 with regard to South Armagh you said there could have been no sheep on the farm because they could have been moved. You do not mean they were moved in the foot and mouth period, do you? You meant they were moved prior to foot and mouth breaking out?

**Mr Toal:** Yes.

**Q132 Mr Jenkins:** So if they fail to notify you in that action alone they were committing fraud? They continued to get paid for sheep that had actually moved and were gone.

**Mr Toal:** By failing to notify us they were committing an offence.

**Q133 Mr Jenkins:** But they were not moved in the foot and mouth period?

**Mr Toal:** We have no evidence that that happened and we would have been very concerned if we thought that had happened, but it is unlikely.

**Q134 Mr Jenkins:** Because they did not exist, did they!

**Mr Toal:** Well, after foot and mouth broke out, the Irish authorities had a very close watch on the border.

**Q135 Mr Jenkins:** When you say eligibility, I got a bit confused here because on one or two occasions you mentioned lambs but I thought we were talking about eligibility of breeding ewes and sheep over 12 months.

**Mr Jordan:** The sheep has to be 12 months old by the end of the retention period.

**Q136 Mr Jenkins:** So the lamb issue does not exist in this scene because lambs are taken off the farm quite young, that is why they are lambs, they are under 12 months old?

**Mr Jordan:** Some have to be retained for replacement in order to maintain the size of the flock, but they must be at least 12 months old by the end of the retention period.

**Q137 Mr Jenkins:** Right. On figure 4 with regard to your payment all you need to do is to divide the overall rate by the total payments you pay out to tell you how many sheep are claimed for; is that right?

**Mr Jordan:** Yes, that should be right.

**Q138 Mr Jenkins:** And you can judge the size of the flock and the retention rates, and therefore the extra premium rates, because they have also got to tie in with the quota figure, have they not, or can they be over quota?

**Mr Jordan:** We only pay up to quota. They may have more than quota.



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**Q139 Mr Jenkins:** You only pay up to quota?

**Mr Jordan:** Yes.

**Q140 Mr Jenkins:** So you know exactly how many sheep you should have. The Livestock Commission says there are 400,000 sheep unaccounted for. Do you realise that if we paid for 400,000 sheep at even the 2002 rate of £17 we are talking about £680,000 a year over-claimed; would that be right?

**Mr Jordan:** I do not believe that we have paid on additional sheep, sheep which did not exist. Again, as I endeavoured to explain earlier, this relates to marketings rather than stock of sheep at this point in time and we will endeavour to explain that more fully in a note to the Committee.

**Q141 Mr Jenkins:** But would you not say there is a potential there for a fraud of that magnitude?

**Mr Jordan:** I do not believe there is but you will be able to judge when you see the note.

**Q142 Mr Bacon:** Mr Toal, I have one point of clarification and one other question. On page 49 you said in answer to Mr Davidson the overall number of applications with shortfall was 62% but it turned out to be 58%. I think that is what you said. The 58 outside the bracket, is that what you are referring to? That is not a percentage, is it, it is the number of applications, the result of adding 17, 25 and 16 applications? So where do you get your 58% from?

**Mr Jordan:** It also happens to be under the revised data, in the second column percentages there, in brackets, which also happens to add up to 58%.

**Q143 Mr Bacon:** I am looking at the left-hand column where it says published data and 17, 16 and 25 are the numbers outside. Those are the numbers of applications. Those come to 58, that is 58 applications but the percentages—

**Mr Jordan:** Are 62.

**Q144 Mr Bacon:** It depends what column you look at. The revised one is 18, 22 and 14 applications, which makes 54 applications. You are saying in the other column the percentage comes to 58, are you?

**Mr Jordan:** By coincidence the original number of claimants and the subsequent percentage happen to be the same.

**Q145 Mr Bacon:** I see. The totals on the right-hand side where it says 52%; what is the new number for that? On page 49 on the right-hand column it says total number of applications 108 and that is 52%. What is the revised number for the total?

**Mr Jordan:** If you turn to the next page, page 50, the extreme right-hand column, the totals for the revised data, if you take the three percentages there, 19, 13 and 7—

**Q146 Mr Bacon:** 7 plus 13 is 20 plus 19 is 39 so you are saying 39% on the revised data. Okay, it is still a big chunk of fraud. If I could ask you, Mr Toal, to turn to page 94. This is a comparison of the data from different countries within the United Kingdom. It basically says that the proportion of

your inspections—this is on the left-hand side—that led to reductions to the claim are 3.1% which is a lot lower than elsewhere, in fact less than half what it is in Scotland where it is 5.9%, Wales is 5.1% and it is 4.9% in England, and the proportion of the scheme claims reduced is 0.6%, again much lower than in the other three countries and also much lower than the Republic of Ireland. You are lower than the Republic the Ireland in proportion of reductions in the claim. That can only be for one of two reasons, it can be that the farmers in Northern Ireland are more honest than elsewhere or because your inspection regime is more slack. Would you agree with that?

**Mr Toal:** It could also be because we have conducted a higher number of inspections and farmers are aware.

**Q147 Mr Bacon:** Have you conducted a higher number of inspections than in England, Wales and Scotland?

**Mr Toal:** We have conducted a higher proportion at 19.8%.

**Q148 Mr Bacon:** 19.8%. Is that somewhere in here I have missed? The top row going across? You are not lower than the Republic though. They have done 24%, even more than you, but the proportion of their inspections that led to reductions to the claim is 6.5% compared with England, Wales and Scotland and yours was only 3%. Is it because Northern Ireland farmers are more honest or because your regime is more slack? It must be one of those two, must it not?

**Mr Toal:** In 1998, for reasons I gave earlier, it may well be that we were somewhat slack but that should not be the case from now on and in fact in the year 2000 that figure of 3.1% was 8%. In 2001 it was 3.9%, but do not forget in 2001 there was a very limited number of inspections for us to do.

**Q149 Mr Bacon:** Because of foot and mouth?

**Mr Toal:** In 2002 it was 7.3%. There is an upward trend which we hope will continue.

**Q150 Mr Bacon:** Okay, can you say how much fraud is there now do you think both in terms of numbers of farmer involved, the percentage and the amount of cash involved? Again a Mr Davidson type answer would do, a feel for it. I am not asking for rocket science or engineering precision. How much fraud is there going on, would you say?

**Mr Jordan:** If I may offer an estimate because for the purpose of the counter-fraud forum we have been trying to adopt a methodology for judging the overall level of fraud and we looked at the sheep scheme initially and we based it on the percentage shortfall of sheep we were identifying because although the percentage of penalties varies from year to year the percentage shortfall in sheep remains relatively constant at around 3%. We took that 3% and said if that is typical of the generality of claims then we have a shortfall of 3% across all the sheep claimed. If you apply that to the total value of the scheme you come out with an estimate of fraud of around £0.5 million.

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**Q151 Mr Bacon:** I am grateful for your answer but I meant across all the schemes that the Department runs for agricultural subsidies. We have seen on this Committee evidence of fraud in the Agricultural Area Payments Scheme and so on. I was talking about in the totality of schemes within the Department's purview. Okay the sheep scheme £0.5 million, what is the total?

**Mr Jordan:** That is why we were developing our methodology to work that out across all schemes.

**Q152 Mr Bacon:** So at the moment you could not say across the Department?

**Mr Jordan:** Because the cattle schemes are rather different because you have individual cattle identification.

**Q153 Mr Bacon:** What is the total budget of your Department?

**Mr Jordan:** The total value of the subsidy payments is around £180 million.

**Q154 Mr Bacon:** And the total budget of your Department?

**Mr Toal:** £450 million per year.

**Q155 Mr Bacon:** And £180 million is subsidies. So of what is the other £270 million comprised?

**Mr Toal:** Part of that is, of course, the running costs for the Department.

**Q156 Mr Bacon:** How many people do you employ?

**Mr Toal:** We employ just over 3,000, 3,100, plus industrials.

**Q157 Mr Bacon:** Is that number growing or what has been happening to that in the past few years?

**Mr Toal:** It has grown slightly for a number of different reasons. It has grown because we have had to introduce extended testing for BSE. It has grown because we have applied traditional resources, for example, in fisheries inspections and various other things. But that has not been a significant growth.

**Chairman:** Perhaps we can have a note on all that.

**Q158 Mr Bacon:** Would you mind sending us a note<sup>3</sup> basically setting out the budget over the last five or ten years—why not 10 years—the total budget, the subsidy element of that, and the total number of employees?

**Mr Toal:** How far back do you want us to go?

**Mr Bacon:** Ten years would be fine. I know it will have changed and it will not be totally like-for-like.

**Chairman:** A last question from Mr Ian Davidson.

**Q159 Mr Davidson:** I wonder if I could turn to paragraph 2.13 on page 35 where it indicates there that some farmers were refusing to help the inspectors. That seems to me to be a pretty clear indication of fraud. Why do you let them get away with that? What are you doing to firm up your approach?

**Mr Toal:** I think it is true that there are occasions when the farmer is unable to accompany the inspector for various reasons (a lot of these farmers have jobs as well) but we find that in about 50% of inspections the farmer is actually present, even on the unannounced ones. When we did the sample of announced inspections this year we found in all of those that the farmer was actually present. Obviously where the farmer is unco-operative then that presumably gives a sign to the inspector that something perhaps untoward is going on. What we have introduced now is where the farmer is there we have a pre-inspection interview with them because normally—

**Q160 Mr Davidson:** We have constraints of time, I am afraid. What I am asking is what happens when the farmer refuses to accompany you? Are you just a soft touch? Do you take action right away? Do you disqualify his claim in those circumstances? If not, what are you doing to try and enforce the co-operation of the farmer particularly since I understand that an agreement to co-operate is part of the application form.

**Mr Toal:** Since this Report we are reviewing our procedures for next year to require the farmer to give us more co-operation and to be there, and we will look at sanctions where that is not coming forward.

**Q161 Mr Davidson:** Am I right in thinking that up to now, despite making a promise to co-operate, there has been no sanction on farmers who refuse to do so?

**Mr Toal:** It has been left—

**Q162 Mr Davidson:** Is that a yes or a no then? Let me just clarify, is that a yes or no?

**Mr Toal:** I lost the train there, could you go back.

**Q163 Mr Davidson:** Despite signing a form which promises to co-operate with inspectors, are sanctions applied if the farmer refuses to do so?

**Mr Toal:** Not at the moment but they will be in future.

**Q164 Mr Davidson:** Why?

**Mr Toal:** As I was saying, it is because it was left to the discretion of the farm inspector as to the level of co-operation.

**Q165 Mr Davidson:** Why was it left to the discretion of the inspector? Why did you not as Head of Department say, "People sign saying they are going to co-operate; if they do not co-operate, no money."

**Mr Toal:** Can we disallow the claim on lack of co-operation?

**Mr Jordan:** Yes, you can in the scheme.

**Q166 Mr Davidson:** It is interesting that you did not know that. Secondly, given you know that now why do you not say automatically we will rule out any case where people do not co-operate and we will do so from today?

**Mr Toal:** As I said, we will be doing that but we have not done.

<sup>3</sup> Ev 17

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**Q167 Mr Davidson:** Am I right in thinking then from today anybody who does not co-operate, having signed this form, will get no money?

**Mr Toal:** From today, which effectively is next year's scheme, yes.

**Q168 Mr Davidson:** I wonder, Chairman, if I could ask one point. I notice, Mr Jordan, your career, if I picked it up correctly, has been in other departments as well. Is there a cultural question here in agriculture in Northern Ireland? I think we have all been pretty horrified by what we have been hearing. You were in the Education Department, was the funding of things in education along the same lax pattern or were rules applied much more toughly, rigidly, sensibly?

**Mr Jordan:** I was not involved in an equivalent activity. Certainly when I came to agriculture I was very aware of the complexity of the subsidy regime and the demands both upon the Department and farmers. It was a very different environment.

**Q169 Mr Davidson:** Complexity is a very euphemistic word, is it?

**Mr Jordan:** The schemes are extremely complex both for the Department to administer and for farmers to understand.

**Q170 Mr Davidson:** So this is all a matter of misunderstanding, is it?

**Mr Jordan:** No.

**Q171 Mr Davidson:** You have identified that there is a fair amount of fraud going on in agriculture in Northern Ireland. Was there anything similar in education or is it that people cannot get away with it there?

**Mr Jordan:** The area I was involved in was not comparable with this. I cannot think of a comparable situation where I would be able to give comparisons.

**Q172 Mr Davidson:** Mr Toal, do you accept all the recommendations that are in this Report?

**Mr Toal:** I do.

**Q173 Mr Davidson:** Chairman, can I ask that we—and I am not quite sure what the process for this is—ask the Northern Ireland Audit Office to ensure that all this is re-examined within a couple of years and a

report is made either to us or to the Northern Ireland Assembly to make sure this pattern will not continue?

**Mr Dowdall:** We will do that, Chairman.

**Q174 Chairman:** How many sheep death notifications do you receive every year?

**Mr Toal:** I do not know but we can provide that information.<sup>4</sup>

**Q175 Chairman:** Very few, I suspect. You have no idea?

**Mr Toal:** I do not.

**Q176 Mr Rendel:** Can I just say one of the reasons I was interested in you asking that question was that it seems that they allowed 4% of deaths on the Case A flock within the previous ten days. If they have got about one million sheep you would expect there to be 40,000-plus notifications a year. It would be interesting to know if it is anything like that figure.

**Mr Toal:** It depends, of course there are more deaths at lambing time than at other times.

**Mr Rendel:** Indeed, but if you got 4% in the last ten days, even if all the deaths occurred in the last ten days before that particular inspection, you would still expect to get at least 40,000 notifications a year if the notification system is working properly. In practice you should get a lot more than that because, you are right, it would not be only those 10 days the sheep died, they would be dying throughout the year.

**Chairman:** We would be grateful if you would supply us with a note giving us the answer.<sup>5</sup> Thank you very much for the hearing which has proved to be a very interesting one. One of the problems with traditional agriculture departments is there is a feeling that they believe that their primary job, which is quite understandable, is to help farmers. Our job, though, is to protect the public purse and what we have found this afternoon is disturbing in terms of poor record-keeping and what we view as a generally slack approach in your Department. When we receive your memorandum in reply to our report, which I can tell you will be fairly hard hitting, we expect you to address the points that we have made this afternoon. Thank you very much, this meeting is over.

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<sup>4</sup> Ev 17–18

<sup>5</sup> Ev 17–18

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 Supplementary memorandum submitted by the Northern Ireland Department of Agriculture and Rural Development
 

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Question 43 (Mr Rendel): *I think, Chairman, if we may, can we ask for a note on exactly what methodology they are now using to calculate the estimated marketings so that we can see whether that is in line now with actual marketings.*

1. The question whether the methodology by which DARD calculates sheep marketings accurately estimates actual marketings stems, in part, from issues raised by the Livestock and Meat Commission (LMC). For this reason relevant extracts from the LMC Yearbook from 2001 to 2003 are attached as an annex. This note explains why the Department is now able to rely on actual marketing data, including information obtained on the number of stock slaughtered in the RoI. An outline of the method required prior to the Foot and Mouth outbreak is given to explain the changes that have been made.

2. Statistics on sheep numbers in Northern Ireland (NI) are gathered twice a year through the June Farm Census and the December (sample) Survey. These provide snapshots of the total size of the Northern Ireland sheep flock at specific points in time. Table 1 below sets out the results over a number of years.

	<i>Ewes &amp; ewe lambs</i>	<i>Lambs under one year old</i>	<i>Other*</i>	<i>Total</i>
June 1999	1,404,862	1,461,279	42,737	2,908,878
December 1999	1,375,959	253,916	89,348	1,719,223
June 2000	1,332,615	1,367,543	40,428	2,740,586
December 2000	1,322,497	179,301	60,944	1,562,742
June 2001	1,232,294	1,252,599	40,663	2,525,556
December 2001	1,187,616	138,167	86,639	1,412,422
June 2002	1,128,624	1,156,255	39,282	2,324,161
December 2002	1,184,175	208,288	64,225	1,456,688

\* Other includes lambs over one year and breeding rams

3. There are two features of interest. Firstly, the number of “Ewes and ewe lambs” (a category which encompasses the breeding flock) changes quite slowly. A second feature is that there are major differences in the total number of lambs between the two survey points in the year (see the second column and the final total column). This reflects the pattern of lamb marketings with the bulk of lambs born in March/April fattened at grass and sold throughout the summer and autumn. Throughout the summer and autumn the number of lambs on-farm declines progressively as lambs are marketed for slaughter. Thus the number of lambs on farms in June greatly exceeds the number in December. Because these are point estimates of lamb numbers, they do not provide an accurate basis for estimating total annual production of lambs throughout the year. Also, factors such as replacement rates and mortality rates affect the numbers that are actually marketed.

#### Method prior to the FMD outbreak in 2001

4. If the number and destination of all NI lambs can be accounted for, then the annual production of lambs can be calculated directly. However, prior to FMD, there was limited information on the considerable number of NI lambs that were slaughtered at Republic of Ireland (RoI) plants. Therefore it was necessary for the Department to estimate these marketings from a model based on ewe numbers and productivity.

5. Drawing on a method established by the European Commission, total lamb production in NI was estimated as follows:

- (i) The breeding flock at December (ewes and tupped ewe lambs—see Annex 2) was split according to the proportion in the different LFA flock categories (Lowland, Disadvantaged Areas, Severely Disadvantaged Areas (Qualifying) and Severely Disadvantaged areas (Specially Qualifying)).
- (ii) Estimates for the number of lambs reared per ewe (referred to as the Lambs Reared Factor) for each of the flock categories were derived from Farm Business Survey data.
- (iii) The number of lambs reared in each category was calculated by multiplying breeding sheep numbers by the appropriate Lambs Reared Factor.
- (iv) Total lamb production was then derived as the sum of the lambs reared in each category.

6. The estimate of marketing destinations was as follows:

- (i) Subtracting estimated replacements for the breeding flock and store imports from total lamb production calculated the total number of lambs available for marketing.
- (ii) From the number of lambs available was deducted the number of lambs slaughtered in Northern Ireland (available from records) and those exported to GB (usually relatively small numbers), to give unallocated marketings.
- (iii) The resulting unallocated marketings accounted for a significant proportion of marketings (the excerpt in Annex 1 from the LMC’s 2001 *Beef and Sheep Yearbook* refers to 56% in 2000<sup>1</sup>). It was assumed that these unallocated sales were a reflection of significant unrecorded exports to the RoI.

7. Livestock movement restrictions during the Foot and Mouth (FMD) outbreak meant that no lamb exports could take place to the RoI, while subsequent improved traceability in the RoI led to accurate information being provided for the first time on NI lambs slaughtered in the RoI. As a consequence it became apparent that the number of lamb marketings that had been estimated by the previous model had been too high. The method of calculating production was therefore reviewed (utilising data for the period 1 April 2001 to 31 March 2002). It was concluded that the model did not accurately reflect replacement rates or lambing percentages (ie the Lambs Reared Factors were incorrect).

<sup>1</sup> Annex 1—Extracts from *LMC Yearbooks 2001–03*—not printed.

8. LMC comments in the 2002 Yearbook (included in Annex 1<sup>2</sup>) identified a number of possible factors accounting for the discrepancies in marketings which were observed in the wake of FMD. Of these, the Department accepts the over-optimistic “production coefficients/number of lambs per ewe” as being the main source of the previous inaccuracy.

#### Current method

9. The availability of actual information on lamb exports means that a model is no longer required to estimate lamb marketings, which can now be calculated directly as the sum of all the elements.

10. The improved RoI data also allows a comparison to be made between the ratio of marketed output to breeding ewes in NI and equivalent ratio in the RoI. For the year 1 April 2001 to 31 March 2002 this ratio was 0.82 lambs per ewe, the equivalent RoI figure being 0.76. As these ratios are quite close it has been concluded that the market information currently gathered is providing an accurate picture of the number of lambs produced.

11. It is important to note that there has been no need to revise the data on total sheep numbers. It is only the total number of lambs marketed that is now known with greater accuracy. Consequently, there are no implications for the validity of the total sheep numbers claimed under SAPS (shown in Annex 2).

Question 158 (Mr Bacon): *Would you mind sending us a note basically setting out the budget over the last five or 10 years—why not 10 years—the subsidy element of that and the total number of employees?*

**Table of public expenditure(net) and staff numbers 1992–93 to 2002–03**

	<i>Departmental expenditure (net of receipts and CAP subsidies) £'000</i>	<i>CAP livestock subsidies £'000</i>	<i>Non-industrial staff</i>	<i>Industrial staff</i>
1992–93	147,044	51,850	2,994	1,014
1993–94	151,413	72,283	3,026	964
1994–95	185,961	102,119	2,900	917
1995–96	154,770	119,565	2,786	854
1996–97	169,159	163,589	2,681	813
1997–98	197,374	116,441	2,655	750
1998–99	174,895	155,267	2,682	715
1999–2000	178,264	107,066	2,697	682
2000–01	192,486	146,080	2,769	661
2001–02*	194,685	151,540	2,893	655
2002–03* Provisional	204,472	178,268	3,021	633

\*2001–02 excludes capital charges/depreciation of £25,860k.

2002–03 excludes capital charges/depreciation of £14,882k.

Question 174 (Chairman): *How many sheep death notifications do you receive every year?*

Article 41 of Commission Regulation 2419/2001 requires producers to report losses due to natural circumstances to the Department in writing within 10 working days of the discovery of the loss. If the Department accepts the case then payment will be made on the reduced number of animals present at the end of the retention period.

The Scheme is concerned with the number of eligible animals kept during the retention period and not with individual sheep. So, if a producer has eligible ewes over and above the number claimed (ie in-flock replacements), there is no need to notify losses until the number of eligible sheep in the flock falls below the number claimed.

<sup>2</sup> Annex 1—Extracts from LMC Yearbooks 2001–03—not printed.

The table below shows the number of notified deaths from 1999 to 2003

<i>Year</i>	<i>Number of notified sheep deaths</i>	<i>Number of sheep deaths</i>
2003	96 producers	1,142
2002	77 producers	437
2001	23 producers	876
2000	59 producers	1,443
1999	41 producers	487

September 2003

Annex 2

Sheep numbers at December

	<i>DEC 1999</i>	<i>DEC 2000</i>	<i>DEC 2001</i>	<i>DEC 2002</i>
<b>Ewes and ewe lambs for breeding</b>				
Ewes	1,147,177	1,106,699	932,274	961,113
Ewe lambs—tupped	90,458	85,378	150,308	79,780
Ewe lambs—not tupped	138,324	130,420	105,034	143,282
<b>sub-total</b>	<b>1,375,959</b>	<b>1,322,497</b>	<b>1,187,616</b>	<b>1,184,175</b>
<b>Lambs under 1 year old</b>	<b>253,916</b>	<b>179,301</b>	<b>138,167</b>	<b>208,288</b>
<b>Other sheep</b>				
Rams for Service	33,337	31,007	29,363	32,918
Other sheep 1 year and over	52,362	25,964	53,316	27,084
Ram lambs	3,649	3,973	3,960	4,223
<b>sub-total</b>	<b>89,348</b>	<b>60,944</b>	<b>86,639</b>	<b>64,225</b>
<b>Total sheep</b>	<b>1,719,223</b>	<b>1,562,742</b>	<b>1,412,422</b>	<b>1,456,688</b>
<b>SAP claims in next year</b>	<b>1,345,899</b>	<b>1,283,961</b>	<b>1,177,767</b>	<b>1,171,788</b>

The following stock at December would be potentially eligible to claim SAP in the next year:

- All Ewes and Ewe lambs for breeding.
- Any non-breeding female that is under one year old at December but over one year old by the end of the retention period (mid-April). Such animals are likely to be recorded as “Lambs under one year old” and may be a significant proportion (approximately 40%) of the category.