



Northern Ireland Audit Office

Irish Sport Horse Genetic Testing Unit Ltd: Transfer and Disposal of Assets



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Irish Sport Horse Genetic Testing Unit Ltd: Transfer and Disposal of Assets

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Comptroller and Auditor General

Northern Ireland Audit Office
10 September 2008

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Abbreviations

The Centre	Equine Reproductive Technology Centre
The College	The College of Agriculture, Food and Rural Enterprise
The Department	The Department of Agriculture and Rural Development
DFP	The Department of Finance and Personnel
EHS	Environment and Heritage Service
Enniskillen	a campus of the College of Agriculture, Food and Rural Enterprise
Fermanagh DC	Fermanagh District Council
Necarne	The Ulster Lakeland Equestrian Centre, Necarne Castle, Irvinestown
NIAO	The Northern Ireland Audit Office
PAC	Public Accounts Committee
Sport Horse	The Irish Sport Horse Genetic Testing Unit Ltd

Part One: Introduction and Background



Part One: Introduction and Background

Introduction

1.1 The Irish Sport Horse Genetic Testing Unit Ltd (Sport Horse) was set up in 1996 to establish a commercially-run innovative elite horse breeding project. Between 1996-97 and 2000-01, the project received a £3.3 million grant from the Department of Agriculture and Rural Development (the Department)¹ under a measure of the Special Support Programme for Peace and Reconciliation 1995-99². The aim of the Programme measure was to “*promote the economic development and thus social regeneration of communities in worst affected rural areas through the improvement of the physical and social environment*”.

- 1.2 The main objectives of the project were to, in order of priority:
- raise the genetic base of the brood mare population within the rural areas worst affected by violence in Northern Ireland
 - educate and train rural horse breeders in the skills of breeding, raising and breaking of performance horses
 - undertake research and development in modern breeding techniques
 - establish a centre of excellence with equine artificial breeding technology expertise
 - provide education and training for existing and new personnel outside the centre of excellence in artificial breeding techniques.

- 1.3 Sport Horse produced a revised economic appraisal in 1999. This advocated a new approach based around provision of services from an Equine Reproductive Technology Centre (the Centre) and the leasing-out of high genetic merit horses. This approach, which the Department approved in June 2000, was not implemented (although the Centre was built in 2000, see paragraph 3.5). In 2001, the Department employed independent consultants to “*assess how [Sport Horse] could continue operations and become self-financing*”. The consultants confirmed that “*on balance [the Department] should not provide further public funds for development of the project*” when Peace and Reconciliation funding ran out in December 2000. Following confirmation, in April 2001, that no further funding would be provided for the project, the Board of Sport Horse decided to wind-down the company. In July 2001, Sport Horse ceased trading and all remaining assets – the Centre, horses, and equipment, as well as a stock of frozen semen - were transferred to the Department. Sport Horse then went into a solvent voluntary liquidation in September 2001.

Location and Key Stakeholders

- 1.4 Sport Horse operated from the Ulster Lakeland Equestrian Centre, Necarne Castle, Irvinestown (Necarne) - a registered historic parkland with listed buildings. The Department told us that the estate was developed by Fermanagh District Council (Fermanagh DC) at a cost of some £4.5 million and opened in 1994. A map of the site is set out in **Appendix 1**. It also said

¹ Prior to 1999 the Department was known as the Department of Agriculture for Northern Ireland (DANI).

² The Special Support Programme for Peace and Reconciliation in NI and the Border counties of the Republic of Ireland 1995-99, Sub-measure programme 2(B) measure 2. Grant was funded in a ratio of 75:25 by the EU and DARD respectively.

that Enniskillen College - now a campus of the Department's College of Agriculture, Food and Rural Enterprise (the College) - first used Necarne in 1995-96 for delivery of its equitation modules on a new Higher National Diploma programme. There was strong demand for higher education equine programmes and the availability of the facilities at Necarne enabled the Department to respond rapidly to satisfy this demand without the high-level capital investment that otherwise would have been required. Subsequently, close links were established between Enniskillen and Necarne. The key stakeholders and their relationships are set out in **Appendix 2**.

Review of the Equine Industry

- 1.5 In 2005, a Review of the Equine Industry in Northern Ireland³ recognised that, if the industry was to remain competitive, there needed to be continuing development of and investment in the quality of the skills base. NIAO noted that an earlier draft of the review, referred to by the Department in its Strategic Review of Educational Facilities (see Part 2) did raise the question whether equine educational provision should be moved closer to the main industry concentration in the east of Northern Ireland. The 'Review of the Equine Industry' was then used by the industry to develop the "Strategy for the Equine Industry in Northern Ireland" published in 2007, which does not mention relocating education provision.

Previous Coverage by the Public Accounts Committee

- 1.6 During 2001, the Public Accounts Committee (PAC) held two hearings on Sport Horse. The first, in January 2001, was followed by the Committee's report in March⁴. The second hearing, in September 2001, was not followed by a PAC report due to suspension of the Assembly in October 2001.

PAC Report March 2001

- 1.7 The 2001 PAC Report highlighted a number of weaknesses relating to project selection and appraisal, serious conflicts of interests, as well as weak financial management and accountability, within Sport Horse. Details of the issues raised and the Department's response to PAC's recommendations are summarised in **Appendix 3**.

PAC Second Hearing September 2001

- 1.8 PAC held a second hearing in September 2001 because the Department had written to correct its evidence in the previous hearing. This was in relation to the interpretation of civil service rules on the appointment of a middle-ranking civil servant to a top post in Sport Horse (see the responses to PAC conclusions 22 and 23 at Appendix 3). At the hearing, PAC raised further concerns including:
- the £500,000 25-year lease agreement which the Department had entered into with Fermanagh DC for the Necarne estate

³ A report of the Equine Sub-Group of the Rural Stakeholder Forum.

⁴ PAC 4th Report of Session 2000/2001 'Grants paid to Irish Sport Horse Genetic Testing Unit Ltd' 4/00/R which reported on a number of departures from established standards of public conduct.

- the value for money of the sale of eight horses by Sport Horse to the Irish Army in January 2001 for some £15,000 (IR £18,000).

The Department continued to update NIAO on progress on the winding-up of Sport Horse, including the sale of horses.

Scope of NIAO Study

1.9 As a follow-up to the second PAC hearing, we examined the Department's handling of:

- the lease arrangement with Fermanagh DC (Part 2 of the report)
- the winding-up of Sport Horse, including the transfer of assets (buildings, horses and stocks of semen) and a Freedom of Information request (Part 3)

A timeline of events associated with this report is given at **Appendix 4**.

Part Two:
Value for Money of Leasing Necarne



Part Two: Value for Money of Leasing Necarne

Introduction

2.1 This Part of the report sets out:

- the lease arrangement between the Department and Fermanagh DC for the Necarne estate, including operating costs of the site (paragraphs 2.2 -2.4)
- the future strategic need for equine provision at Necarne (2.5 -2.9).

Lease of the Necarne Estate

2.2 In May 1998, because of concerns that Fermanagh DC intended to sell the site, the Department entered into a 25-year lease (the Necarne Lease) with Fermanagh DC for the 230-acre Necarne estate, for a lump sum premium of £500,000 subject to a nominal annual rent of £1. The Necarne Lease, which was drawn up with professional advice from the Departmental Solicitors Office, includes clauses, on the use of the site:

- *"to encourage the development of the international centre of excellence in equestrianism through equine education training and to continue to establish an international venue for equestrian tourism*
- *to facilitate the provision of a range of major equestrian events similar to those presently in existence...."*

In addition, the Lessee (the Department) shall:

- during the term of the lease: *"maintain and keep in repair ('make good') the [site] and the equine facilities erected thereon...."*
- after the term of the lease: *"yield up to the Lessor (Fermanagh DC) the demised premises together with all additions and improvements made thereto...."*

2.3 In September 2001, PAC had noted concerns about the lease and the suitability of the Necarne site for rearing horses. On the site, in 1997, an independent agricultural consultant recommended relocation of the project as the *"soils are totally unsuited to the rearing of horses....the land is very wet in places and there is not a calm environment due to the presence ofother activities on the land"*. In 1998, the Board of Sport Horse recommended that they transfer to a new site –Thornhill Farm – part of the Enniskillen campus belonging to the Department. However, the project did not relocate. The Department told NIAO that the concerns of the consultant have not been borne out because since 1998, Sport Horse and the College have kept horses satisfactorily at Necarne. As regards the lease, the Department stated that it leased the Necarne estate from Fermanagh DC to meet its long term requirements for providing equine education and that the decision was unrelated to Sport Horse (whose lease on the site with Fermanagh DC was due for renewal). Prior to the Necarne Lease, the Department was paying Fermanagh DC

£1,250 per student; there were at that time 60 equine students then using the facility. At the second PAC hearing in 2001, the Accounting Officer estimated that it would therefore have been paying £75,000 a year to allow students to use Necarne. In his view, the lease “was a good deal” which “enhanced the Department’s capacity to provide” long-term education within the equine sector by securing the continued availability of the Necarne facilities.

Operating costs of the Necarne Site

2.4 Over the six year period to March 2007, the Department’s net operating costs at Necarne amounted to £1.27 million - excluding staff costs. The current net operating cost to deliver education, training and support events amounts to some £0.2 million (excluding staff costs) per year. Projected operating costs for Necarne over the next 15 years, until the end of the lease, will amount to £3 million at current rates.

Review of the College of Agriculture, Food and Rural Enterprise’s Educational Facilities

2.5 In 2004-05, the Department undertook a Strategic Investment Review of Education Facilities across the three campuses (Greenmount, Loughry and Enniskillen) of the College of Agriculture, Food and Rural Enterprise. The reason for this was a major shift in demand for the full-time courses at Enniskillen (see **Appendix 5**). Demand for the full-time course in ‘Agriculture’ fell dramatically, leading to cessation of the course in 2004-05. The consequent release

of capacity at the main Enniskillen campus brought into question the continuing need for Necarne.

2.6 The Strategic Investment Review identified a number of options for future delivery and a significant need for capital investment in student-related facilities at all three campuses. A sub-committee of the Departmental Board, chaired by a Non-Executive Director, was “designated to examine the costings from a strategic perspective”, as the geographic spread of the College campuses contributes to high operating costs. The sub-committee’s main findings, in June 2006, on equine provision were that the College:

- was operating at higher than necessary cost - a contributing factor being that equine provision is delivered across two sites: Enniskillen campus and Necarne
- failed to demonstrate adequate evidence of engagement with, or impact upon, the equine industry sector
- should exit Necarne and locate any ongoing equine activity at the Enniskillen site.

This was accepted by the Departmental Board in July 2006, subject to a full economic appraisal, thereby retaining equine provision in the west (see paragraph 1.5).

2.7 The Department informed us that the recommendation to exit Necarne will only be implemented if the economic and value for money case is proven through an

economic appraisal; a final decision will only be taken in light of this business case. The decision to exit Necarne will require both:

- termination of the Necarne Lease
- consolidation and additional investment at Enniskillen campus.

The Non-Executive Director noted, in 2006, that *"this will not meet the preference expressed by members of the equine sector ... the core issue.... (is) lack of engagement between (the College) and industry rather than location. In any event the costs are unjustifiable"*. The Department told us that the Non-Executive Director did not consult the College's two equine advisory boards or elements of the industry with which the College regularly engages.

Termination of the Necarne Lease

2.8 NIAO noted that the Necarne Lease does not include a clause regarding early surrender. The Department's legal advisers said that *"if the Department did decide to seek early termination it would have to enter into negotiations with [Fermanagh DC]"*. In November 2006, the Department noted that *"there is no ability to recover any part"* of the unexpired portion of the lease, and it would not *"be entitled to recover any reimbursement whatsoever for capital investment on site"* i.e. additions and improvements to buildings⁵, which would be yielded to Fermanagh DC. Based on a planned exit from Necarne by August

2008, the unexpired portion of the lease is estimated at £0.3 million. Whilst Fermanagh DC is aware of the Department's intention to exit from Necarne, the Department has made no formal approach to seek early termination of the lease. Fermanagh DC has confirmed that in the event of an early surrender, the unexpired portion of the lease will not be recoverable by the Department, nor will it reimburse for capital investment on the site.

Withdrawal from Necarne Site and Investment in Enniskillen Campus

2.9 The Department's 2006 Strategic Investment Review indicates that the Enniskillen campus could require an additional £3 million capital investment on equine, residential, learning and recreational resource facilities. Most of this investment is required to make the Enniskillen campus 'fit for purpose' for the next 10-15 years e.g. replace mobile buildings many of which are towards the end of their useful life, relocate the breeding unit in line with bio-security best practice and address disability requirements⁶. Around 25-30% of the total capital investment (some £0.75 million to £0.9 million) is required to facilitate withdrawal from Necarne. In January 2007, the Department noted that it would not be practical to undertake separate economic appraisals of the Necarne site and Enniskillen campus as had been originally intended; it proposed *"a single and all encompassing Economic Appraisal"* be carried out as soon as possible *"at an Enniskillen [campus] level looking at all the*

⁵ Between 2001 and 2004, prior to the 2006 Strategic Review, the Department invested some £183,000 on buildings and facilities at Necarne, including £100,000 on refurbishment of the offices. Since the 2006 Strategic Review, the Department has spent £68,000 on essential resurfacing of an arena for health and safety reasons.

⁶ Required under the Disability Discrimination Act 1995.

possible options for continuing equine education in Co. Fermanagh; which should inform the decision for withdrawal from Necarne". The Department has not yet completed this combined appraisal.

shortly be considering the appraisal prior to seeking the Department of Finance and Personnel approval for the preferred option, if appropriate.

NIAO Conclusions and Recommendations

2.10 It is NIAO's view that developments, since 2001, show that PAC was right to probe the lease arrangement entered into by the College; also that the assertion by the Department's Accounting Officer that the lease arrangement was "*a good deal*" which would enhance the Department's capacity to provide long-term education in the equine sector, has not been borne out. However, the Department's view is that the availability of Necarne enabled the Department to develop, in less than 10 years, the most comprehensive applied equine education and training provision available in Ireland. As **Appendix 5** indicates, demand for equine courses has been strong and confirms the need for capacity to deliver such programmes. The reassessment of the need for Necarne relates primarily to the downturn in agriculture rather than demand for equine programmes.

2.11 NIAO considers that the Department should complete the Economic Appraisal (paragraph 2.9 above) given that the 2006 Strategic Investment Review suggested that current arrangements are below the optimum level. The Department told us that the work on the appraisal is well advanced and the Department will

Part Three:
Winding-up, transfer and disposal of Sport Horse
assets



Part Three: Winding-up, transfer and disposal of Sport Horse assets

Introduction

3.1 This Part of the report addresses:

- winding-up of Sport Horse (paragraphs 3.2-3.4)
- the arrangements for the transfer of Sport Horse assets to the Department (including the Centre, horses and a stock of frozen equine semen) and their valuation and use (paragraphs 3.5-3.19)
- the Department's handling of a Freedom of Information request (paragraphs 3.20-3.25).

artificial insemination facility, purpose-built for Sport Horse (paragraphs 3.5-3.9)

- some 95 horses, including the High Genetic Merit (HGM) herd of 34 mares and foals (paragraphs 3.10-3.12).

A stock of frozen equine semen, not included on the asset list⁸, was also transferred (paragraphs 3.13-3.19).

3.4 In 2002, following public consultation with the equine industry and interested parties on the future use of the Centre and the high genetic herd of breeding horses, the Department undertook an 'Appraisal of Options on the Use of Assets' transferred from Sport Horse. In January 2003, DFP approved the preferred options to:

- lease the Centre to a commercial organisation for the purpose of operating an Equine Technology Centre
- dispose of the horses on the basis that they will be independently valued and offered in the first instance to contract rearers⁹ - if not bought by them the Department would then be in a position to retain six mares for education/training purposes and sell the remainder.

DFP concluded that this offered a balance between cost-effective realisation of assets whilst attempting to preserve the benefits of the project for the local industry. The progress of the preferred options - sub-lease

Winding-up of Sport Horse

3.2 Following the decision in April 2001 that there would be no further public funding for Sport Horse, DFP endorsed the Department's Action Plan, in June 2001, for the transfer of assets, noting that it "*does offer best value for money in the circumstances...*" whilst recognising that it did not have a formal approval role in relation to the Action Plan. The assets were acquired by the Department on 3 July 2001⁷. In September 2001, Sport Horse went into a solvent voluntary liquidation.

3.3 The main assets transferred were:

- the Equine Reproductive Technology Centre (the Centre), a stand-alone

⁷ In accordance with the Memorandum and Articles of Understanding (clause 10) whereby, if Sport Horse was unable to implement the project, the Department was entitled to recover funds.

⁸ A Memorandum (13 September 2001) from the Accounting Officer to the Public Accounts Committee prior to the 2nd PAC hearing (27 September 2001) contained an estimated forecast financial outcome on the assumption of a solvent winding-up. This included an explanatory sentence "*It has been assumed that semen and drug stocks will be of no value....*". The omission of the semen was in line with the resale valuation accorded to the semen during the winding-up process in light of concerns about quality and veterinary issues.

⁹ Contract Rearers were horse breeders contracted by Sport Horse to look after mares in foal. On closure, they were offered first refusal on the foal and/or recipient mare.

of the Centre and disposal of breeding horses, as well as the transfer of semen are considered separately below.

Transfer of Sport Horse Assets

Sub-lease of the Centre

Construction and transfer value of the Centre

- 3.5 In September 1997, Sport Horse recommended establishing a centre of excellence in artificial breeding techniques involving the building of an Equine Reproductive Technology Centre for artificial insemination services and, also, the relocation of the project (see paragraph 2.3). The project did not re-locate and, in 2000, the Centre was constructed at Necarne at a cost of some £0.16 million. However, the Centre was not completed because of concerns on the future funding of Sport Horse. In 2001, the Centre was transferred to the Department at 'Nil' value as it was not finished and no lease agreement between the Department and Sport Horse had been put in place.

Planning infringements:-

- Retrospective Planning Permission and Building Control

- 3.6 In 2003, following DFP approval of the Appraisal of Options on the Use of Assets, subject to certain proposals (by DARD) outlined in its approval letter, the Department attempted to sub-lease the unfinished Centre which had been lying vacant for three



Unfinished reception area.

years. However, the Department found that it could not lease the Centre as it had been built without planning permission and building control certificates and was constructed to agricultural - not commercial - standards, even though the Centre would have been used for commercial purposes by Sport Horse.

- 3.7 The Department obtained retrospective planning permission in May 2004 and a building control certificate in March 2005. The Department intended to seek an estimate of the costs needed to completely finish the building to meet the required standards (including a fire risk assessment) for commercial use. NIAO asked the Department if this had been done and how much it would cost. The Department told us that it spent £6,500 (excluding architect fees) in preparing the Centre for building control and leasing and that a fire assessment is not required until a tenant is identified. It also said that sub-leasing of the Centre has not progressed since 2005, as additional capital investment was required to meet new environmental legislation¹⁰ but, because the Strategic Investment Review was

underway at that time, an embargo had been placed on further capital development until the Review was completed.

- Registered/Listed Site

- 3.8 In 2004, following Fermanagh DC's plan to further develop the site¹¹, Environment and Heritage Service (EHS) visited Necarne - a registered historic parkland with listed buildings - and noted a number of planning infringements. This included, in addition to the Centre (noted above), the construction of two storage sheds (associated with Sport Horse) in 1996-97 prior to the Department's lease of Necarne, as well as the removal of trees within the park. Fermanagh DC told us that it was unaware of any planning infringements by it prior to its lease (in 1998) with the Department. EHS recommended that a Management Plan for Necarne be put in place. The Department told us that *"although an Estate Management Plan has not been prepared, no work has been undertaken [by the Department /CAFRE] which would be contrary to EHS requirements for safeguarding the Historic Parkland status of the site [which] is now managed in accordance with the College Estate Strategy which deals with environmental issues"*.

Current position

- 3.9 The Department has been unable to sub-let the Centre which remains vacant. The Centre is not finished as a small amount of painting in the interior remains to be completed. Potential rental income of £46,000 (from 2003 to 2007 at £9,000 per annum) has been lost. The Department

told us that it has not offered the Centre for sub-lease as additional work is required to meet the new environment legislation (see footnote 10). The Department said that the income could only have been realised if an investment had been made to meet the new environmental requirements, possibly at greater cost. The Centre along with two sheds built by Sport Horse in 1996/97, were valued by the Valuation and Lands Agency¹² in 2005 on the basis of their existing use at £246,000 and £160,000 respectively. All land and buildings, including those previously occupied by Sport Horse, will revert to Fermanagh DC on termination of the lease. NIAO asked the Department how much it had spent on upgrading the Necarne site to meet disability requirements which had been estimated at £189,000; it told us that only a small proportion of the work, costing £20,050, was completed on meeting these disability requirements. Fermanagh DC has not contributed towards the costs.

Valuation and Sale of the horses transferred from Sport Horse

- 3.10 The Department acquired some 95 horses which, in August 2001, had an estimated value of £110,000; the valuation was carried out by an independent expert panel. Following this, the Department sold 90 horses for a total of £91,200 (61 non-breeding stock were sold in 2001 for £32,000, 29 breeding stock in 2003 for £59,200) and retained 5 horses with an estimated value of £24,400 (see paragraph 3.4). The Department has since sold two of these for some £4,000; the three horses retained by the Department are currently

¹¹ In 2004, Fermanagh DC submitted an application for grant (Peace II Funding programme), to further develop Necarne. The application was approved by the Department, but issues raised by Environment and Heritage Service resulted in the Council not proceeding with the project.

¹² On 1 April 2007 the Valuation Lands Agency merged with the Rates Collection Agency to form the Land and Property Services, an Executive Agency of the Department of Finance and Personnel.

valued at £12,200. Valuation details for each horse held in 2003 are given in **Appendix 6**.

'Gentlemen's Agreement' with the Irish Army

3.11 In 2001, PAC raised concerns that the Irish Army had cherry-picked eight of Sport Horse's best horses for some £15,000, prior to its winding-up. PAC noted that the sale did not follow proper procurement and competitive tendering procedures, and included a 'Gentlemen's Agreement' whereby the Irish Army would return the animals to Sport Horse for breeding.

3.12 In 2004, the Irish Army returned three of the eight horses acquired from Sport Horse to the Department¹³. Of the remaining five horses, NIAO has learned that two horses – which had been competing and showing promise – have recently been retired from competition and retained by the Irish Army for breeding, two horses were 'put down' following injury in competition and one horse died. **Appendix 7** shows details of these eight horses. In addition, the Irish Army donated a further six horses to the Department in 2005.

Loss of Equine Semen stock

3.13 Five liquid nitrogen tanks containing 'straws'¹⁴ of frozen equine semen stock were transferred to the Department in July 2001 and initially stored at Necarne. In 2003, as part of a cost reducing exercise, the Department changed the liquid nitrogen supplier contract for 'topping-up' the tanks from fortnightly to once a month, with an

interim 'top-up' by Department staff from a reserve tank. In February 2004, the five tanks were transferred from Necarne to the Enniskillen campus equine breeding unit.

3.14 In April 2004, an equine specialist listed and assessed the quality of the equine semen stock for the Department. This showed that some semen was unviable and that the semen in one tank was dead, possibly caused by damage to the tank. The specialist disposed of the dead semen stock and consolidated the remaining viable semen and some non-viable/demonstration semen into two tanks.

3.15 In April 2006, staff discovered that semen in one of the two remaining tanks had been destroyed as no liquid nitrogen remained in the tank. An internal investigation into the loss was undertaken by the Head of Enniskillen campus in June 2006; it concluded that:

- the semen was lost as a result of poor communications. The investigation report states: *"it appears that, at the transfer stage, no formal written procedures were given nor any clear instruction given by management to the individuals that would have overall responsibility for the semen and the regular checking of liquid nitrogen within the tanks"*
- there was no negligence by any member of staff, and
- management *"accepted [collective] responsibility for the loss due to a breakdown in communication channels and procedures"*.

¹³ The Department retained one (valued at £2,000) and sold two for some £6,800.

¹⁴ Several straws (between four and ten) are required to make up a 'dose' for use in Artificial Insemination.

Equine Semen Stock Lists and Valuation

3.16 Various lists of equine semen stock, compiled between 2001 and 2006, show inconsistencies in completeness of records, including the stallions involved and amounts of semen stored (i.e. number of straws/doses) and assessment of quality. The Department accepts that there are inconsistencies in the records of semen which it says may be expected in light of the difficulties associated with identifying, counting and quantifying the content of frozen semen straws¹⁵; also, there is no standardised convention on the number of straws per dose (which can vary between 4 and 10). Details of the variations in the records of semen stock transferred, disposed of and retained by the Department between 2001 and 2007 is given in **Appendix 8**.

3.17 Valuations for equine semen stock have ranged from £45,000 (pre-liquidation of Sport Horse) to 'Nil' see **Figure 3.1**. The basis for the 'Nil' valuation of the semen stock, because of uncertainties over authenticity and health status, is pertinent to the Freedom of Information request addressed in paragraphs 3.20 to 3.25 below. NIAO reviewed papers prepared by the College which put an estimated value for the semen held in the two tanks in 2006 at



Liquid Nitrogen tank containing remaining frozen semen straws

some £190,000 (including £146,800 for the semen destroyed). NIAO has reviewed the methodology underlying the £190,000 valuation and agrees with the Department's view that this was flawed as a number of erroneous assumptions were made regarding the quality and quantity of semen. Currently, the Department still has semen in its possession belonging to three stallions.



A straw of Equine Semen

¹⁵ The Department said that there is a window of only 8 seconds available in which to count and examine frozen semen straws when raised from a liquid nitrogen tank, without risking damage to the frozen semen.

Figure 3.1 Valuation Estimates of Frozen Equine Semen Stock

Valuation		Estimated	Comment
Made by	Date	Valuation	
Consultant ¹	March 2001	£2,874	The Consultant's Review on the future funding and management of Sport Horse in March 2001 included an 'Estimated Statement of Affairs' (as at January 2001) regarding "Stocks: semen and sundries:- Cost of semen held in stock in the region of £45k. heavily discounted in both going concern [to £5,748] and forced sale scenario [to £2,874] due to dubious quality". The Consultant's estimated valuation of the semen and sundries stock was based upon a forced-sale cessation of trade scenario. The significant reduction in the resale value of the semen was on the basis that Sport Horse, within circumstances where it was no longer able to trade, would not have been able to provide guarantees to purchasers; in addition, concerns about authenticity, quality and viability existed.
Sport Horse Liquidators ¹	June/July 2001	'Nil' on transfer to the Department	A 'Projected Estimated Statement of Affairs' prepared by the Liquidator, as at June 2001, made no mention of semen. No value was attributed to the semen by the Liquidator since it was assumed to have no resale value. The stock of semen was transferred, along with the Sport Horse assets, to the Department, in order to facilitate a solvency winding-up with no cash consideration payable. (The Department confirmed to us that a prudent view was taken because of uncertainties for veterinary reasons - e.g. authenticity, quality, and health status - over ability to sell.)
DARD	2006/07	'Nil'	As for 2001: no guarantees could be provided to purchasers regarding the authenticity, quality and viability of the semen stock.

Note: ¹ the Consultant and Liquidator were from the same firm.

3.18 The Department told us that, as part of the winding-up of Sport Horse the Liquidator could not provide a warranty to any buyer regarding authenticity, quality and health status of the semen as the company would not exist when the semen would be used. The purchaser would not be able to progress any claim in the event of a problem emerging e.g. failure to get mares

in foal or any diseases linked to the semen. The Consultant and Liquidator informed us that, on the basis of representations received from Sport Horse, the semen was considered to be of negligible value within circumstances where Sport Horse was no longer able to trade, given the warranty and other veterinary issues that existed.

3.19 The Department concurred with the opinion of the Consultant and the Liquidator and assigned a Nil valuation to the semen as it was, in its view, effectively uncertified¹⁶; and accordingly the semen was not included in the 'Appraisal of Options on the Use of Assets' (paragraph 3.4) transferred from Sport Horse to them. It added that the semen had no resale value and very limited use outside the confines of the Sport Horse Breeding Project.

Freedom of Information (FOI) Request

3.20 NIAO noted that, in November 2006, the Department received a FOI request from a journalist regarding the Sport Horse semen stock, as follows:

Freedom of Information Request

1. *What stock and value of semen is currently held and available at Necarne/Enniskillen campuses, the stock of semen having been inherited after closure of the Irish Sport Horse Company?*
2. *Can [the Department] confirm an internal enquiry took place regarding the loss of a quantity of this semen along with the value and which straws (Stallions) and the reason for loss of semen?*
3. *Can [the Department] detail if anyone was held responsible following the internal enquiry?*

The Department's FOI response

3.21 The Department replied within the required 20-day limit, in December 2006. The Department's response stated that:

DARD's Freedom of Information Response

[The Department refers] to your request for information received 9 November 2006 and can now confirm that the Department has completed its search for the information you requested.

[The Department] currently holds semen from the stallions Indoctro (12 doses) Caletto 1 (4 doses) and Espri (30 doses) at Enniskillen Campus. This semen was previously the property of [Sport Horse].

Concerns about the semen held by [Sport Horse] first surfaced in the [Review on the future funding and management of Sport Horse] and related work undertaken by an independent consultant. The authenticity, viability and health status of the semen could not be verified, and consequently the semen could not be sold during the liquidation process. The semen was transferred to [the Department's] Enniskillen Campus at zero valuation.

The semen was retained only for use by [the College] for education purposes. Under the Horserace Betting Levy Board (HBLB) Code of Practice, the semen cannot be used on College or any other horses.

¹⁶ The Department told us that the position adopted by it and the Liquidator regarding disposal of the semen "has been vindicated by the revised Horserace Betting Levy Board Code of Practice published in 2006".

In April 2006 it was discovered that other semen, formerly owned by [Sport Horse] had been destroyed while in storage. This semen was from stallions Accondy, Aldato, Quidam de Ravel, Cruising, Cash, Amaro D, Concorde, Darco, Athleet, Narcos, Don Juan, Gratianus, Burgraaf, Zandor Z, and High Valley Z. As indicated above this semen did not have the appropriate veterinary certification or authentication and could only be used for education purposes. This semen has zero valuation. An internal review could not identify how the loss had occurred and concluded that no one individual member of staff could be held responsible for the loss.

3.22 In addition, the Department's response notified the journalist of his rights to request a formal review by the Department and of appeal to the Information Commissioner if the information provided did not meet his request, and said it would have provided clarification or further information if asked. The journalist did not exercise these rights which have now expired. Instead, he approached NIAO as a 'whistleblower'; his concerns were addressed as part of the NIAO's ongoing follow up to the second PAC hearing of Sport Horse.

3.23 Our review identified a number of issues which NIAO consider relevant to the Department's response:

- health certificates pertaining to the authenticity, origin and health status for all imported semen - pertinent to the value of semen - were available on Sport Horse files held by the Department

- in order to maximise the value of assets and avoid wasting the 2002 breeding season, three 'Sport Horse' mares were inseminated with equine semen transferred from 'Sport Horse'. Two of the mares were subsequently sold with 'foal at foot' in 2003 for a total of £6,400
- the internal review had identified the reason for the loss of semen – failure to communicate procedures, which had contributed to the tank failure (paragraphs 3.13 to 3.15).

3.24 In response to NIAO's findings above, the Department made the point that the answer to the FOI request went further than answering the FOI question that was asked of them, and that it is unfair to criticise their answer for either failure to provide information which was not requested or on the grounds of a disputed interpretation of information that was not requested. The Department also made the points that:

- the Sport Horse records, which the Liquidator transferred to the Department after the liquidation process had been completed, did have some health documentation regarding the purchase of the semen by Sport Horse but often not in English. In its view, however, this would not be sufficient to support the onward sale of the semen
- following transfer of stock to the Department in 2001 and before completion of the Options Appraisal on the Use of Assets in 2003 (see paragraph 3.4), several of the options in the consultation paper proposed to

continue to exploit the high genetic merit breeding stock for the benefit of local breeders. To ensure this breeding opportunity - in 2002 - was not lost, it was agreed that the three Sport Horse mares should be put back in foal using the frozen semen. This was undertaken as part of an applied enterprise management project at Enniskillen and students were involved in assessing and selecting suitable sires for the three mares. Two of the three mares went in foal.

3.25 The Department told NIAO that the content of the FOI reply was reviewed and approved by the College Director and, as authenticity of the semen could not be identified, the 'Nil' valuation was correct. NIAO asked the Department whether it was satisfied that the handling of the request had complied with best practice for FOI. The Department said that the request was handled appropriately at the time.

NIAO Conclusions and Recommendations:

3.26 On the Equine Reproductive Technology Centre:

- the Centre is not finished internally; retrospective planning permission and building control was required; and potential rental income of £46,000 has been lost. The Centre has not been sub-leased, the Department told us this was because further investment is required to comply with new environmental legislation

- the Centre was valued at £250,000 in 2005 and, on termination of the Lease, the Centre will revert back to Fermanagh DC
- two sheds constructed by Sport Horse prior to the Necarne Lease and valued at £160,000 in 2005 were not included as assets on transfer. The Department told us that the sheds were previously treated as part of the leased estate but will now be added to its Asset Register
- both the Centre and sheds were built by Sport Horse on registered parkland, without prior consultation with EHS. The Department has informed us that the College Estate Strategy is committed to liaising with relevant environmental organisations, including EHS.

3.27 On the transfer of Horses:

- with the exception of the five horses retained by the Department (estimated value £24,400) all horses were sold, raising £91,200
- in keeping with the 'gentleman's agreement', the Irish Army returned three of the eight horses purchased. In addition, it donated six other horses to the Department.

3.28 On the transfer of frozen equine semen:

- it appears to NIAO that insufficient regard was given, by the Department, to safeguarding the frozen equine semen

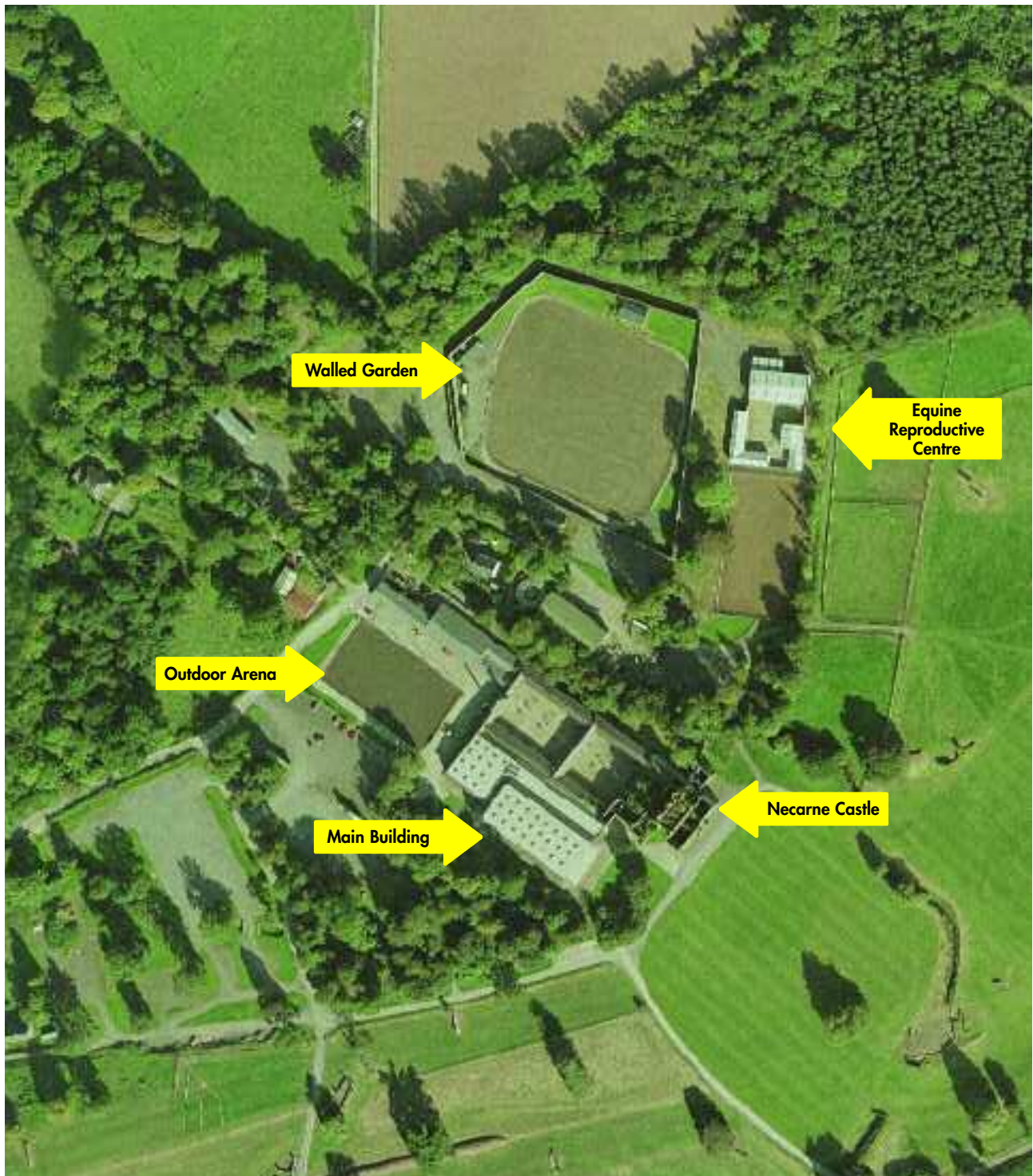
after receiving the stock of semen on liquidation. The semen had been purchased by Sport Horse for the purpose of breeding High Genetic Merit sport horses. The Department accepts that better operational procedures and management controls should have been in place, irrespective of the value of the semen. Improved procedures and controls have been put in place to ensure a similar incident cannot occur. It said that once the company went into voluntary liquidation, the valuation of the semen became 'Nil' and this was made absolutely clear in the Accounting Officer's letter to PAC dated 13 September 2001.

3.29 On the Freedom of Information Request:

- NIAO identified a number of issues which it considers relevant to the FOI response and asked the Department if it is satisfied with its handling of the FOI request. The Department said that the request was handled appropriately at the time.
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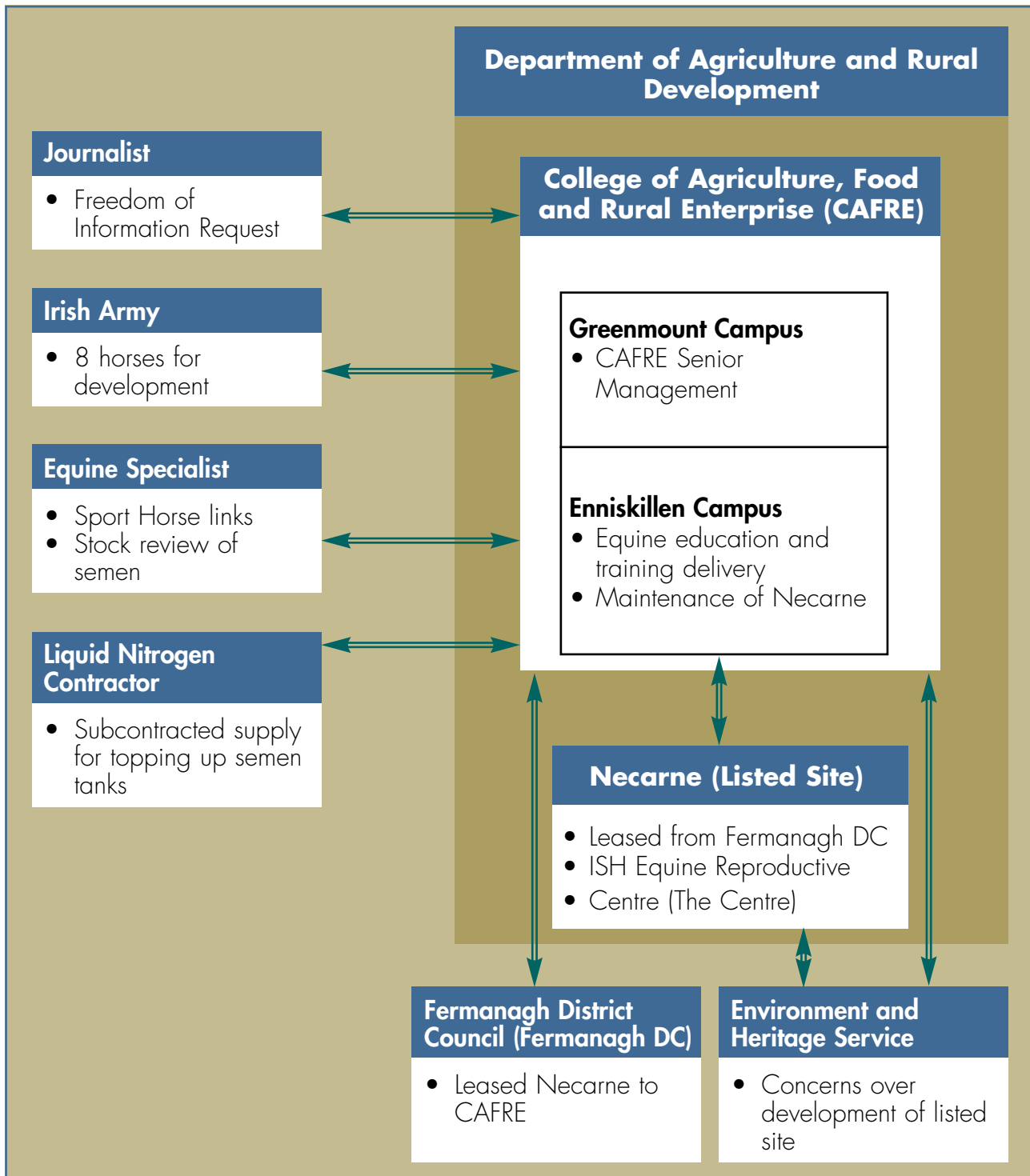
Appendices

Appendix One: (paragraph 1.4) Aerial view of Necarne Estate



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Appendix Two: (paragraph 1.4) Key Stakeholders in Sport Horse: Transfer and Disposal of Assets



Appendix Three: (paragraph 1.7) Department of Finance and Personnel Memorandum dated 1 June 2001 on the 4th Report from the Public Accounts Committee Session 2000/01

Fourth Report

Department of Agriculture and Rural Development

I. Grants Paid to Irish Sport Horse Genetic Testing Unit Ltd

The Adequacy of the Project Selection and Assessment Process

PAC Conclusion 9

It is a fundamental requirement of public administration that the basis on which projects are assessed, scored and selected should be properly documented and completely transparent. **We found it astonishing that the Department's Peace and Reconciliation Steering Group had no criteria for assessing and scoring projects. It did not even keep minutes of its meetings. We made it clear in our Report on Rural Development (Report 2/00R) that we will not accept assurances from Accounting Officers that controls were operating when there is no record to support this. This Committee is entitled to evidence from civil servants when seeking to establish the basis on which they have allocated public funds.**

(C&AG's report paragraph 6 and Minutes of Evidence paragraphs 89-91 and 211-213)

DARD recognises the shortcomings identified by the Committee and agrees that the Committee is entitled to evidence from civil servants when seeking to establish the basis on which they have allocated public funds. Following identification of the lack of adequate documentation by the Department's Internal Audit Division, DARD ensured that subsequent procedures, including the operation of controls, were fully documented. The Department will ensure that the basis on which projects are assessed, scored and selected will be properly documented and completely transparent.

PAC Conclusion 10

Our concern about this goes beyond the Irish Sport Horse Case. **The Committee was astounded to find that proper project selection and assessment procedures did not exist for over £30 million of Peace funding.** This is another indictment of the standard of administration in the former Department of Agriculture at that time. It is, however, encouraging that the deficiencies were eventually picked up by the Department's Internal Audit. **We set considerable store on the Accounting Officer's firm assurance that this will not be repeated.**

(Appendix 1 Note 7)

DARD notes the Committee's comments and assures the Committee that this will not be repeated. However, it might be helpful to clarify for the Committee that most Peace funding was distributed in the form of schemes open to public applications, which were assessed against specific criteria. DARD assures the Committee that all projects in the new Peace programme will be subject to proper selection and assessment procedures.

PAC Conclusion 11

The Department did not advertise the first tranche of Peace Funding to the general public. The Department told us that £12.3 million of the first tranche was allocated to internal DARD projects such as Irish Sport Horse and the Loughry Food Business Incubation Centre and that £18 million was allocated to community driven projects.

We are surprised that so much funding was allocated to the Department's own favoured projects. In our view, this was going against the spirit of the Peace and Reconciliation Programme, which was supposed to be community driven. The Department should also have been much more alert to the perception that community projects were not competing on a level playing field with internal DARD projects.

(C&AG's report paragraph 8 and Minutes of Evidence paragraphs 226-229 and Appendix 1 Note 7)

DARD notes the Committee's view and accepts that the Department should have been more alert to the perception that community projects were not competing on a level playing field with internal DARD projects. Allocation of funding under the second and third tranches of Peace funding was targeted largely at community-based projects. DARD assures the committee that future funding under Peace II will be advertised to the general public and community groups in line with eligibility.

PAC Conclusion 12

The C&AG's Report indicated that there was an insufficient division of responsibilities between those who developed the Irish Sports Horse project and those who approved it. The former Chief Agricultural Officer was deeply involved in the development of the project from the outset and he was also a member of the Steering Committee that approved all the projects including community driven projects. The Accounting Officer defended this by saying that the Chief Agricultural Officer was only one of ten

Appendix Three: (continued)

Steering Group members and would not have been in a position to unduly influence the decisions of the Group. However, when pressed he accepted that, without proper Steering Group records, he was in no position to demonstrate that this was the case.

In our view, the Chief Agricultural Officer is likely to have been influential as he was not only one of the most senior civil servants on the Steering Group but would also have been seen by others to have particular expertise in the subject area. His very presence on the group created a perception of conflict of interest that should not have been allowed to occur.

(C&AG's report paragraph 9 and Minutes of Evidence paragraphs 82-95)

DARD has noted the Committee's comments and will ensure the concerns of the Committee are incorporated in the procedures used in establishing any future structures. These procedures will ensure that perception of conflicts of interest should not occur.

Weakness in Project Appraisal

PAC Conclusion 13

A fundamental flaw in the appraisal was that it didn't include any market research to test the extent to which the horse breeding community would be willing to buy into the project. This was a commercial project, which was expected to generate significant income and eventually survive without grant assistance. Yet, a revised assessment carried out over three years after the company was set up, indicated that the project in its existing form, would be totally unviable once the cushion of Peace Funding was removed. The income projections in the original appraisal should have been underpinned by market research.

(C&AG's report paragraph 15 and Minutes of Evidence paragraphs 32-35 and 113-127)

DARD accepts the Committee's recommendations that the appraisal should have been underpinned by market research. DARD confirms that it is current practice that appraisals of commercial projects have appropriate market research undertaken.

PAC Conclusion 14

The Accounting Officer told us that the appraisal was based on the best information available at the time and that the flaws in the original appraisal only became evident with the benefit of hindsight. We do not agree. In what was intended to be a commercial project the importance of properly researching the market should have been recognised at the outset.

(Minutes of Evidence paragraphs 25-38)

DARD accepts the importance of properly researching the market from the outset in this case. DARD further recognises that additional market research might have raised questions about the long-term viability of the project. All appraisals of commercial projects do now incorporate the findings of appropriate market research.

PAC Conclusion 15

The Department has accepted that a fundamental assumption underlying the financial viability of this project was optimistic. **The Department should have been much more alert to the dangers of optimistic or best case assumptions underpinning an investment decision of this nature. There are long-established rules and procedures on the dispersal of financial assistance by Government departments, which are designed to deal with these dangers. These rules and procedures, which date back almost two decades, have been repeatedly endorsed by the Westminster Committee of Public Accounts. One of the key points is that Government funding of high-risk commercial projects should not proceed unless the project can stand up under a worst case commercial scenario (Twenty-fifth Report of the Committee of Public Accounts Session 1983-84 HC 127-I). In the Irish Sport Horse case a worst case commercial scenario was clearly not considered. It is particularly unsatisfactory that hard-learned lessons from the past appear to have been forgotten by DARD.**

(Minutes of Evidence paragraphs 119-127)

DARD notes the Committee's comments and accepts the recommendations that a worst case scenario should have been considered when assessing the funding and viability of the project. In line with current guidance given in the 'Green Book', DARD's appraisals now use worst case scenarios to assess risks and inform the decision making process for all projects.

Appendix Three: (continued)

Funding of high risk commercial projects are also subject to the more stringent requirement set down by the Westminster Committee of Public Accounts for projects of this type, that such a project should not proceed unless it can stand up under a reasonable worst case scenario.

PAC Conclusion 16

Another flaw in the appraisal was that it didn't explore different site options. The appraisal stated that the project "will operate" from the Ulster Lakeland Equestrian Centre, Necarne Castle, Irvinestown owned by Fermanagh District Council. No other site options were considered. In the event, it emerged that the Necarne site was far from ideal. A subsequent review commissioned by the company itself concluded that "the land was extremely fragmented, very wet in places and that the soils were totally unsuited to the rearing of horses". The company even had to share the site with other users. External events taking place on the site such as a car rally and pop concert contributed to poor breeding results. **In our view, many of the difficulties associated with this site could have been much better managed if there had been a more careful consideration of horse-breeding requirements at the outset.**

(C&AG's report paragraphs 15 to 17 and Minutes of Evidence paragraphs 128-135, 148-153 and 232-244)

DARD notes the Committee's comments and accepts that Necarne was specifically identified in the original appraisal as the short-term site for the project and that a range of alternatives should have been considered at the outset. DARD will ensure that careful consideration will be given to the site options of all future projects.

PAC Conclusion 18

The Accounting Officer informed us that the official who completed the appraisal of this £3.2 million project appeared to have had no training or previous experience in project appraisal. **We note the Department's explanation that the appraisal was subsequently reviewed by qualified people in its Economics Unit and DFP. However, in our view, subsequent review is no substitute for ensuring that those who undertake the original appraisal work are properly equipped to do the job.** ***(Minutes of Evidence paragraphs 160-165. Appendix 1, Note 5 and Appendix 2)***

DARD accepts the Committee's comments and will ensure that those involved in preparing appraisals will have received appropriate training and will liaise with specialist staff in Economics and Statistics Division throughout the process from the outset.

PAC Conclusion 19

When the Accounting Officer gave evidence last October on the Rural Development Programme he assured us that project appraisal systems had become progressively more rigorous from 1995. The Irish Sport Horse project was, of course, approved after 1995. **We are left with the impression that the standard of appraisal has been very poor not only in the Rural Development Division of the Department but in other divisions as well. Much more needs to be done by this Department to ensure that project appraisals meet basic quality standards. We would like to see evidence of what the Accounting Officer considers to be good appraisal work in the Department since 1995 and we invite him to select two examples and submit them to us.**

DARD notes the Committee's comments and accepts that some of the technical assumptions upon which the appraisal was based proved to be optimistic. The Department continues to put in place controls to ensure that all appraisals are of a satisfactory standard and are consistent with DFP Guidelines. Two examples of good appraisal work in the Department since 1995 will be sent to the Committee.

The Circumstances Surrounding the Appointment and Subsequent Departure of the Chief Executive.

PAC Conclusion 21

The Accounting Officer told us that because the Company was a small private sector employer it was not required in law or by the rules of the Peace Funding to advertise the posts. **Another lesson, therefore, is that a Department promoting a project of this nature, through a private sector company, must have sufficient leverage in the conduct of the company's affairs to ensure that public sector standards on appointments are observed from the outset. This is absolutely necessary both to ensure that the best people are appointed and that there is no possibility of favouritism or the perception of favouritism.**

(Minutes of Evidence paragraph 65)

The Department accepts the Committee's recommendation. If delivering a similar project via a private sector company in the future, DARD would ensure through the contractual arrangements, training and interaction with the Board that public sector standards on appointments are supplied.

Appendix Three: (continued)

PAC Conclusion 22

The 43 year old civil servant who helped to develop the project was given what we regard as a very generous early retirement package with effect from 30 November 1995. Her contract was extended to 15 March 1996 to enable her to complete the appraisal of the Irish Sport Horse project. Once this was done she was immediately appointed as Chief Executive of the private sector company, which had been set up to take the project forward. **In our view, it was improper for a civil servant to have taken up a top post in a private sector body, which she had been centrally involved in helping to create when she worked in the Department.** At the very least there is a perception that the principle of selflessness was not observed. We should not have to remind Departments that selflessness was the first of Lord Nolan's seven principles of public life. Nolan stated that "holders of public office should take decisions solely in terms of the public interest. They should not do so in order to gain financial or other material benefits for themselves". In this case, a civil servant was working up a project proposal knowing that, if it were approved for funding, she was likely to become the Chief Executive of the private company, which would take it forward. In these circumstances we think there must be a question mark against her objectivity.

(C&AG's report paragraphs 3 and 11-13. Minutes of Evidence paragraphs 40-62 and 78)

DARD accepts that it was improper to permit a civil servant to help to create a private sector body and to be appointed to a top post in that body. DARD accepts that it should have ensured that the rules governing the acceptance of outside appointments by Crown servants contained within the NICS Terms and Conditions of Service Code were applied in this case. DARD will ensure that those rules will be applied to future cases.

PAC Conclusion 23

The Accounting Officer told us that if this official had been more senior she would have been prevented, under civil service rules, from taking up any position in the private sector which had links with the work she had been doing in the Department. In our view, the seniority of the civil servant is not the only factor, which determines whether there is a potential perception of impropriety. This case illustrates that there can be similar problems with a more junior official who is moving to take a post in an organisation with which they have been closely involved. **We recommend that DFP**

considers the need to revise the rules on civil servants taking up private sector appointments to take on board the lessons of this case.

(Minutes of Evidence paragraph 53)

The DARD Accounting Officer has informed DFP that he has written to the Committee along the following lines:

"The process of preparing responses for the Memorandum of Reply lead me to review the evidence I gave to the Committee on 24 January. At PAC Conclusion 53 of the evidence, I indicated that the rules governing the acceptance of outside appointments apply to the Senior Civil Service, not to junior officers. In fact, although there is a distinction in the procedures to be followed between grades, the rules cover all grades.

The rules set out in the Northern Ireland Civil Service Terms and Conditions of Service Code require an individual to obtain approval of the Government before accepting any offer of employment in business or other bodies outside the Civil Service, which would commence within 2 years of leaving the Service. The individual should submit an application for approval, which includes full details of the proposed appointment and details of any official dealings with the prospective employer. In determining whether the application should be approved the rules require consideration to be given to the nature of the official contact between the officer and the prospective employer.

No application was received in this case, but I accept that on this occasion the Department was in possession of sufficient information to decide that the rules should be invoked and failed to do so.

I have instructed that all staff within the Department be reminded of these rules as a matter of urgency. The Department will consider each application it receives strictly in line with the provisions of the NICS Terms and Conditions of Service Code.

Additionally, DFP has written to all Departments to ensure that the guidance is drawn to the attention of staff, emphasising that it applies to all grades and needs to be applied with care and rigour.

I apologise for having misled the Committee, although I should emphasise that the information I provided was on the basis of what I believed to be correct at the time. A copy of this letter goes to the Comptroller and Auditor General and the Treasury Officer of Accounts.

Appendix Three: (continued)

In view of the above DFP do not consider there is a need to amend the guidance, but would advise the Committee that, in addition to writing to all departments as outlined in the DARD Accounting Officer's letter, DFP has met with departmental personnel officers to reinforce the content of that correspondence and to further strongly advise that they should each review their departmental in-house exit procedures to ensure that personnel staff dealing with such matters are fully aware of the requirements.

PAC Conclusion 24

We also note that this official was one of the youngest to be offered an early retirement deal by DARD in recent years. Because of her age, the cost to the public purse was particularly high. The Accounting Officer explained that this particular deal was fully consistent with the rules of the early retirement scheme. **We look to DFP to ensure that, when early retirement schemes are designed, they are more carefully targeted at employees in older age groups where the costs to the taxpayer would be much lower.**

(Minutes of Evidence paragraphs 40-42, 78 and 414-424. Appendix 1, Note 1)

DFP notes the Committee's concern that this official was one of the youngest to be offered early retirement by DARD. Partly because of this the cost to the public purse was particularly high.

However, by itself specifically targeting staff in older age groups will not necessarily result in achieving reduced costs, as each individual case depends on a number of variables of which age is only one. The cost to the taxpayer can in fact often be lowest for the youngest as well as the oldest officers. The formula for determining the cost of early retirement/severance is laid down in the Civil Service Compensation Scheme. It is complex, with age, years of service, final salary and the number of years to normal retirement age all being significant influences on the end cost.

The unit of redundancy, that is the appropriate pool of employees to which a redundancy scheme will apply, will also have a bearing on the overall cost of any scheme. In considering the unit of redundancy issues to be taken into account are, inter alia, the number of staff required to leave; the grade of the staff; the specialism; the functional area of work; and required coverage of the scheme eg Service-wide, departmental, branch.

Within the above context every effort is made to keep the overall cost of such schemes to a minimum.

In this case one of the factors making the payment to the officer more expensive was the availability of special arrangements to protect the rights of all existing officers aged under 40 at 1 April 1987, and subsequently retiring between 40 and 49 years of age. Officers recruited since 1987 do not benefit from this protection.

PAC Conclusion 25

The Accounting Officer accepted that, in the early stages of the project, there was a breakdown in the control the Board was entitled to hold over the Chief Executive. This breakdown occurred despite the fact that senior Department officials had seats on the Board at that time. Two examples illustrate the serious nature of this control breakdown. First, the Chief Executive negotiated a £304,000 deal with Fermanagh Council for the use of land and buildings. An independent evaluation, which was carried out later, suggested that this was up to three times the going market rate. It would appear that the senior Department officials on the Board were not aware of this deal until after it was signed and sealed. Second, the Chief Executive bought more horses than originally planned. This contributed to over a £135,000 over-spend in 1997-98. The senior Department officials on the Board were not aware that these extra horses had been purchased. We were also surprised that the Chief Executive had the power to write very substantial cheques without having to get Board authorisation. **In our view, the senior Department officials on the Board failed in their duty to protect public funds during the early stages of this high-risk, high-cost project. However, we are encouraged that one lesson the Department has drawn from this is that it should have had someone on the Board from a management or accountancy background.**

(Minutes of Evidence paragraphs 166-177)

DARD notes the Committee's comments and accepts that the Board exercised insufficient control over the Chief Executive in the early stages of the project.

DARD will ensure that the Board of Directors of any private company delivering a high-risk large scale project on behalf of DARD in future should have someone with a management or accountancy background on the Board.

The Extent to which Irish Sport Genetic Testing Unit Limited directed Contracts and Business towards Organisations with which Board Members had an Interest.

Appendix Three: (continued)

PAC Conclusion 27

When we consider the full range of conflicts of interest both in relation to DARD staff and the dealings of the Board we have impression of a set of cosy relationships which fell well short of generally accepted practices in the handling of public money.

(C&AG's report paragraphs 22 to 38. Minutes of Evidence paragraphs 75-97)

DARD accepts that the division of responsibilities within DARD for development, approval and subsequently management of the project was not sufficiently transparent as to remove the perception of conflicts of interest. DARD has given undertakings related to project appraisal and selection and has strengthened the role of its Internal Audit Division in its review of procedures.

DARD also accepts that during the early stages of project implementation, the company's practices for securing services, while commonly practised by normal private sector companies seeking Value for Money, did not comply with public sector procurement procedures. For the future DARD will issue timely guidance to companies delivering publicly funded projects and ensure appropriate training is provided for Board members and managers on areas such as management, monitoring and evaluation of projects, specifically including financial management, tendering for services and legal responsibilities.

PAC Conclusion 28

We think a factor contributing to these bad practices was the fact that the Department paid over a substantial amount of money to the company before the terms and conditions of grant had been fully worked out. The C&AG's report indicates that the Department paid out six instalment of grant in advance of any formal application by the Company for funds and that a total of £613,000 was paid to the company before legal documentation was finalised. The Accounting Officer told us that the formalities were bypassed because of the importance of getting the project started for the 1996 breeding season. He said it was necessary to get the project started quickly in order to ensure that it would be self-financing by the time that the Peace Funding had run its course. We are not persuaded by this argument as even now in 2001 not all of the first tranche of Peace Funding has been spent. **In our view, the circumstances described by the Department did not justify issuing large sums of public money prior to the completion of formal documentation. This was taking unacceptable and unnecessary risks with public money.**

(C&AG's report paragraphs 20 and 21. Minutes of Evidence paragraphs 72-74 and 224-225)

DARD notes the Committee's comments and accepts that the payment of the initial instalments of grant in advance of the legal documentation being formally signed was a weakness in DARD's management of the project. DARD will ensure that appropriate legal agreements are properly completed and signed prior to payment of funds to any future project of a similar nature.

PAC Conclusion 29

We note that, in August 1997, the Department eventually issued guidance to the Company on conflict of interest, tendering procedures and appointments. Unfortunately this was after the damage had been done. The Department accepts that this guidance should have been issued at the outset before any grant had been paid over to the Company.

(Minutes of Evidence paragraphs 106-108)

DARD notes the Committee's comments and accepts that improved guidance should have been issued to the company before it commenced operations.

As indicated in the response to PAC Conclusion 27, DARD will issue timely guidance in future to companies delivering publicly funded projects and provide appropriate training for Board members and managers. Areas covered will include management, monitoring and evaluation of projects, specifically including financial management, tendering for services and legal responsibilities.

Performance of the Project and its Future Direction

PAC Conclusion 31

The Committee is aware that there are public concerns about the propriety of procedures currently employed by the company to dispose of surplus horses. We welcome assurances from the Accounting Officer that safeguards will be put in place to ensure that breeders will have an opportunity to purchase good quality stock at fair market prices and that there will be no "cherry-picking" of the best horses by the people closely associated with the project.

Appendix Three: (continued)

(Minutes of Evidence paragraphs 196-201)

DARD confirms the assurances by the Accounting Officer that safeguards are now in place. The arrangements are that in the autumn of 2001, subject to Foot and Mouth Restrictions, DARD intends to consult with the sport horse breeding industry when developing a programme through which the best Genetic Merit animals produced via the SSPPR-funded project can be exploited for the future benefit of the industry. Following the company's established practice, it is intended that any foal not required for this programme, along with the recipient mares, would be independently valued and offered in the first instance to the contract rearers. If not taken up by contract rearers the animals would be sold by public auction where all equine breeders would have the opportunity to bid for them.

PAC Conclusion 34

In view of the prospects of Peace II Funding we asked the Accounting Officer whether he would put forward a project of this nature again. He told us he would want to put a question mark over whether the Department would do a project that consumed as much public resource at the outer levels of technology and understanding. He said his Department would need to have a debate as to whether bigger projects, if there are any, should be on less risky territory. **We think this is very sensible. We do not want Departments to be inhibited from developing innovative and imaginative projects but we want to be sure that when they take these type of projects forward they fully recognise the risks and pay careful attention to best practice in risk management.**

(Minutes of Evidence paragraphs 207-210)

DARD notes the Committee's comments and will follow the guidance provided on the importance of applying best practice in risk assessment and risk management if in the future becoming involved in supporting innovative and imaginative projects.

Appendix Four: (paragraph 1.9) Timeline of Key Events involving 'Sport Horse'

Date		Key Events
1996	January	Sport Horse registered as a company
	March	Retired civil servant takes up Chief Executive post of Sport Horse
	April	First instalment of grant paid to Sport Horse
1997		Memorandum and Articles of Understanding signed by Department and Sport Horse
	September	Sport Horse review of project; recommend building a reproductive centre and re-location of the project
1998	January	Contract of Sport Horse Chief Executive expires and not renewed
	May	Department enter into 25-year Lease with Fermanagh DC for Necarne Estate
2000	April	NIAO publish report: Grants paid to 'Sport Horse' HC 396
		Sport Horse Reproductive Centre built but not finished
2001	January	Irish Army pick and purchase 8 horses from Sport Horse
		First PAC Hearing on Sport Horse
	March	Appraisal of Options on future of Sport Horse undertaken by consultants
	July	Sport Horse ceases trading
		Sport Horse Assets (Centre, Horses and equine semen) transferred to the Department
	September	Second PAC Hearing on Sport Horse
		Sport Horse goes into voluntary liquidation
	October	Sport Horse horses valued by independent expert panel Department sells Sport Horse non-breeding horses
2002	Spring	Department consults interested parties on future use of Sport Horse assets
2003	January	Department completes Options Appraisal on future use of Sport Horse assets
		DFP approves way forward on future of Sport Horse assets
	June	Department sells Sport Horse breeding horses, retaining five
2004	February	Tanks of Sport Horse semen moved from Necarne to Enniskillen campus
	April	External specialist assesses and consolidates Sport Horse tanks of semen
		Environment Heritage Service notes planning infringements at Necarne: a listed site

Appendix Four: (continued)

Date		Key Events
	May	Retrospective planning permission for Centre obtained
	November	Internal Audit report on Enniskillen campus
2005	March	Building Control Certificate for Sport Horse Centre received
		Report of Department and Rural Stakeholder Forum: Review of Equine Industry in NI
	June	Strategic Investment Review of education facilities at College of Agriculture, Food and Rural Enterprise accepted by Departmental Board in July
2006	April	Enniskillen campus discover tank damaged and semen destroyed
	June	Enniskillen campus investigation into loss of semen
	November	Department receive Freedom of Information request from journalist
	December	Department reply to Freedom of Information request from journalist
		Journalist contacts NIAO regarding Freedom of Information response from Department
2007	March	Equine Strategy for Northern Ireland published

Appendix Five: (paragraph 2.5) Enniskillen Campus: Enrolment in Agriculture and Equine courses 1994-95 to 2007-08

Academic Year	Agriculture Enrolments	Equine Enrolments
1994-95	51	25
1995-96	66	33
1996-97	44	52
1997-98	56	82
1998-99	33	99
1999-00	25	118
2000-01	19	116
2001-02	18	139
2002-03	22	133
2003-04	18	131
2004-05	-	131
2005-06	-	153
2006-07	-	141
2007-08	-	135

Source: DARD

Appendix Six: (paragraph 3.10) Sport Horse – Stock Valuations, June 2003

Name	Original Valuation Autumn 2001	Valuation April 2003	Price Achieved (exc VAT)	Money Received (inc VAT)	Method of Sale
Category A: High Genetic Merit Females, reared by contract rearers, suitable for further breeding					
Fillies Born 2001					
ISHD Cascade	£6,000	£3,000	£2,553	£3,000	Contract rearer
ISHD Cosette	£5,000	£5,000	£4,255	£5,000	Contract rearer
ISHD Cosmos	£3,500	£3,500	£2,979	£3,500	Contract rearer
ISHD Charity	£2,750	£2,750	£1,787	£2,100	Auction
ISHD Code Red	£2,000	£2,000	£1,702	£2,000	Contract rearer
ISHD Coolee	£1,750	£850	£723	£850	Contract rearer
ISHD Convoy	£1,750	£1,700	£1,447	£1,700	Contract rearer
ISHD Class Act	£1,500	£1,500	£1,277	£1,277	Contract rearer
ISHD Clonree	£1,500	£1,500	£1,277	£1,500	Contract rearer
ISHD Castaway	£1,500	£1,000	£851	£1,000	Contract rearer
ISHD Choice	£1,250	£1,250	£1,106	£1,300	Auction
ISHD Coolartra Pride	£1,250	£2,000	£1,702	£1,702	Contract rearer
ISHD Companion	£1,200	£1,133	£979	£979	Contract rearer
ISHD Crystal Bay	£1,150	£500	£426	£426	Contract rearer
Fillies Born 2000					
ISHD Borage	£3,000	£1,400	£3,489	£4,100	Auction
Fillies Born 1999					
ISHD Aperitif	£5,000	£1,000	£851	£1,000	Contract rearer
ISHD Amigo	£5,000	£2,400	-	-	Retained
ISHD Abraxas	£5,000	£2,100	£1,787	£2,100	Contract rearer
ISHD Allegro	£5,000	£1,050	£1,447	£1,700	Auction
ISHD Atlas	£5,000	£3,000	-	-	Retained
Fillies Born 1998					
ISHD First Light	£5,000	£12,500	-	-	Retained

Name	Original Valuation Autumn 2001	Valuation April 2003	Price Achieved (exc VAT)	Money received (inc VAT)	Method of Sale
Category B: Other Females, Suitable for Breeding					
Fillies Born 2002					
ISHD Drumgay Star	£1,500	-	£4,340	£5,100	Auction
ISHD Dual Start	£1,500	-	-	-	Retained
Donor Mares					
Stay Cool	£5,000	-	£3,064	£3,600	Auction
Royal Irish	£5,000	-	£2,383	£2,800	Auction
ISHD Black Magic	£5,000	-	-	-	Retained
Category C: Other Stock, No Breeding Merit					
Colts Born 2002					
ISHD Dot Com	£1,500	-	£936	£1,100	Auction
ISHD Devenish Duke	£1,500	-	£2,043	£2,400	Auction
Colts Born 2001					
ISHD Celebrity	£500	-	£3,489	£4,100	Auction
ISHD Corfannon	£200	£500	£1,149	£1,350	Auction
Donor Mares					
Twice Shy	£1,000	-	£851	£1,000	Auction
Kilglass Silver	£1,000	-	£1,191	£1,400	Auction
Recipient Mares					
Sooty	£300	-	£511	£600	Auction
Sweep	£300	-	£468	£550	Auction
	Original Valuation Autumn 2001		Total Price Achieved (exc. VAT)	Actual Monies Received	Value of Stock Retained
Total	£89,400		£51,063	£59,234 ¹	£24,400 ²

Source: DARD

Notes: 1. Contract Rearers £26,034, Auction £33,200.
2. Total of 5 horses: 2 horses valued in 2001 (£6,500), plus 3 horses valued in 2003 (£17,900)

Appendix Seven: (paragraph 3.12)

Horses acquired by the Irish Army from Sport Horse - Position at 2008

Name ¹	Dam	Sire	Age and Sex	Current Position
Necarne ISHD	Loughend Lady	Espri	-	Euthanased due to injury sustained in competition
Milltown ISHD	Loughend Lady	Concorde	-	Euthanased due to injury sustained in competition
Killeter ISHD	Diamonds Clover	Cruising	8 year old filly	Retired from competition. Retained by Irish Army for breeding
Blarney ISHD	Kilglass Silver	Narcos	7 year old filly	Retired from competition. Retained by Irish Army for breeding
Not known	Royal Irish	Concorde	-	Died of colic in 2002
Drummond ISHD	Craven A	Concorde	8 year old colt	Returned to the Department, retained in Equitation Unit, value £2,000
Clogher ISHD	Craven A	Cruising	8 year old colt	Returned to the Department and sold for €8,000 (some £5,300)
Glenross ISHD	Ban Oir	Aldato	7 year old filly	Returned to the Department and sold for £1,470

Source: DARD

Note: 1. All Sport Horse bred horses carry the letters ISHD at the end of their name.

Appendix Eight: (paragraph 3.16) Equine Semen Stock Lists (2001, 2004 and 2006) showing semen transferred and doses held (2001 and 2006)

All Stallion names	Stallions listed on Semen Stock lists					Doses of semen held	
	2001	2004		2006		2001	2006
	Winding-up	Specialist review		Internal Review		Winding-up	Internal review ⁴
		All 5 tanks ¹	Retained in 2 tanks ²	Retained in 2 tanks	Left in 1 tank ³		
Semen retained by the Department							
Caletto I	✓	✓	✓	✓	✓	<2	4
Espri	✓	✓	✓	✓	✓	<5	30
Indoctro	✓	✓	✓	✓	✓	3	12
Semen disposed of or destroyed							
Alexis	✓	✓ ⁵				2	
Amaretto		✓ ⁵					
Athleet Z	✓	✓ ⁵		✓ ⁷		2	
Fedor	✓	✓ ⁵				1	
Quito de Bussy	✓	✓ ⁵				<2	
Voltaire	✓	✓ ⁵				3	
Aldato	✓	✓ ⁶	✓ ^{2c}	✓ ⁷		34	40
Kalizan	✓	✓ ⁶	✓			55	
Burgraaf	✓	✓ ^{1a,6}	✓ ^{2c}	✓ ^{2c,7}		100	
Bachus	✓	✓ ^{1b}	✓	✓		<1	15
Accondy	✓	✓	✓	✓ ⁷		50 ⁸	10
Amaro D		✓	✓	✓ ⁷			10
Cash	✓	✓	✓	✓ ⁷		<1	
Concorde	✓	✓	✓	✓ ⁷		2.5	20
Cruising				✓ ⁷			
Darco	✓	✓	✓	✓ ⁷		<2	10
Don Juan	✓	✓	✓	✓ ⁷		<2	20
Gratianus	✓	✓	✓	✓ ⁷		<2	14

Appendix Eight: (continued)

All Stallion names	Stallions listed on Semen Stock lists				Doses of semen held		
	2001	2004		2006		2001	2006
	Winding-up	Specialist review		Internal Review		Winding-up	Internal review ⁴
		All 5 tanks ¹	Retained in 2 tanks ²	Retained in 2 tanks	Left in 1 tank ³		
High Valley Z				✓ ⁷			
Narcos	✓	✓	✓	✓ ⁷		<2	12
Quidam de Revel	✓	✓	✓	✓ ⁷		<2	10
Zandor Z	✓	✓	✓	✓ ⁷		1	10
Nissan High Valley	✓	✓	✓			1	10
Quick Star	✓					<1	

Source: DARD, NIAO

Notes:

1. Semen quality was assessed as variable (from very poor to good): 'a' the Department told us that the quantity of 'Burgraaf' semen was miscalculated on conversion from straws to doses and 'b' some 'Bachus' semen had not been used or tested.
2. included both viable semen and non-viable semen retained for student demonstration purposes (noted at 'c').
3. Semen currently held and available for use by the Department.
4. Although, listed as doses these figures probably record number of straws (straws vary between 4 and 10 per dose).
5. Semen disposed of after specialist review - either dead or of poor quality (but not 'Athleet Z').
6. Most of the semen stock from these 3 main semen holdings was disposed of after specialist review in 2004: 'Aldato' because the semen was dead (some of this associated with damaged tank, see paragraph 3.14), 'Burgraff' - assessed as of poor quality (unlikely to produce a pregnancy), and 'Kalizan' an unproven stallion under performance testing that was later deemed unsuitable for breeding and gelded.
7. Semen destroyed in tank due to communication procedure failure.
8. All but 10 straws (approximately 2 doses) of 'Accondy' were returned to the stallion's owner following winding-up.

List of Reports

Title	HC/NIA No.	Date Published
2007		
Internal Fraud in Ordnance Survey of Northern Ireland	HC 187	15 March 2007
The Upgrade of the Belfast to Bangor Railway Line	HC 343	22 March 2007
Absenteeism in Northern Ireland Councils 2005-06	-	30 March 2007
Outpatients: Missed Appointments and Cancelled Clinics	HC 404	19 April 2007
Good Governance – Effective Relationships between Departments and their Arms Length Bodies	HC 469	4 May 2007
Job Evaluation in the Education and Library Boards	NIA 60	29 June 2007
The Exercise by Local Government Auditors of their Functions	-	29 June 2007
Financial Auditing and Reporting - Health Sector: 2003-04 and 2004-05	NIA 66	6 July 2007
Financial Auditing and Reporting: 2005-06	NIA 65	6 July 2007
Northern Ireland's Road Safety Strategy	NIA 1/07-08	4 September 2007
Transfer of Surplus Land in the PFI Education Pathfinder Projects	NIA 21/07-08	11 September 2007
Older People and Domiciliary Care	NIA 45/07-08	31 October 2007
2008		
Social Security Benefit Fraud and Error	NIA 73/07-08	23 January 2008
Absenteeism in Northern Ireland Councils 2006-07	-	30 January 2008
Electronic Service Delivery within NI Government Departments	NIA 97/07-08	5 March 2008
Northern Ireland Tourist Board – Contract to Manage the Trading Activities of Rural Cottage Holidays Limited	NIA 113/07-08	28 March 2008
Hospitality Association of Northern Ireland: A Case Study in Financial Management and the Public Appointment Process	NIA 117/07-08	15 April 2008

List of Reports (continued)

Transforming Emergency Care in Northern Ireland	NIA 126/07-08	23 April 2008
Management of Sickness Absence in the Northern Ireland Civil Service	NIA 132/07-08	22 May 2008
The Exercise by Local Government Auditors of their Functions	-	12 June 2008
Transforming Land Registers: The LandWeb Project	NIA 168/07-08	18 June 2008
Warm Homes: Tackling Fuel Poverty	NIA 178/07-08	23 June 2008
Financial Auditing and Reporting: 2006-07 General Report by the Comptroller and Auditor General	NIA 193/07-08	2 July 2008
Brangam Bagnall & Co Legal Practitioner Fraud Perpetrated against the Health & Personal Social Services	NIA 195/07-08	4 July 2008
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