



1 March 2012

Ms Eimear Lavelle
Committee secretariat
Committee of Public Accounts
Dail Eireann
Leinster House
Dublin 2

Dear Ms Lavelle

I wish to refer to your letter of 19 December 2011 regarding the Committee's examination of the 2010 Annual Report of the C&AG and Appropriation Accounts in regard to Vote 31, Agriculture, Fisheries and Food which is scheduled for 8 March 2012.

The report of the C&AG contains a number of issues directly pertaining to Vote 31 on which the Committee has requested a briefing paper on in advance of its examination of my Department's Vote.

In this regard, I am enclosing briefing notes on the following specific matters raised in the C&AG's annual report for the Committee's consideration: -

- Chapter 18: Central Government Accounts – delays in account production

The Fishery harbours Centres Fund

The European Agricultural Guarantee Fund(EAGF) and the
European Agricultural Fund for Rural Development (EAFRD)
Irish Operations Account 2008 and 2009.

- Chapter 26: Pigmear Recall Scheme

As per your letter, I am also enclosing a note on the financial aspects of the Department's Vote, in particular budgetary outturns for the financial years 2010 and 2011.

I look forward to meeting with the Committee in due course to answer any questions that may arise on the issues under discussion.

Your sincerely

Tom Moran

Secretary General.

Extracts from Vol 2 of the C&AG Annual Report , Chapter 18 – Central Government Accounts

“Delays in Account Production”

“18.50 As well as production of the Appropriation Account, some departments also produce a number of other ‘non-vote’ accounts. Two of these accounts were substantially in arrears at the start of 2011. The accounts in question were

- *The European Agricultural Guarantee Fund (EAGF) and the European Agricultural Fund for Rural Development (EAFRD) Irish Operations Account 2008 and 2009.”*
- *The Fishery Harbour Centres Fund 2007, 2008 and 2009 (see separate brief on Fishery Harbour Centres Fund 2007 to 2009 below).*

Comment by Department of Agriculture, Food and the Marine:-

Background: The C&AG report refers to the Irish Operations Account of the European Agricultural Guarantee Fund (EAGF) and European Agricultural Fund for Rural Development (EAFRD) Account 2008 & 2009 (also known as the Composite Account) is prepared on a calendar year basis and reflects expenditure and receipts related to schemes supported by the EU under the EAGF, EAFRD and EFF (European Fisheries Fund) funds.

This account is prepared **in addition** to the Appropriation Accounts and EU Annual EAFRD and EAGF Account. It is important to point out that the Composite account would incorporate expenditure and receipt figures already reported and audited in both the Appropriation Account and EU Annual Accounts, but it aims to provide transparency on the overall national and EU elements of funding in one account for the calendar year as opposed to the FEOGA year (FEOGA year is from 16 October to 15 October).

DAFM consolidates expenditure and receipt data funded under EAGF, EAFRD and EFF relating to other Departments in this account, mainly expenditure by DECLG on Leader which is funded under EAFRD.

Delay in submitting Account for Audit:

Traditionally this account was supplied to the C&AG by DAFM when the C&AG requested the account and were ready to commence the audit of same.

The C&AG requested the 2009 & 2010 accounts in July and these were supplied upon request.

In future DAFM will supply the accounts to the C&AG by May 31st each year irrespective of the audit schedule and request for submission.

The 2009 & 2010 Accounts were both certified by the C&AG in Dec 2011.

Delays in completing Fishery Harbour Centres Fund Accounts 2007 to 2009

Background

Responsibility for the management of the Fishery Harbour Centres passed from the Minister for Communications, Energy and Natural Resources to the Minister for Agriculture, Food and the Marine on 19 October 2007.

An agreement was reached between the two departments that DCENR would continue to process all payments and receipts (except Salaries) until 20 April 2008. This was, in practical terms, to allow DAFM to build configuration into the SAP Financial accounting system to cater for the fisheries payments, sales invoices, receipts and special reporting requirements for both fishery related capital investments and the Fishery Centre Fund.

Agreement was also reached with the accounts staff in DCENR that they would prepare the 2007 draft Account of the Fishery Harbour Centres as all of the accounting information for 2007 would be held on the DCENR accounts system. DCENR would in turn submit the 2007 Account to the C&AG for audit. Meanwhile, the 2006 Fishery Harbour Centre Fund Account for year ended 31 December 2006 had been submitted for audit to the C&AG and the Secretary General (DAFM) signed the Letter of Representation on 31st July 2009, at completion of this audit.

2007 Fishery Harbour Centre Account

DCENR submitted the draft 2007 Fishery Harbour Accounts to the C&AG in 2009. Preparatory work commenced within this Department on the 2008 Account although it was considered that the 2008 Account could not be properly finalised pending the outcome of the C&AG audit of the 2007 Account.

Completion of the 2008 Account was further complicated by the fact that payment financial transactions for the first four months of the year had been processed by DCENR and detailed separate verification of these transactions had to be carried out before the Account was completed. However, in keeping with a commitment made to the C&AG's Office, draft accounts for 2008 were submitted to the C&AG's Office in November 2009. By November 2010, following discussions with the C&AG's office additional work was needed to complete the 2007 and 2008 draft accounts

Other circumstances which contributed to the delays the 2007 Account include the transfer of responsibility within the DCENR from Castlebar to Cavan and shortly thereafter to the DAFF and different IT platforms being used in DCENR and DAFF.

There was a concentrated effort both by DAFM and C&AG from the end of 2010 onwards to bring the 2007 Account to a conclusion.

The current position regarding completion of Annual Fishery Harbour Accounts since 2007 is as follows:

- 2007 – The Account was signed off by the C&AG on 23 December 2011 and presented to the Oireachtas
- 2008 – The draft Account was presented to the C&AG in November 2009 and is being audited currently

- 2009 – The draft Account was presented to the C&AG in December 2011
- 2010 – Draft Accounts will be presented to the C&AG before the end of Qr. 2 2012
- 2011 – Draft Accounts will be presented to the C&AG before the end of Qr. 3 2012

From 2012 onwards, this Department undertakes to submit the draft Annual Fishery Harbour Centre Fund Accounts to the C&AG for audit by 30 June following the end of the financial year.

Committee

Subject: Pigrate Recall Scheme (PRS)

- The dioxin contamination incident originated in the detection of elevated levels of PCBs in a pork fat sample taken on 19 November 2008 by the Department of Agriculture, Fisheries and Food, as part of the requirement to conduct routine targeted sampling of animal products under the National Residues Monitoring Programme. The source of the pork sample was traced to a farm in Co. Cork. Animal feed ingredients used on that farm were also positive for 'marker' PCBs. The source of that animal feed was traced back to Millstream Recycling Ltd in Co. Carlow. Forty-eight farms were identified as receiving similar feed from this company (10 pig farms and 38 beef farms) since 1st May 2008. This company's products were also delivered to 7 farms in Northern Ireland.
- Because of the potential link between the presence of PCBs and dioxins, samples of pork fat and the feed ingredients (bread crumb) were immediately taken on Tuesday 2nd December to the Central Science Laboratory in York for analysis, which confirmed on Saturday 6th December the presence of dioxins in both the pork fat and animal feed.
- Once the result became available on 6th December, the Food Safety Authority of Ireland recommended a full recall of pork and pork products manufactured from pigs slaughtered in Ireland since 1st September 2008. In making the decision for a total product recall, account was taken of the fact that the 10 pig producers affected involving 17 separate production units accounted for some 10% of the national kill or approximately 50,000 pigs slaughtered between 1st September and 1st December 2008. Taken together, they supplied eight of the ten main abattoirs in the country, which accounted for about 98% of the national throughput of pork.
- Initial industry estimates in December 2008 suggested some 46,000 tonnes of product were affected by the recall. By the time all claims had been assessed by the Department, this figure had dropped to 30,000 tonnes. Some 20,000 tonnes of product was on the home market and 10,000 tonnes was on the overseas market in 22 different countries. With regard to the affected product on the overseas market, 5,000 tonnes was returned to Ireland for destruction and 5,000 tonnes was destroyed in the countries concerned. Overall therefore 25,000 tonnes of affected product was destroyed in Ireland and 5,000 tonnes was destroyed overseas.
- All product in Ireland was disposed of by rendering and was treated as Category A animal by-product. The resulting material was used as fuel, either here or abroad. Product dispatched for rendering in Ireland under the terms of the Pigrate Recall Scheme was weighed-out of its place of storage under DAFF supervision and transported under seal to the renderer, where it was weighed again for control purposes before being rendered.

- Material overseas was either returned to Ireland or disposed of abroad, according to the conditions applying to such material in the country concerned. In order to receive payment for material destroyed abroad applicants were obliged to provide documentary verification of destruction, either from the competent authorities of the country concerned, or failing that from an independent commercial monitoring body.

Finances

- Following the events of 6th December there were intensive discussions with pig processors to facilitate the resumption of slaughter and mitigate the impact on an industry with output valued at approximately €1 billion which employs more than 7,500 people. In that context, and based on the original industry estimate of the quantity of product affected, a financial facility of up to €180 million was made available under the terms of the Framework Agreement with the pig processing sector with a facility of a further €20 million being made available for renderers and primary producers. All claims were subject to EU State provisions and had to be supported by adequate documentation.
- A total of approximately €138 million has now been paid under the facility at its conclusion. This comprises €97 million for primary and secondary material and €5 million for rendering, €30.225 million for culled animals, €5 million for value added products and €0.7 million for beef disposal.

Co-funding and Audit

- Having assessed all claims carefully, EU co-funding of some €8 million was drawn down in June/July 2009 in respect of some 7,500 tonnes of the affected product. EU co-funding in respect of slaughtered live animals brought the total to €18 million. The EU audit of this element has not yet concluded and the Department continues to be engaged in the formal accounts clearance process.

Value Added Products

- The Department received claims from 15 Irish pigmeat companies on behalf of 180 overseas customers for value added products which were produced overseas from Irish pigmeat. The total value of the claims submitted was approximately €28 million.

- Each value added claim has been subject to an exhaustive examination. The evaluation process entailed systematically scrutinising the various elements of each claim. In many cases, independent audit reports were furnished to verify these elements and they were used to inform the decision making process.

Many of the items claimed such as import licence fees, bank interest, loss of pig supply, loss of retail margin, labour costs, administration costs, management time etc were deemed ineligible under State Aid decision No NN 44/2009. In other cases the documentary evidence provided was deemed insufficient to support a payment. The final assessment of the Value Added claims and PRS appeals claims has now been completed and of the €28 million originally claimed, some €5 million has now been paid.

Voted Expenditure and outturn:

	Budget €m.	Outturn €m.	Variation €m.
2010	1,785.2	1,731.1	54.1 saving
2011	1,647.5	1,421.4	266.1 saving.

Overall, much of the Department's Vote comprises schemes and measures that are subject to external factors such as demand from beneficiaries, market and economic factors, animal disease incidence, and the pace of completion of capital investment and research projects as well as the need to adhere to important issues of governance and, where relevant, compliance with EU operational rules and requirements.

Every effort is made to forecast expenditure as accurately as possible each year, but there is, inevitably, always some degree of uncertainty in determining the appropriate level of budget to be assigned to various schemes and programmes.

At scheme and programme level savings and additional resource requirements will inevitably occur. The Department continuously reviews its funding position throughout each financial year to identify potential savings or indeed, potential pressures. The aim is to make maximum use of the available funds and ensure that liabilities are discharged as they mature.

Budget year 2010

The main points of note regarding the 2010 Vote were: -

- Gross savings of €54.1m
- Responsibility for the Horse and Greyhound Fund transferred to the Department on 1 May 2010, with a €26m., budget for the remainder of 2010.
(The total 2010 budget for the H&G Fund was €59m.).

For the year 2010, Vote savings amounted to €54m. This figure was derived from a combination of saving (€152m.) under certain headings offset by additional expenditure (€98m) under the Farm Waste Management Scheme. The 2010 savings enable payments due to farmers under the Farm Waste Management Scheme in 2011 which had been deferred to 2011 under the Financial Emergency Provisions Act, 2009 to be brought forward to 2010.

The bulk of the savings in 2010 arose in the following areas (all figure rounded): -

Administration	€13.6m
Animal Health area	€41m. (including €15.6m under dioxin measures)
EU related technical costs (market supports)	€14m.
Disadvantaged Areas scheme	€12m.
REPs	€6m.
Early Retirement Scheme/ Installation Aid Schemes	€9m.
Capital grant schemes (on farm/ food sector)	€28m.
Forestry	€1m.
Fisheries	€8m.
State bodies (B. Bia/Marine Institute/ BIM)	€2m.
Other (legal, frost scheme etc)	€10m.

Budget Year 2011

There was a gross underspend of €226 million on the Department's Exchequer budget allocation of €1,647 million in 2011. The expenditure on EU funded Single Payment amounted to a further €1.316m above this. The underspend of Exchequer funding arose as a result of fact that the original programme allocations were not drawn down or that there were savings due to improved efficiencies during the year. The underspend arose despite the fact that every effort is made to make prudent provision for liabilities at the beginning of the year. Subject to administrative checking procedures having been completed, claims being verified, necessary inspections carried out in line with the Department and EU Audit requirements all liabilities were met and the underspend did not arise as a result of a decision by the Department to withhold payments.

The under spend arose across a wide range of schemes and programmes, the main ones being

the Suckler Cow Scheme, clearance of accounts, agri-environments scheme payments, marketing and processing scheme payments and payments under the Targeted Agricultural Modernisation Scheme.

The total saving of €226 million is broken down as follows: -

- | | |
|-------------------------------------|----------|
| - Administration of Department: | - €10m |
| - Provision for EU technical costs: | - €23.3m |
| - Demand led schemes / measures | -€178.6m |
| - Legal budget | - €7.5m |
| - Other | - €6.7m. |

There was an additional spend of €13 million on the less Favoured Areas Scheme over and above the Vote allocation in 2011.

Under public financial procedures, the Department has carried forward the maximum permitted carryover savings, totalling €29.834 million which has been added to the 2012 budget. These carryover savings are reflected in the 2012 budget allocations announced last December.