

## **Chapter 32**

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### **Financial Control in the Irish Red Cross Society**



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32.1 The Irish Red Cross Society (the Society) was established in 1939 under the Red Cross Act 1938 (the Act). The Act put into effect the 1929 Geneva Convention which provides for the establishment of red cross (or red crescent) societies with government support and protection, but with structures designed to ensure that they are operationally free from government interference. Notwithstanding this, one role of the Society is to provide assistance to the State authorities in time of emergency, with a specific mandate to assist the medical services of the Irish Army.

32.2 Under the Act, the Government has the power to make provisions for a range of matters relating to the organisation, operation and governance of the Society, including its finances and accounts. The Society operates under the direction of a Central Council and an Executive Committee. The Secretary General of the Society manages the full-time and part-time members of staff in its headquarters in Dublin, three regional offices and overseas delegations. In addition, the Society has a network of over 144 branches throughout the country, run entirely by volunteers, which engages in fundraising and other activities.

### Chapter Focus

The Society is an organisation in receipt of substantial State funding. This chapter outlines the response of the Society to concerns around its capacity to comprehensively report its transactions and track its fundraising.

### Funding of the Society

32.3 The Society is funded primarily from three sources.

- In 2010, it received an annual grant-in-aid from the Department of Defence (Vote 36), amounting to €51,000. This was comprised of
  - a contribution amounting to €21,000, towards the Society's administrative costs and
  - support, amounting to €130,000, for the Society's contributions in respect of affiliation to the International Federation of Red Cross and Red Crescent Societies (the International Federation).
- From time to time, the Society receives other government funding<sup>278</sup> for designated relief purposes – in the recent past, this has included funding from Vote 29, International Co-Operation and Vote 27, Department of Community, Rural and Gaeltacht Affairs.
- It also receives donations from members of the public and other private sources, through fund raising, subscriptions and royalties for general and specific purposes. In some cases, it also benefits from tax refunds<sup>279</sup> from the Revenue Commissioners associated with those donations.

<sup>278</sup> It is estimated that the total funding from State sources was less than 50% of its income in the years 2008 to 2010.

<sup>279</sup> Tax rebates arising from charitable donations totalled €437,000, €469,000 and €181,634 in 2008, 2009 and 2010 respectively.

## Tsunami Emergency Nationwide Appeal 2004/05

32.4 While the Society has a current annual turnover in the region of €6 million to €8 million, it received over €32 million in response to its emergency nationwide appeal following the tsunami disaster in South East Asia in December 2004. Most of the money was received by the Society in late 2004 and early 2005.

32.5 No additional finance or administrative staff were employed by the Society in 2005 to manage the significant sums raised and their subsequent distribution.

32.6 A decision was made by the Executive Committee in 2005 that the money collected would be spent over a five-year period, given that the support required by the countries affected would include infrastructure and longer term assistance. At the end of 2010, in the region of €1.1 million remained unspent. This is being held as a contingency fund to enable the completion of Red Cross projects.

## Financial Control Concerns

32.7 Concerns regarding the capacity of the Society to manage its administration and finance were raised in letters from the Society's external auditors in respect of the 2005 and 2006 audits.<sup>280</sup> The auditors questioned the Society's ability to prepare accounts for the organisation as a whole, due to the unreliability of its systems and the lack of financial information in respect of some of its branches. On foot of the 2005 and 2006 audits, the Society appointed two separate financial consultants to review the issues raised. They recommended that changes be made to the Finance Department at its headquarters. The external auditor's management letter of 2008 noted significant improvements in the finance and administration of the Finance Department but again commented negatively on the Society's ability to prepare comprehensive financial statements.

## Internal Examination

32.8 In 2010, concerns were raised within the Society and in the media about a bank account holding tsunami appeal donations collected by the Tipperary branch of the Society. The Executive Committee commissioned an independent examination of the matter in October 2010. The examination reviewed the events and key financial controls relating to the recording and reporting of amounts lodged by the Tipperary Branch in respect of the 2004/2005 tsunami appeal. The main findings of the examination, published in December 2010, included

- The Tipperary branch collected approximately €60,000 in 2005 which was kept in a designated account separate from its other bank accounts.
- There was no evidence of movement of funds out of the bank account until the full transfer of the funds to the headquarter's tsunami bank account over three years later, in September 2008<sup>281</sup>.
- The headquarters was not aware of the existence of the bank account until a trawl of all Bank of Ireland accounts in the name of the Society was undertaken in April 2008, at its request. This trawl led to the uncovering of 49 undisclosed accounts holding amounts that totalled €14,000, of which the Tipperary account (then standing at €62,960, including bank interest) was the most significant.

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<sup>280</sup> These letters, known as management letters, are issued by auditors principally to bring matters of management and financial control to the attention of those charged with governance.

<sup>281</sup> Small amounts totalling €1,100 were moved on two occasions due to banking errors. These movements were subsequently reversed.

- The Tipperary branch breached Society rules by not submitting required financial returns in 2005 and 2006, and by late submission of financial returns for 2007 that did not disclose the tsunami appeal bank account. The failure to submit the required returns was not pursued by the Society's Finance Department.
- No evidence of misappropriation of funds was found.

## Views of the Accounting Officer

32.9 In the light of the statutory basis of the Irish Red Cross Society, the grant-in-aid for the Society's recurrent expenditure from the Department and the use of the Society from time to time to disburse public funds, I asked the Accounting Officer if he was satisfied that the financial control, risk management and governance arrangements for the Society were adequate to ensure the proper application of public monies.

32.10 The Accounting Officer noted that the Society is an independent, charitable corporate body with full power to manage and administer its own affairs through its governing body, its Central Council. The Central Council is made up of elected members and members nominated by Government. The Irish Red Cross Society Order, 1939, provides for Government to nominate not less than one third of the membership of the Central Council. Amongst the current Government nominees is a Principal Officer from the Department who is also a member of the Society's Executive Committee. As it has been the practice for Government to nominate one-third of the Central Council, this means that, in effect, two-thirds of the Society's governing body is made up of members of the Society. Furthermore, the International Federation places great importance on the independence of national societies and on ensuring that Governments do not interfere in their running.

32.11 He stated that as the Society is a body corporate which, in accordance with legislation, is responsible for the handling of its own internal affairs, it was not a matter for the Department to be involved in the day to day running of the Society. However, in light of the claims of maladministration within the Society that had been made, queries had recently been raised regarding the use to which the funds that are granted annually, from the vote of the Department of Defence, are put. Comprehensive and satisfactory answers had been provided by the Society and the Department was satisfied that the grant was used appropriately and for the purpose for which it was provided – towards the salaries and administration of the headquarters of the Irish Society.

32.12 In relation to corporate governance, he noted that the Society had undertaken a review of its existing governance structures and in January 2010 submitted a copy of its proposals for governance reform to the Minister for Defence. Following examination of the proposals by the Department, a Statutory Instrument that will amend the Irish Red Cross Society Order, 1939, was drafted and forwarded to the Office of the Attorney General. Discussions are ongoing with the Office of the Attorney General on the extent of the changes that can be made. Furthermore, the current Programme for Government provides for a detailed legal review to be undertaken of the basis, structures and governance of the Red Cross in Ireland in order to improve its functioning in the light of changing circumstances. A comprehensive review of all Red Cross legislation, and in particular the primary legislation, will be commenced as soon as work on the new Order has been finalised by the Office of the Attorney General.

32.13 He stated that a new Chairman of the Society (a former Secretary General of the Department) and a new Secretary General of the Society had been appointed. The Accounting Officer stated that he was satisfied that good progress is now being made in developing more robust, multi-dimensional, corporate governance practices within the Society. He stated that the Society had recently put the following initiatives in place

- a Statement of Directors' Roles, Responsibilities and Accountabilities
- a Code of Conduct for Directors and Management
- a Strategic Planning Framework
- a Register of Organisational Risks
- an induction process for new Directors
- the establishment of an independent Audit Committee with external participation
- performance Evaluation for Senior Management and plans for Board Evaluation
- a Statement of Fundraising Principles and Behavioural Code
- analysis and reporting of non-compliant branch financial returns.

32.14 He stated that work was well advanced in drafting financial policies relating to the management of reserves, borrowing, capital expenditure, procurement and investments.

## **Conclusion**

The Irish Red Cross Society is an independent body through which the relief of distress can be tackled. Without prejudice to its independence, it is important that bodies in receipt of substantial State funding be in a position to demonstrate good governance and that the funding department satisfy itself in regard to their governance and financial systems.

The initiatives outlined by the Accounting Officer should strengthen the direction, control and management of the Society and provide increased assurance about the conduct of its financial affairs.