

ABCD

**Report on financial matters relating to
St Vincent's Industrial School at
Goldenbridge**

A report to the Commission
prepared by Terence
O'Rourke, a Partner in KPMG
Instructed by Arthur O'Hagan
Solicitors on behalf of the Sisters
of Mercy

Forensic
December 2006
This report contains 48 pages
21.12.06.doc

Contents

1	Introduction	1
1.1	Background	1
1.2	My instructions	1
1.3	My report	1
1.4	Declaration	2
1.5	My position	3
1.6	Structure of my report	4
2	Executive summary	5
2.1	Inherent limitations in the evidence	5
2.2	Mazars report	6
2.3	My own conclusions	7
3	Review of the Reformatory and Industrial School System in Ireland	9
3.1	Introduction and summary	9
3.2	Matters outside the scope of Mazars' engagement or experience	9
3.3	Generalised comments which do not appear relevant to Goldenbridge	10
3.4	Conclusions which appear at odds with the evidence produced	12
3.5	The description of an "outsourcing" arrangement	16
4	The Capitation System	18
4.2	Use of summary data over the time period	19
4.3	Selection of benchmarks	25
4.4	Invalid conclusion	34
5	St Vincent's Industrial School – Goldenbridge	37
5.1	Background – information available	37
5.2	Basic errors with Mazars analysis	38
5.3	Other issues with Mazars' conclusions	39
5.4	Bead Making income	39
5.5	Other matters raised in the Mazars report	41
6	Other schools and comparative analysis	42
6.1	Scope of my review	42
6.2	Christian Brothers - Artane	42
6.3	Rosminian Fathers – Upton and Ferryhouse	44
6.4	St Conleth's Reformatory School – Dainean	44
6.5	Comparative analysis	45

1 Introduction

1.1 Background

- 1.1.1 A report titled "Review of Financial Matters relating to the system of the reformatory and industrial schools, and a number of individual institutions 1939 to 1969" has been prepared on behalf of the Commission to Inquire into Child Abuse ("the Commission"). This report, by Mazars ("the Mazars report") considers both the general financial position of the reformatory and industrial schools and specific schools including St Vincent's Industrial School Goldenbridge ("Goldenbridge").

1.2 My instructions

- 1.2.1 I have been instructed by Arthur O'Hagan, solicitors for the Sisters of Mercy, to comment on the report prepared by Mazars. In particular I have been asked to do the following:

- Review the report prepared on behalf of the Commission by Mazars and look specifically at the financial information in relation to Goldenbridge;
- Review of all financial data available for Goldenbridge and assess its finances throughout the period reviewed by Mazars, being 1955-1969 and assess the validity of Mazars conclusions; and
- Perform independent research on possible sources of information on the sufficiency of funding available to the Goldenbridge institution during the period 1955-1969 and critically assess the findings of Mazars in relation to this issue.

I have also reviewed the information provided in the Mazars report on other schools, and the comparative analysis undertaken by Mazars, in order to better understand some of the comments made by Mazars which are general in nature.

1.3 My report

- 1.3.1 I have based my report on the records and evidence provided to me by the Sisters of Mercy as well as my own independent research.
- 1.3.2 In particular I was provided with four folders of documentation which had been compiled by the Solicitors for the Sisters of Mercy. I understand that all of the information which I have seen has been provided to the Commission and consequently would have been available to Mazars.

- 1.3.3 Where I refer to specific documents in my report, I have referenced them by way of footnote. Where the document has not already been referred to by Mazars I have attached a copy of the document to this report.
- 1.3.4 I have been assisted in the preparation of my report by a team of qualified chartered accountants who have worked under my direction and supervision. They have reported to me on the work they have done, which I have reviewed. However, the opinions expressed are my own.
- 1.3.5 I report as an expert witness of opinion, not a witness of fact. Where I set out my understanding of factual matters, this is merely to set out my opinions in context and to explain the basis upon which I have arrived at my conclusions.
- 1.3.6 I have not audited or otherwise independently verified any of the information which has been provided to me. Whilst I believe the factual content of my report to be correct, I reserve the right to amend my report in respect of any further information which may subsequently become available. My report is intended only for use in connection with this Inquiry and may not be disclosed to any third party or used in any other connection without my prior written consent.

1.4 Declaration

- 1.4.1 I declare that:
- (a) I understand that my overriding duty is to the Commission, and in preparing this report I have complied with that duty;
 - (b) I have set out in my report what I understand from those instructing me to be the questions in respect of which my opinion as an expert is required;
 - (c) I have done my best, in preparing this report, to be accurate and complete. I have mentioned all matters which I regard as relevant to the opinions that I have expressed. All the matters on which I have expressed an opinion lie within my field of expertise;
 - (d) I have drawn to the attention of the Commission all matters of which I am aware which might adversely affect my opinion;
 - (e) Wherever I have no personal knowledge, I have indicated the source of the material factual information;

- (f) I have not included anything in this report which has been suggested to me by anyone, including the lawyers instructing me, without forming my own independent view of the matter;
- (g) Where, in my view, there is a range of reasonable opinion, I have indicated the extent of that range in my report;
- (h) At the time of signing this report, I consider it to be complete and accurate (subject to the qualifications mentioned herein). I will notify those instructing me if, for any reason, I subsequently consider that the report requires any material correction or qualification;
- (i) I understand that the report will be the evidence I will give, subject to any correction or qualification I may make;
- (j) I have summarised my instructions in 1.2 above; and
- (k) I believe the facts I have stated in this report are true (where these are within my knowledge) and that the opinions I have expressed are correct.

1.5 My position

- 1.5.1 With regards to my experience and credentials, I have a BA (History and Economics) from UCD and qualified as a Chartered Accountant in 1978. I have been a Partner in the firm of KPMG since 1988 and am currently Head of Audit for the firm, and Business unit leader for KPMG Financial Services Audit practice. I have recently been appointed managing partner of KPMG Ireland with effect from 1 May 2007.
- 1.5.2 I am responsible for some of the firm's largest audit clients in the private, listed and semi-state sector and have significant experience in providing expert and independent evidence in court cases.
- 1.5.3 In 2004/2005 I was the President of the Institute of Chartered Accountants in Ireland ("the Institute") and have previously served as an elected Council member, and Quality Assurance Committee Chairman for the Institute. I was also the Institute's nominee on the government appointed Expert Working Group on improving public finance statements (1998) and the Tánaiste's Audit Review Group (2000).

ABCD

*Report on financial matters relating to St Vincent's Industrial
School at Goldenbridge
A report to the Commission prepared by Terence O'Rourke, a
Partner in KPMG
Forensic
December 2006*

1.6 Structure of my report

In Section 2 of my report I have set out my overall conclusions, which I have then expanded upon as follows:

Section 3 – Review of the Reformatory and Industrial School System

Section 4 – The Capitation System

Section 5 – St Vincent's Industrial School

Section 6 – Other schools and comparative analysis

2 Executive summary

2.1 Inherent limitations in the evidence

- 2.1.1 It is very important to appreciate at the outset that a financial review covering the period 1939 to 1969, will almost certainly be adversely impacted by the fact that all evidence may no longer be available.
- 2.1.2 I am aware that in the case of Goldenbridge, the Sisters of Mercy have made efforts to obtain all relevant financial information, but that no information was available at all in relation to the period 1939 to 1950, for some years there was only information for 6 months out of 12 and there was certain other information which was not available¹.
- 2.1.3 Even where financial information is available, I would expect that this would need to be supplemented by explanations of the various figures contained in the accounts from those who were operating the institutions at the time. This is because the financial documents themselves cannot always give a full explanation. In the case of Goldenbridge, I understand that the Resident Manager who was responsible for the 1939 to 1950 financial information has died. Even if this was not the case it is inevitable that the passage of time will impact on how much individuals are able to remember in relation to the financial information which is available.
- 2.1.4 I also note that there are instances where it is not possible to follow a trail of correspondence to its conclusion because there is insufficient documentation, for example I have seen no clear evidence of the reasons why the Department of Education abandoned the 1946 scheme to supplement the capitation grants with an additional 1 Shilling per week payment, or full details of why the proposed Inquiry into Schools in 1951 was abandoned.
- 2.1.5 Because of these inherent limitations, it is, in my view, very important to take care in arriving at conclusions, particularly given the seriousness of the matters under consideration. I have taken the approach that I have sought to rely on the evidence which is available and where possible to rely on the contemporaneous information available.

¹ The other information which could not be found is detailed at page 12 of the Manus report.

2.2 Mazars report

2.2.1 I have a number of significant concerns about the findings of the Mazars report which can be summarised as follows:

- Mazars' analysis of the financial information in respect of Goldenbridge contains basic arithmetical errors which undermines most of the financial analysis of Goldenbridge which is contained in the report(See Section 5.2 below);
- Many of Mazars' more significant conclusions are not supported by the evidence which I have seen. As set out in Section 3.4 below, the evidence I have seen does not support Mazars' conclusions that the Orders sought to protect their autonomy and that, implicit in this, may have been the desire to safeguard the property assets attaching to the Schools.
- Similarly, the documentary evidence provides little or no support for the allegation that the Residential Managers opposed schemes or actions for additional funding because of a reluctance to provide financial information to the Department of Education. In fact, on every occasion between 1944 and 1964 where the Department of Education sought additional financial information, it was provided;
- Mazars' overall conclusion that the capitation grant was sufficient is not supported by their analysis, and their choice of benchmarks against which to examine the level of capitation grant is flawed, since they have chosen benchmarks which are not comparable, whilst ignoring the most obvious comparison, being the level of payments to similar Schools in the UK. This benchmark is the only one examined by Mazars which shows that Schools in Ireland may have been underfunded, but it is ignored;
- The reasons given for ignoring this comparison are, in my view easily remedied and it is significant that the comparison with the UK is the one which was most often discussed in the contemporaneous documents which I have seen. It would appear that this evidence suggests that the Schools in Ireland received approximately 300% - 400% less funding than UK Schools, although the cost of living differential was only 57%;
- There are other obvious comparators which have not been sought, for example the costs of Boarding Schools in the period, the current costs of residential child care and the costs at Marlborough House. I have obtained some evidence of the current costs of residential child care, which seems to me to support the contention that funding for the Schools in the period was insufficient by comparison with modern expectations, but information on the other costs is not available to me although I would consider that it could be usefully obtained by the Commission.

Because of these concerns and other issues discussed in the remainder of this report, I do not consider that the Mazars report or its conclusions should be relied upon by the Commission.

2.3 My own conclusions

- 2.3.1 It appears to me that based on the evidence which I have seen, that there was a fairly general acknowledgement on all sides in the period 1939 to 1969 that the level of Capitation Grant was not adequate to meet the requirements of the children in the Industrial and Reformatory Schools. It is worth quoting from the Kennedy Report:

"Thus the Managers in charge of the schools were faced with the task of running the institutions on a totally inadequate financial provision and were forced to supplement their incomes by whatever means possible to enable their work to continue.

What was worse was that the services available to children were, of necessity, of a rather limited nature. When the cost of necessities had been deducted there was little if any left over for provision of those extra compensatory facilities which are considered necessary for the rehabilitation of deprived children."

- 2.3.2 The obvious comparison to assess the sufficiency of the grant is the capitation grant available in the UK. My analysis shows that whilst the "standard of living" in the UK appears to have been between 40% and 110% higher than in Ireland, and on average about 57% higher. Based on the limited evidence I have seen to date it appears that at certain times the level of capitation grant in the UK was 300% - 400% of that paid in Ireland.
- 2.3.3 In my view this provides fairly clear evidence that the level of grant in Ireland was unlikely to be sufficient to provide facilities which were in any way comparable with those in the UK. The fact that the capitation grant was increased by 100% in 1969 must also be seen as recognition by the State that the grant up to that point was inadequate, since I have seen no suggestion that the increase was accompanied by any additional cost burden on the Schools. It can only be taken to mean that the grant, prior to the increase was at least half what it should have been.
- 2.3.4 This must have placed a burden on Schools who were forced to react by reducing costs as far as possible. The fact that there were often delays in capitation grants being increased and delays in receiving the funds granted, only added to the financial burden faced.
- 2.3.5 Because the schools had a high fixed cost base (ie they incurred a large percentage of their costs, regardless of pupil numbers), the method of paying by reference to certified numbers of pupils would have caused additional problems. In effect the level of revenue was dependent on the number of pupils, and this was to a great degree out of the control of the Schools. Schools

² Document 58

ABCD

*Report on financial matters relating to St Vincent's Industrial
School at Goldenbridge
A report to the Commission prepared by Terence O'Rourke, a
Partner in KPMG
Forensic
December 2006*

would have had no certainty that their future income would be sufficient to cover their cost base.

- 2.3.6 In the case of Goldenbridge, the financial information which is available is incomplete, but does suggest that in the period for which accounts are largely available 1951 to 1969, the School did manage. But it was always at or about break even point, and whilst it had an overall surplus in the period analysed (subject to the proviso that accounts are not available for two years within this period), this largely accrued from the mid 1960's when pupil numbers increased and the 100% increase in capitation grant in 1969 had a beneficial impact.
- 2.3.7 Prior to that, the picture is of small surpluses, suggesting that it was operating around about break even level, which suggests that it was managed within the financial constraints imposed by the level of grant.
-

3 Review of the Reformatory and Industrial School System in Ireland

3.1 Introduction and summary

3.1.1 In this section I have set out my comments on Section 3 of the Mazars report, and in particular I have detailed a number of concerns which I have with their approach and conclusions.

3.1.2 In summary these concerns are that:

- Mazars appear to have commented on matters which were not within the scope of their engagement or experience;
- Some of Mazars' conclusions are in the nature of generalisations and do not appear to be relevant to every school. I have identified a number of these which are not relevant to Goldenbridge; and, in my view, most seriously
- Many of the conclusions drawn appear to be at odds with the contemporaneous evidence which I have seen.

3.1.3 I also have some reservations about the opinion of Mazars that the relationship between the State and the Orders was a form of "outsourcing".

3.1.4 I have expanded on each of these areas in the following sections.

3.2 Matters outside the scope of Mazars' engagement or experience

3.2.1 I have seen a copy of the proposal for the Mazars engagement which was provided to the Commission on 11 January 2005. It appears to me, based on the scope as described in the proposal, that it was not intended that Mazars engagement should include either a review of:

- Quality of Industrial Training in Schools, discussed in Section 3.6.1 of their report (in any case the comments made appear to relate only to the training received by boys);
- Liability for injury, discussed in Section 3.5.6 (where the conclusion appears to be based on a review of only two instances, one in the 1950s and one in 1971).

3.2.2 In addition to the fact that these matters appear to be outside the scope of Mazars' engagement, it is not clear what expertise Mazars has to comment on these matters.

3.3 Generalised comments which do not appear relevant to Goldenbridge

- 3.3.1 At Section 3.4 of their report, Mazars make the comment that there is "a suggestion in the files" that, by 1939, the Orders may have wished to continue to run the schools because there was a possibility of generating a cash surplus which could be applied to other activities. This statement, which could be viewed as a serious allegation in relation to the Schools, is followed by a quote from the submission of the Rosminian Fathers to the Commission, as follows:

"It must be kept in mind that the two Industrial Schools were only part of the financial burden on the Province that also had to provide and maintain houses for students who were called on to join the Institute and who did not pay any fees for their training. From 1945 onwards, the Province had a further call on its limited financial resources when it was required to provide for the travelling expenses, health care and much more, of the members who went on mission to Africa."

- 3.3.2 There is no reference in Section 3.4 to any other evidence supporting the allegation that the Orders may have wished to continue to run the schools to generate a cash surplus, and I am therefore unable to accept that the allegation is justified on the evidence provided, since I can see nothing in this quotation which suggests that the Order was generating cash from the Schools, or that this cash was used to fund other activities. The quotation seems to me to be simply drawing attention to the fact that the Schools were one of a number of calls on the resources of the Order.
- 3.3.3 In addition there was very little financial information available to Mazars for the years immediately following 1939 in relation to the schools run by the Rosminian Fathers which they examined, or for the Province, with no financial information for the school at Upton for 1940-1949, none for the Province before 1952 and only two sets of accounts for Ferryhouse School for years before 1951 (1941 and 1947)².
- 3.3.4 In their conclusions on the Rosminian Fathers I note that Mazars have stated⁴ that it is Mazars' view that whilst there is evidence that the Schools were a net contributor to the Province: "...but that the year on year contribution was not sufficient to yield the Order a significant surplus".

² See Page 96 of the Mazars report

⁴ Page 16 of the Mazars Report

- 3.3.5 I therefore consider that the allegation that the Orders may have wished to continue to run the schools because there was a possibility of generating a cash surplus which could be applied to other activities is not supported by any evidence which has been produced.
- 3.3.6 In any event, no evidence has been produced which links this allegation in any way with Goldenbridge.
- 3.3.7 Similarly the comment at page 34 that, in a number of cases, the schools contributed significantly to the subsistence of the Community through the farms and industrial activities, is not directly relevant to Goldenbridge which had very limited farm activity. I have in any case some concerns about the validity of this allegation as it relates to the other schools which I discuss in Section 6 below.
- 3.3.8 At Page 7 of their report, Mazars list four factors of a financial nature (which are drawn from their analysis in section 3 of their report) which they say are common to the majority of the Schools covered in the report and are important from the point of view of understanding the financial position of the Orders.
- 3.3.9 I believe that all of these are either incorrect or are not relevant in the case of Goldenbridge:
- *"The Religious Orders generally had debt free access to facilities sufficient to house the schools. Typically, these facilities had been provided by way of charitable donation". Whilst the school buildings at Goldenbridge may have been debt free, it is important to note that they were originally built in the mid to late 19th Century and would therefore have a significant requirement for capital expenditure and repairs;*
 - *"The Religious Orders had sufficient manpower available to operate and manage the schools". The Sisters of Mercy was not centrally managed and therefore had no central resource from which to obtain additional staff;*
 - *"The Religious Orders had, in the form of Capitation Grant and Primary Grant, sufficient funding to provide services to a level consistent with the contemporary standard of what might be termed an "ordinary family" ". The suggestion that the funding was sufficient is a key conclusion of Mazars, and I have discussed the reasons why I think that it is wrong in Sections 2 above and 4 below. The comment at Page 7 should also be clarified to make clear that the Primary Grant was paid to teachers directly and not to the Orders, although it is acknowledged that it may have been passed by the teachers to the Orders;*
 - *"Often, the Religious Orders had access to a farm and, to a lesser extent to trade workshops to supplement the provisions available to the school and the attached Religious Community" Goldenbridge had limited farm activities, although there was some bead making income.;*

- I have also seen no evidence that Goldenbridge was required by the Sisters of Mercy to make a "return on resources committed", as described by Mazars in point 3 on Page 7. Nor have I seen any evidence of this requirement in the evidence produced in relation to the other schools covered in the Mazars report.

3.4 Conclusions which appear at odds with the evidence produced

Desire of Orders to protect autonomy

- 3.4.1 It is one of the main conclusions of Mazars in section 3 of their report that the Orders sought to protect their autonomy and that, implicit in this may have been the desire to safeguard the property assets attaching to the schools⁵. I do not believe that Mazars have produced convincing evidence in relation to either aspect of this conclusion.
- 3.4.2 Even if evidence were available, I am not sure what relevance this has.
- 3.4.3 The only evidence of a desire to protect property assets which I can identify within the Mazars report is at page 31 where they refer to claims that the Residential Managers Association opposed the short-lived 1946 scheme which provided an extra shilling per week per head for capital purposes.
- 3.4.4 Mazars have also concluded that it appears that the Orders were "reluctant to provide the necessary financial information to help the Department of Education build a strong case for funding increases" and that: "the files available to us suggest that very little information was forthcoming"⁶.
- 3.4.5 They go on to say that the Residential Managers opposed schemes or actions that might have provided additional funding for fear of loss of independence and refer again to the 1946 scheme and to a later proposed Inter-Departmental Committee to investigate how the Schools might be run.
- 3.4.6 In Appendix I I have provided a summary of extracts from the correspondence which I have seen relating to these three matters. I have divided the Appendix into three areas:
- Table 1 – Requirement for Accounts to be provided by the Orders

⁵ Section 3.7 of Mazars report

⁶ Both quotations are taken from Page 31 of the Mazars report

- Table 2 – The proposed temporary capital grant scheme in 1946
- Table 3 – Proposed Inquiries into Schools

Requirement for Accounts

- 3.4.7 In relation to the Requirement for Accounts to be provided by the Orders, the evidence which I have seen, as set out in Table 1 of Appendix 1, demonstrates that in every instance in the period 1944 to 1964 where the Department of Education sought additional financial information from Schools, it was provided.
- 3.4.8 There may have been some discussion as to the form of information required, for example in early 1954, but this was resolved amicably with the Department of Education with the Minister agreeing to accept the information in whatever form it was submitted.
- 3.4.9 I believe that Mazars conclusion that “little information was forthcoming” is totally at odds with the evidence summarised in Table 1 of Appendix, all of which would presumably have been available to Mazars during their investigation.

1946 Scheme

- 3.4.10 Similarly in relation to the temporary capital grant scheme in 1946, I believe that the suggestion that the Schools opposed the 1946 capital grant scheme on the grounds that it might have affected their independence is not consistent with the evidence as set out in Table 2 of Appendix 1.
- 3.4.11 I would draw particular attention to the response of Goldenbridge to the proposal:
- “We are very grateful to the Minister for his kindness in endeavouring to help us as promised, and the increased grant will be a very welcome addition to the funds. Provision should be made, however, in the scheme for those who have already incurred heavy debts as a result of repairs and improvements carried out in their schools. This is the case in Booterstown and Rathdrum”*

- 3.4.12 In general the documents referred to in Table 2 of Appendix 1 suggest a constructive attitude from the Schools to the Department’s proposals, although there were some concerns expressed. In fact it appears to me that the suggestion that the additional funding being by way of a 1

shilling per week payment rather than a single fund, may have come from the Schools rather than the Department.⁸

- 3.4.13 It does appear that the scheme was withdrawn shortly after launch and the Department refers to it not being acceptable to *some of the Schools*⁹, but there is insufficient evidence available to me to fully understand what the issues raised were, or which Schools had raised them. Certainly the documents I have seen do not support the comment, at page 39 of Mazars report that there was *"strong resistance to the scheme"*. One only has to look at Document 8 to see numerous examples of strong support from a large number of Schools, including Goldenbridge.
- 3.4.14 In any case, since the amount which had been provided via the scheme was diverted into an increase in the capitation grant by the Department, the result was that any issues raised by any Schools had no impact on the resources provided to the children under their care. This means that this could not be viewed as an example of the Residential Managers actions prejudicing the receipt of additional funding as the Mazars report implies.

Response to proposed Inquiry

- 3.4.15 Table 3 of Appendix 1 shows that there were two time periods when an Inquiry was suggested, 1951 and 1967.
- 3.4.16 In the case of the proposed 1951 Inquiry, the documents I have seen suggest that the Schools did have concerns but that these were primarily about the scope of the Inquiry. For example in a letter dated 6 May 1951¹⁰ the Association of Resident Managers stated that the Association had held *"long and earnest consideration"* to proposals for an Inquiry into schools but the Association *"remained unaltered in their opinion that the terms of reference of the enquiry are too wide and include subjects which they do not consider relevant to the question at issue"*.
- 3.4.17 It goes on to say that whilst opposed to the Inquiry the Association has *"no objection to any authorised officials of Government Departments visiting the Schools in order to make themselves acquainted with the factual conditions existing in them"*

⁷ Document 8

⁸ An extract from this letter (Document 10) is quoted at Page 31 of the Mazars report. But I note that the Association's comment that they welcome the proposals is not referred to by Mazars, nor is the proposal from the Association to voluntarily provide an Account of this expenditure supported by receipts if required, which would seem to contradict their conclusion of a reluctance to divulge financial information on the part of the Schools

⁹ Document 12

- 3.4.18 However the trail of correspondence ends in May 1951 so I am unable to fully understand what happened. Nevertheless I do note that in March 1952 the Department of Education granted additional funding on the basis of the request made by the Schools in the prior year¹¹.
- 3.4.19 Given that an increase was awarded I cannot currently see any basis for the suggestion that this is an example in support of Mazars' allegation that "the Resident Managers opposed schemes or actions that might have provided additional funding for fear of loss of independence"¹². I would also note that the Minister specifically advised the Orders that the Inquiry was not intended to extend the State's role¹³, so it would seem illogical for the Orders to have believed that independence was an issue at this time.
- 3.4.20 In any case, I can see no reason why the Institutions would not wish to retain and safeguard their independence in respect of property rights and I am unclear why Mazars have raised this as a point of significance. I understand that this was a common feature of all Institutions, such as hospitals and education in the community, which were run by religious bodies at that time.

Alleged incentive to keep children in Schools

- 3.4.21 At page 36 Mazars refer to the capitation grant being an incentive for Resident Managers to keep children when they had a suitable home to go to. However I understand that the decision as to whether to release a child lay with the Department of Education not the school. Therefore while the opinion of the school would be taken into account the Department would make the decision.
- 3.4.22 Mazars has provided no evidence to support this suggestion that schools kept children for financial reasons despite them having a suitable home to go to, which, I would suggest, is quite a serious allegation.
- 3.4.23 In fact I note that the 1936 Cussen Report stated that: "In some Industrial Schools children are retained at the sole expense of the school beyond the age of 16 years – the present age for discharge – so as to undergo special courses of training"¹⁴. This would seem difficult to

¹¹ Document 26

¹² Document 27

¹³ Page 31 of Mazars report

¹⁴ Document 25

¹⁵ Document 1

reconcile with the implicit suggestion that Resident Managers placed the retention of the capitation grant above the best interests of the child.

- 3.4.24 I understand that the solicitors for the Sisters of Mercy have provided the Commission with details of the numbers of children who were discharged before the expiry of their detention period, and that this is a relatively high percentage.

Responsibility for pensions

- 3.4.25 I was surprised to read Mazars' conclusion at page 47, suggesting that: "*pension entitlements and so on fall to be dealt with by the Orders*", given their comments at pages 37 and 38 which acknowledge the complexity of this issue, and the evidence that individual lay teachers seem to have been considered for pensions by the State.
- 3.4.26 It appears to me that this is an example of Mazars drawing a conclusion which ties in with their general premise that the State "outsourced" the running of the schools to the Orders, in spite of the fact that there is evidence elsewhere in their report which potentially contradicts this.

3.5 The description of an "outsourcing" arrangement

- 3.5.1 Section 3 of the Mazars report concludes by describing the relationship between the State and the Individual Orders as a form of "outsourcing".
- 3.5.2 Whilst I have no particular issue with the use of the phrase "outsourcing", I would note that it covers a large variety of arrangements and is not, of itself, particularly illuminating. What is vital in understanding any outsourcing arrangement is the detail of the allocation of duties and liabilities.
- 3.5.3 Certainly I would not accept Mazars contention that there are "*a number of things [which] might be deemed to follow*"¹¹, from their analysis of the relationship as an outsourcing arrangement.
- 3.5.4 In particular I have already commented above that their conclusion that pension entitlements fall to be dealt with by the orders is not supported by the evidence which is included within their report.

¹¹ Page 47 of the Mazars report

- 3.5.5 I would also point out that Mazars views on the approach to the treatment of the property of the Orders, which is also based on this assumption that there was an "outsourcing" arrangement, is not consistent with the evidence which I have seen. As I discuss further in Section 4, I have not seen any evidence that there was ever a clear agreement on the respective responsibilities of the State and the Orders in relation to property assets used in the Schools, but there is certainly little doubt that the State did make contributions to the capital costs associated with property.
- 3.5.6 In the case of pension liabilities and property assets, it seems to me that Mazars have drawn conclusions which are not supported by the actual evidence. They appear to be using the concept of "outsourcing" to justify these conclusions in the face of contradictory evidence, but "outsourcing" covers such a variety of arrangements that I do not believe their conclusions on these matters are valid.

4 The Capitation System

- 4.1.1 In this section I have set out my comments on the Section 4 of the Mazars report where they consider the adequacy of the capitation rates paid to the Schools. This consideration included a comparison of the capitation rate against a number of benchmarks.
- 4.1.2 I do not accept that the evidence I have seen supports the conclusions of the Mazars report, which is that the capitation grant was sufficient over the period to maintain a child or as a follow on issue that the capitation grant was sufficient for the Institutions.
- 4.1.3 In my view the flawed conclusion that the capitation grant was sufficient, combined with the general acknowledgement that the Schools were efficiently run, could only lead a reader to the conclusion that the Orders chose to benefit themselves at the expense of the children placed in their care. Whilst this is never explicitly stated in the Mazars report it is the clear implication which I draw and one which I would see as very serious. Given this seriousness I would have expected a significantly higher standard of evidence to have been provided.
- 4.1.4 I detail the reasons for my disagreement with the conclusion below but in summary I believe:
- By looking at the position in summary over a long time period, Mazars report has the effect of ignoring significant changes within that period which would have impacted on the Schools;
 - Mazars assume that capital expenditure was not to be funded from the capitation grant, but this assumption appears to be highly dubious;
 - The benchmarks which have been used to assess whether funding from the capitation grant was adequate are not appropriate. The most appropriate benchmark and the one which is used most frequently in the contemporaneous documentation is a comparison with the grant in the United Kingdom. The results shown by this obvious comparator, which shows that the capitation grant in Ireland was significantly underfunded by comparison, has been ignored by Mazars;
 - Mazars conclusion that the capitation grant was adequate is not supported by a proper review of the relevant evidence and it is also inconsistent with contemporaneous evidence.

I have also briefly commented on some other potential comparators which might shed light on the adequacy of the capitation grant, and which, based on the limited evidence I have been able to obtain on them, suggests that they are worthy of further investigation by the Commission.

4.2 Use of summary data over the time period

4.2.1 I have concerns under this heading in relation to three areas examined by Mazars:

- The cashflow requirements of the Schools;
- The growth in capitation grants; and
- The comparison of capitation grant growth with inflation.

I deal with each below.

Delayed cashflow

4.2.2 I do not believe that the Mazars report gives sufficient weight to the problems which may have been faced by the Schools in terms of their cashflow. Whilst the report notes¹⁶ that there were delays in the provision of funding by the local authorities, it is apparent from the evidence that I have seen that this was a very significant issue.

4.2.3 To explain this in context, whilst a set of Accounts may show a surplus of income over expenditure over the course of the year, the School would only be "in funds" if all of the income were received. If the funds were not received then the School faced the choice of cutting costs or incurring debt to suppliers.

4.2.4 As early as 1940 I have seen evidence of the problems caused by the slow payment by local authorities and in a memo from the Association suggesting that the Government should pay the full grant and then itself seek the relevant funds from the local authorities¹⁷.

4.2.5 I have also seen a document from 1949 which sets out the level of debts of various schools¹⁸. I note in particular that Goldenbridge had debts of £1,138, which would be equivalent to about €40,000 in current terms¹⁹.

4.2.6 In 1950 the Association noted²⁰ that in the previous year 37 Schools were "unable to pay their way" (this is presumably a combination of inadequate capitation grants and slow payment). It

¹⁶ Page 49 Mazars report

¹⁷ Document 3c

¹⁸ Document 13

¹⁹ £1,138 is converted to €1,445. €1 at 2005 prices is equal to €0.037 in 1949. €1,445 x 10.037 =€39,054. See purchasing power index at Document 62

²⁰ Document 16a

points out that whilst some Schools were able to avoid a deficit this simply meant they had cut costs.

Capitation grant growth

- 4.2.7 Mazars note²¹ that capitation grants increased on an irregular basis.
- 4.2.8 They go on to say that this reflected the adversarial nature by which increases were made. I think this reference to the adversarial nature potentially oversimplifies what appears to me to be a much more complex situation, and would note that Mazars themselves have noted elsewhere²² that the Department of Education was supportive of the case for increases, sometimes in opposition to the Department of Finance.
- 4.2.9 For example in 1951 a Department of Education note referred to the Minister's desire for an inquiry at that time being prompted by his "struggle for an increase of grants" because he was not prepared to leave matters, where the Schools had only obtained half the grants requested²³.
- 4.2.10 I would also note that over a period of thirty years, there would have been a number of different Ministers of Education and of Finance, each of whom would have had differing attitudes to the Schools, and differing relationships with each other. Mazars comments about an adversarial relationship must be a somewhat simplistic generalisation of a complex set of relationships.
- 4.2.11 I have noted numerous examples of the Schools suffering long delays in getting increases awarded. For example in 1951 there is reference to a wait for a decision of over one year²⁴ and a letter from the Association to the Minister of Education in 1964 refers to the fact that no increase had been awarded since 1958²⁵.
- 4.2.12 Whatever the reasons, it can be seen that the level of grant did not increase steadily and again I believe this will have had significant implications for the Schools.
- 4.2.13 Reading the correspondence available to me it appears that whilst there was some recognition in Government that the Schools were suffering financially, it was often necessary for the Schools

²¹ Page 54 of Mazars report

²² Page 30 of Mazars report

²³ Document 25

²⁴ Document 33a

²⁵ Document 46 – it appears from the Mazars report that an increase took place in 1963. We have not been able to check these figures at this stage but it may be that the award was backdated to some degree.

to demonstrate this before funds could be provided, and this need for evidence of hardship forms the backdrop to the issue of the request for accounting information, evidenced in Table 1 to Appendix 1 above.

- 4.2.14 This may have had the result that the Schools had to demonstrate the need for additional funds, which were then provided to a level sufficient to meet the historic deficit. In the meantime, of course, costs would have continued to rise so that, once again, the School was in deficit and so on.
- 4.2.15 It must also have been difficult for Schools to plan expenditure against the backdrop of long delays in the increases in capitation grants, and uncertainty over what eventual increase would be provided.

Capitation versus inflation

- 4.2.16 Exhibit 2 to the Mazars report²⁶ shows that it was not until 1957 that the rate of change in the capitation grant exceeded the rate of change in the general price level.
- 4.2.17 I note also the significant increase in 1969 which Mazars are unable to explain²⁷. I understand that the reason for this increase was that it was at the time when the Kennedy Report was being compiled (1967 – 1970) which was widely expected to be critical of the level of funding.²⁸
- 4.2.18 This may have been recognition at this time that the amount of the grant was inadequate and an attempt to anticipate the findings of the Kennedy Report which recognised that the financial provision had been "totally inadequate"²⁹.
- 4.2.19 It should be emphasised that the fact that the rate of change from 1957 exceeded inflation, should not be taken to mean that the financial situation automatically improved.
- 4.2.20 Firstly, it would take some time for the Schools to overcome the problems caused by a number of years when the capitation grant trailed general price rises. Figures are not available pre-1939 but Exhibit 2 to the Mazars report does show that there were 17 years between 1939 and 1957 to effectively catch up for.

²⁶ Page 55 of the Mazars report

²⁷ Page 54 of the Mazars report

²⁸ Public transcript of evidence of Ms Bridget McManus to the Commission to Inquire into Child Abuse, 12 June 2006, 11:57

²⁹ Document 58

- 4.2.21 Secondly, I understand that from the late 1950's the numbers of pupils was falling in total across all schools. This would mean that whilst the capitation grant was increasing, that would be offset for some institutions by a decline in numbers such that their income would not have grown at the same rate as the increase in the capitation grant.
- 4.2.22 The documentation at the time demonstrates what a serious issue this was for Schools, but it is one which is not given any significant consideration by Mazars. From the late 1950's the impact of falling pupil numbers in the context of a capitation grant system had been identified as an issue by the State and the Schools themselves³⁰.
- 4.2.23 There were discussions around this issue and the evidence suggests that the Schools were positive participants in these discussions³¹. As I mentioned in Section 2, it is perhaps surprising to me that a capitation based system continued for so long after the problems of falling pupil numbers had been identified.
- 4.2.24 In any case, the continued reliance on grants based on pupil numbers at a time when they were falling would have had the effect of countering any benefit in inflationary increases and this is not, in my view, given enough weight in Mazars analysis.
- 4.2.25 In sections of their report they stress the advantages to the schools of "economies of scale" but they fail to draw attention to the contrary impact as numbers fell.
- Exclusion of capital expenditure from capitation grant*
- 4.2.26 Mazars have considered the issue of who was responsible for capital expenditure at the Schools in several areas of their report, and it appears to be their conclusion that:
- "It is our understanding that the application of funding to lodging encompasses maintenance and repair costs but not significant capital expenditures"³².*
- 4.2.27 For the reasons set out below I find this conclusion difficult to comprehend.
- 4.2.28 In accounting terms it is often difficult to decide at what point maintenance and repairs should be considered capital in nature. To add a further uncertainty (as Mazars propose), in the form of

³⁰ Documents 36, 39, 41 and 45

³¹ See for example Document 48

³² Page 67 of Mazars report

the requirement that the capital expenditure be "significant" makes the conclusion practically meaningless.

- 4.2.29 This conclusion is also inconsistent with the approach which Mazars have taken when selecting benchmarks to determine whether the capitation grant was adequate. At pages 51 and 52 of their report they make clear that it is an inherent assumption of their approach that capital expenditure is not included. They have not made any allowance for any capital expenditure of even an insignificant nature.
- 4.2.30 Finally and most crucially, the conclusion is not wholly supported by the available contemporaneous evidence which I have seen. It seems to me that whilst there was some discussion about the need for specific capital grants, in the absence of these and without additional resources being provided by the Orders themselves, the requirement for any capital expenditure had to come out of the capitation grant. Put simply, there was nowhere else for it to come from.
- 4.2.31 The 1946 scheme was described as being for the "*provision of grants for building and rebuilding and for structural alterations, additions and repairs of a permanent nature and provision of equipment for vocational training*"²³.
- 4.2.32 The letter of the Department of Education to the Schools dated 13 December 1945²⁴ refers to the proposed fund being to improve school buildings and providing equipment for vocational training. As an accountant I would definitely consider both of these items to be inherently capital expenditure rather than maintenance or repairs, since they represent permanent additions or improvements to assets rather than the upkeep of existing assets.
- 4.2.33 As noted in Table 2 of Appendix 1, when this scheme was ended by the Government, the amount which had been provided by the scheme was subsumed into the capitation grant. The Circular which announced this change stated:

²³ Document 2 and 9

²⁴ Document 9

"This increase is being given on the clear understanding that the School Managers shall accept liability for any building and repair works and the provision for equipment for vocational training which the Minister considers necessary in their schools"²⁵

- 4.2.34 The only implication to be drawn from this appears to me to be that the capitation grant, certainly from this point on, was intended to include funds for whatever capital expenditure the Minister of Education determined was necessary.
- 4.2.35 This view is further strengthened by the fact that many of the requests for increases in the capitation grant by the Association and other documents refer to the requirement for what I would consider capital expenditure²⁶.
- 4.2.36 In addition to the evidence provided by the 1946 Scheme, Mazars themselves note²⁷ that the State Authorities themselves permitted capitation grants to be applied directly to capital costs or to the discharge of borrowings for capital purposes in other cases.
- 4.2.37 I am therefore entirely unable to understand how Mazars could be of the view that capital expenditure was not included within the capitation grant.
- 4.2.38 I would also note that I find their suggestion²⁸ that since the benefit of the capital expenditure accrued to the Orders, even after the Schools were closed, then the State should not have funded all or indeed any Capital Work, to be simplistic.
- 4.2.39 Firstly it was only late in the period that the Schools or the State would have been aware that the Schools were likely to close, and secondly I would question whether the provision of funding for improvements to a School would be of any long term benefit to the Order in any case after the School closed. In the case of Goldenbridge for example the building was demolished after it ceased to be used as a school.
- 4.2.40 The expenditure incurred at Goldenbridge had been extensive and included installation of central heating, improved kitchen facilities and splitting the School into units, but the Sisters of Mercy obtained no benefit for this expenditure on closure of the School.

²⁵ Document 12

²⁶ See Documents 15, 16, 27b, 28, 44b, 51b and 57

²⁷ Page 52 of Mazars report

²⁸ Page 52 of Mazars report

4.3 Selection of benchmarks

4.3.1 Mazars have used four benchmarks in support of their conclusion that the capitation grant was adequate for the needs of the children. These are:

- Average Household Income;
- Child Support Payments;
- Unemployment Benefit; and
- Typical household expenditure on child maintenance.

4.3.2 For reasons set out below I do not believe that any of these provide the best comparator for the capitation grant.

4.3.3 Mazars have included information on the level of capitation grant in Britain, but they consider that this may not be an appropriate comparator due to differing economic conditions between Britain and Ireland, and potential differences in the management structure of Schools. I believe that the potential issue of differing economic conditions is easily overcome, and consider that the result provides the most obvious and transparent benchmark. It was certainly the benchmark which was most often cited in the contemporaneous documents which I have seen, as discussed further in 4.3.46 below.

4.3.4 I am also aware that the Staines report, commissioned by the Commission³⁹, specifically addressed the issue of the health status of children in the Irish Industrial Schools, partly by reference to a comparative study of children in Irish Industrial Schools with English children in the same age bracket.

4.3.5 Similarly I understand that solicitors acting for the Sisters of Mercy have asked the Commission to clarify why certain other comparators, which they believe to be relevant, were not apparently considered. These include:

- Boarding Schools in Ireland in the period 1939 to 1969;
- Modern residential child care facilities; or

³⁹ "An assessment of the health status of children detained at Irish Industrial Schools 1940-1990"

- Marlborough House which I understand was the only state run institution which provided care for children at the same time as Goldenbridge;

4.3.6 I would agree that each of these potential comparators would have been valuable and would in my view have provided much more relevant information than the comparators actually used by Mazars.

4.3.7 The only information which I have been able to obtain in relation to these potential comparators concerns the cost of modern residential child care facilities. This information is:

- An Irish Times article dated 12 October 2006, which indicates that the average cost of maintaining a young person at St Joseph's School in Clonmel was between €151,000 and €233,000 depending on average capacity⁶⁰;
- Information provided by the Sisters of Mercy⁶¹ which shows that the cost of 11 children in residential care within the North Western Health Board during 2002 cost €2.4million, which would equate to approximately €218,000 per child;
- Information provided by the Sisters of Mercy⁶² which shows that Mt St Vincent's Child Care Centre had total costs in the year ended 31 December 2002 of €5.175million, which covered 43 children who were in occupancy approximately 51.6% to 56.6% of the time. This equates to a cost per full time resident of €212,000 to €233,000.

4.3.8 This suggests that a figure a little over €200,000 is the current cost of maintaining a child in a residential facility.

4.3.9 I calculate that this would equate to €16,260 in 1969 purchasing power or €4,400 in 1939⁶³. In comparison the capitation grant for those years for an Industrial School was €544 per annum in 1969 and €41 in 1939⁶⁴.

4.3.10 Alternatively taking the capitation grant as at 1968, which was €5.24 per week (or €272.48 per annum) and expressing it in current values would give a figure of €3,633 per annum as at 2005, as compared to the actual cost of maintaining a child in a residential facility which exceeds €200,000⁶⁵.

⁶⁰ Document 59

⁶¹ Document 60

⁶² Document 61

⁶³ The Purchasing Power of €1 at 2005 is equivalent to €0.022 in 1939 and €0.081 in 1969. Or put another way, the 2005 €1 needs to be divided by 45.4 to give the 1939 equivalent of 12.3 to give the 1969 equivalent. See Purchasing Power index at Document 62

⁶⁴ Figures for Capitation Grant taken as 52 times the weekly amounts shown on Page 159 of the Mazars report

⁶⁵ 1968 value is 7.5cent of 2005 value. Therefore the 1968 value needs to be multiplied by 100/7.5 or 13.33

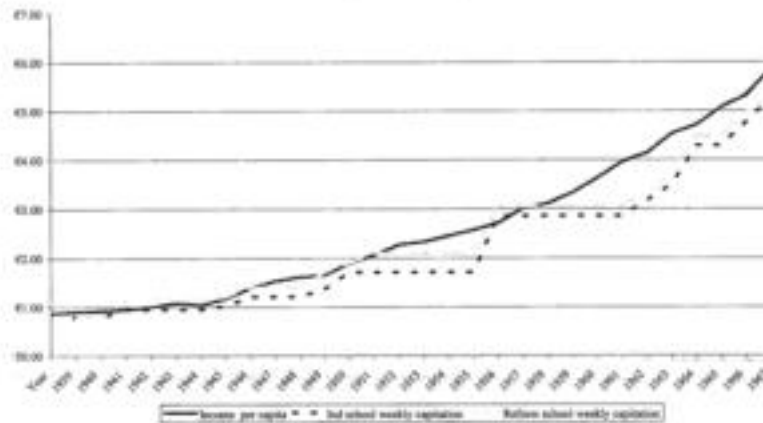
- 4.3.11 Whilst these calculations are based on limited evidence, they raise sufficient interest and concern to suggest that additional evidence could usefully be sought by the Commission on these suggested areas of comparison.

Average Household Income

- 4.3.12 The first benchmark discussed by Mazars is the average household income per head where Mazars conclude that "capitation payments were comparable to the likely available income per child over the period⁴⁶".
- 4.3.13 Before examining whether this is an appropriate benchmark I do not accept that this conclusion is an accurate reflection of the calculations performed by Mazars.
- 4.3.14 Exhibit 3 of the Mazars report which sets out Mazars calculations (which I have not been able to check at this stage) shows that for 29 of the 31 years for which data is provided the Income per Capita exceeded the Capitation Grant to an Industrial School. The comparison shows that Reform School capitation was somewhat higher than that for Industrial Schools. The only years when the position was reversed for Industrial Schools were 1957 and 1969. The reasons for the improvement in 1969 are discussed elsewhere and in my view it can be ignored.
- 4.3.15 In the graph below I have shown the data taken from Exhibit 3 of the Mazars report for the period 1939 to 1968 and with an expanded scale to the graph to allow the reader to see the results more clearly. This highlights the almost continuous shortfall between the capitation grant for Industrial Schools and average household income.

⁴⁶ Page 68 of Mazars report

Household income per head and capitation rates



4.3.16 Whilst not explicitly acknowledging the implication that Exhibit 3 is not consistent with their conclusion, Mazars do provide two suggestions⁴⁷ which could be used to forestall any criticism by stating that the capitation amount should be more than adequate as:

- Adults would consume and spend more than children; and
- That since the children in the Institutions would be from lower socio-economic groups then the capitation payments would be likely to exceed their living standards prior to going into the Institution.

4.3.17 No actual evidence is provided in support of either of these contentions.

4.3.18 In summary the statistical evidence produced by Mazars in Exhibit 3 does not support their stated conclusion. As the graph above shows the Industrial School capitation grant was significantly lower than the amount Mazars have calculated as household income per head. Their conclusion could only be justified on the basis of two assumptions for which they have produced no evidence.

4.3.19 In any case I do not believe that the use of this benchmark is valid.

⁴⁷ Page 39 of the Mazars report

- 4.3.20 The comparison fails to take account of the fact that in a 'normal' household the primary care givers to the children are the parents and that supervision of the children is provided free of charge. In addition to this, the children who were in these institutions were often troubled and would therefore have required a higher level of care than the average child. If those costs had been factored into the calculation then the level of capitation for Industrial Schools would lag the level of household expenditure even more than shown in the graph above.

Child support payments

- 4.3.21 Mazars themselves acknowledge⁴⁸ that child support payments are an income supplement and are not intended to meet the full maintenance costs of a child.
- 4.3.22 I cannot therefore understand why they have considered them as a comparator.
- 4.3.23 Given that the child support payment was never intended to deal with a large number of the costs to be covered by the capitation grant it would be no surprise if Exhibit 5 to the Mazars report showed that the capitation grant was higher. However it appears that Exhibit 5 does not actually show the level of child support, but rather the level of unemployment benefit.
- 4.3.24 It can be seen from Page 156 of the Mazars report that the level of Child Support was significantly lower than Unemployment Benefit for all of the years 1939 to 1952⁴⁹ and therefore Exhibit 5 is significantly misleading as it stands.
- 4.3.25 The current rate of child support payment in Ireland is €150 a month for the first child (and second child and €185 a month for the third child.⁵⁰ (equivalent to €1,800 - €2,220 per annum) In my opinion this could not be considered in anyway adequate to lodge, clothe and feed a child quite apart from the other costs that the capitation amount had to cover. As I have discussed in 4.3.8, the current level of costs for children in state care appears to be in the order of €200,000 per annum.

⁴⁸ Page 60 of Mazars report

⁴⁹ Unemployment benefit was 15.8 times the level of Child Support in 1939, falling to twice the level by 1951

⁵⁰ Child benefit rate from April 2006

4.3.26 I also note that the level of both family allowance and the dependents allowance which is added to unemployment and other benefits in respect of the first child in the UK ("child dependants benefit") were significantly lower than the level of capitation grant paid²¹. For example:

- Document 16a shows that in 1950 the capitation grant in Approved Schools was £5-4-9 per head per week in England and Wales and £4-15-0 in Scotland. The rate of family allowance in the UK at this time was £0-5-0 and the child dependants benefit was £0-7-6;
- Document 35a shows that in 1957 Schools in Northern Ireland received £4-8-0 and that school buildings were provided out of public funds. The rate of family allowance in the UK at this time was £0-8-0 and the child dependants benefit was £0-11-6;
- Document 51b shows that the rate paid to Schools in Northern Ireland was £11-18-1 in January 1967. At this time the rate of family allowance in the UK was £0-8-0 and the child dependants benefit was £1-2-6; and
- Document 56 suggests that the rate paid to Schools in Northern Ireland by October 1967 had increased to £16-9-6. The rate of family allowance in the UK £0-8-0 and the child dependants benefit was £1-10-0.

4.3.27 The above figures show that the level of capitation payment in the UK was hugely in excess of the level of child support equivalent payments. This suggests that child support is not an appropriate comparison, and that, if Mazars analysis demonstrates a close correlation in Ireland, then that suggests that the level of capitation grant was not adequate.

4.3.28 For the reasons set out above I do not think that this comparator is of any relevance.

Unemployment benefit

4.3.29 Mazars then compare the capitation grant to unemployment benefit. I would suggest that this is not a reasonable comparator.

4.3.30 The same considerations which I have discussed above in relation to the average family income would apply to this comparison. It fails to take into account the nature of the costs implicit in running the institution, particularly the child care and recreational costs.

²¹ Document 63

- 4.3.31 In addition those entitled to unemployment benefit may have been entitled other benefits, for example medical care in later years.
- 4.3.32 I have also compared the level of unemployment benefit in the UK during the period with the level of capitation grant paid there. Clearly if Mazars are correct in believing the comparison with unemployment benefit to be a good one, then it would be expected to apply to the UK as well.
- 4.3.33 In fact the level of unemployment benefit in the UK¹² was significantly less than the capitation grant paid to Industrial schools. For example:
- Document 16a shows that in 1950 the capitation grant in Approved Schools was £5-4-9 per head per week in England and Wales and £4-15-0 in Scotland. The rate of unemployment benefit for a single person at this time was £1-6-0;
 - Document 35a shows that in 1957 Schools in Northern Ireland received £4-8-0 and that school buildings were provided out of public funds. The rate of unemployment benefit in the UK for a single person at this time was £2-0-0;
 - Document 51b shows that the rate paid to Schools in Northern Ireland was £11-18-1 in January 1967. At this time the rate of unemployment benefit in the UK for a single person was £4-0-0; and
 - Document 56 suggests that the rate paid to Schools in Northern Ireland by October 1967 had increased to £16-9-6. The rate of unemployment benefit for a single person was £4-10-0.
- 4.3.34 All of the above comparisons demonstrate to me that the comparison of unemployment benefit with capitation grants is not valid. The fact that Mazars analysis shows a close correlation between the two in Ireland, provides clear evidence to me that the level of capitation grant was inadequate. The UK evidence indicates that the capitation grant there was a multiple of several times the unemployment benefit level.
- 4.3.35 Unemployment benefit cannot, in my view, be a valid comparison to the capitation grant which was provided to the Institutions to cover all elements of a child's care including full time care costs.

Expenditure on Child Maintenance

- 4.3.36 Mazars compare the capitation grant to expenditure on child maintenance based on the 1965/66 Household Budget Survey and on a similar CSO Household Budget Survey in 1951/52. The conclusion being that as the level of child maintenance in a typical household is less than the capitation grant then the level of capitation grant is adequate.
- 4.3.37 In common with the other benchmarks I have discussed above this analysis draws no distinction between the cost of raising a child in a typical household and the costs of running an Institution to care for the children. This benchmark is therefore, in my opinion, also flawed.
- 4.3.38 In addition I have concerns about the calculations which support Mazars' conclusions.
- 4.3.39 The underlying data for the first part of the comparison, the Household Budget Survey for 1965/66 raises issues in itself. It is based on a relatively small sample of households and, perhaps because of the vagaries of the sample, it throws up some unusual results. For example the Survey shows that families composed of two adults and three children spend less in total than families composed of two adults and two children.
- 4.3.40 I have not found it possible to verify Mazars' calculations but I understand that they have selected certain of the costs included in the Survey and excluded others which they do not consider relevant to the comparison. Whilst this makes sense I would note that one of the items which is included is education, but I cannot believe that the amount included in the Household Budget Survey, which would be the amount spent by the sample population directly on education, would equate to the full costs of education incurred by the Schools.
- 4.3.41 Similarly it is not possible to verify the accuracy of Mazars' calculations or the validity of which costs have been included and which excluded in relation to the 1951/52 Survey summarised in Exhibit 8. I have noted however that in selecting the appropriate benchmark, Mazars used the households with seven or more members, rather than the average of all households. I calculate that had they used the latter figure the level of expenditure would be approximately 50% higher.
- 4.3.42 In any case, the table at Page 159 of the Mazars report shows that the average expenditure per person which has been calculated is higher than the capitation grant for the whole of the period

²² Document 63

from 1939 until 1964. The scale of this gap is certainly not immediately apparent from the Graphs at Exhibit 8a and 8b. Both of these graphs appear to show that the level of capitation grant rose above the level of average expenditure per person prior to 1964, so I can only conclude that the Graphs are incorrect.

Comparison of capitation grant in Ireland to capitation grant in the UK

- 4.3.43 Mazars include⁵³ a comparison of the capitation grant in Ireland to that in England and Wales and that in Scotland.
- 4.3.44 Whilst this shows a significant gap between the grant in Ireland and those in the other countries, Mazars have dismissed this as a valid comparative on the basis that Ireland was a poorer economy.
- 4.3.45 In my opinion this comparison is far more valid than the other benchmarks used by Mazars which I have discussed above. It is the only comparator where there can be confidence that similar costs are being covered.
- 4.3.46 I also note that it was a comparison which was made throughout the period under review by the Association and by the State. In the Table below I have summarised the comparisons which I have noted:

Table 4.1: Comparisons made with capitation in UK / other countries

Document ref	Date	Comparison made
16a	June 1950	Capitation grant is 19 Shillings. England and Wales £5-4-9 and Scotland £4-15-0. In private voluntary schools in England it is £2-12-6 (Reference to Northern Ireland cannot be seen on the copy held)
35a	July 1957	Association is seeking an increase of £2 to £3-10 per week. Northern Ireland gets £4-8-0 plus school buildings are provided there out of public funds
37c	Sept 1957	Refers to UK rates for Approved Schools which are in the order of £6-£7 per week compared to a proposal to increase Irish rates to approximately £2
48b 49c and d	May 1965 1966?	Refers to Irish rates being "scarcely provided" compared to UK and NI "The grants are miserable when compared with those paid by the Western European countries" – although it notes that complaints are limited to the senior boys schools and a few of the other schools. "The low grants given to these institutions compare very unfavourably with those given in most, if not all, other European countries"
51b	Jan 1967	Compared to Northern Ireland. Maintenance is £5-7-6 compared to £11-18-1 in Northern Ireland and in addition Northern Ireland receives a large number of other benefits

⁵³ Pages 65 and 66 Mazars report

56 October 1967 Northern Ireland gets £16-9-6 per head. Ireland £3-7-6 per head.

- 4.3.47 I have seen no evidence of any other comparison to the capitation grant being offered in the contemporaneous correspondence. Nor have I seen anyone rejecting the comparison on the grounds proposed by Mazars
- 4.3.48 In order to take account of the difference in living standards I have compared the weekly industrial earnings for Ireland as set out in Exhibit 3 on page 58 of Mazars report, with the weekly average gross weekly earnings for a male employed in manual labour in the UK²⁴. This shows that over the period 1940 to 1968 (1939 and 1969 not available), that UK earnings were between 40% and 110% higher than those in Ireland. On average the UK earnings were 57% higher. My calculations are set out in Appendix 2.
- 4.3.49 I have not been provided with the back-up to Exhibit 9 of the Mazars report so am unable to provide an accurate calculation of the gap between the figures for Ireland and for England and Wales and for Scotland. But I note that Mazars acknowledge at page 66 of their report that even from 1939 to 1947 there was a gap with Ireland and Scotland being about 50% of those for England and Wales. They note that the gap between Ireland and the UK opened up from 1948.
- 4.3.50 Clearly the gaps between average earnings in Ireland and the UK is nowhere near as large as the discrepancies between the capitation grants noted in Table 4.1 above which are in the order of 300% or more.

4.4 Invalid conclusion

- 4.4.1 It is clear from my comments above that there is significant evidence which contradicts the findings of Mazars that the capitation grant was sufficient to maintain a child.
- 4.4.2 I also find it surprising that Mazars have reached such a conclusion when there is so much contemporaneous evidence which suggests that the capitation grant was inadequate.
- 4.4.3 I have seen many examples of the Schools or the Association complaining of the inadequacy of the grant and this being supported by representatives of the State. A summary of these

references in attached at Appendix 3. This is supported by the evidence of Schools running up significant debts.

4.4.4 For example in 1951 the Minister had not been prepared to accept an increase in the capitation grant which was only half of that sought by the Association and wanted to: "bring the officials of the Department of Finance face to face with the realities in the Schools"²³

4.4.5 Similarly in 1963 an internal Department of Education note states in relation to the recent increase that the Minister felt it fell short of what was required and went on to note that: "It is the opinion of the Minister that these schools are rendering a service to the community which merits a much greater state subvention than is currently provided"²⁴

4.4.6 In her testimony to the Childcare Commission, Ms Bridget McManus, Secretary General to the Department of Education states²⁵

"The Kennedy Report in 1970 accepted that the residential managers were faced with the task of running the institutions on an inadequate financial provision. This level of financial provision had to be a factor in the quality of care provided"

Ms McManus quotes from a Department Officials note to the Minister in 1967 who had stated that the Department of Education was:

"In no position to defend its achievements as far as the size of grant goes."

Ms McManus then states:

*"there would have been a full acceptance that we felt a higher level of funding was justified."*²⁶

4.4.7 The Kennedy report itself stated:

"Thus the Managers in charge of the schools were faced with the task of running the institutions on a totally inadequate financial provision and were forced to supplement their incomes by whatever means possible to enable their work to continue."

²³ I have been able to establish from the information provided to me that Mazars calculation at Exhibit 3 is based on male industrial earnings

²⁴ Document 25a

²⁵ Document 44a

²⁶ Public transcript of evidence of Ms Bridget McManus to the Commission to Inquire into Child Abuse, 12 June 2006, 10:40

²⁷ Public transcript of evidence of Ms Bridget McManus to the Commission to Inquire into Child Abuse, 12 June 2006, 12:25

What was worse was that the services available to children were, of necessity, of a rather limited nature. When the cost of necessities had been deducted there was little if any left over for provision of those extra compensatory facilities which are considered necessary for the rehabilitation of deprived children.³⁹

- 4.4.8 It is understood that the large increase in the grant in 1969 was a recognition by the State after many years that the position had to be rectified.
- 4.4.9 If one accepts that the rate which was agreed in 1969, which represented a 100% increase, was based on a reasonable assessment of the amount required at that time then it must be the case that in all earlier years the capitation grant was wholly inadequate.
- 4.4.10 Given evidence that the State recognised that the grant was not sufficient and that the Kennedy report of 1969 came to the same view in forthright terms I find Mazars conclusion that the grant was adequate is difficult to reconcile with the evidence which I have seen.

³⁹ Document 58

5 St Vincent's Industrial School – Goldenbridge

5.1 Background – information available

- 5.1.1 In Section 2 I noted that the absence of information and the fact that there is no-one to shed light on what information is available, will inevitably cause problems in producing meaningful financial analysis.
- 5.1.2 In the case of Goldenbridge, I have noted that not all financial information has been able to be recovered. In particular, income and expenditure accounts are only available from 1951 to 1969 and for four of those years (1957, 1960, 1968 and 1969), accounts are only available for 6 of the 12 months.
- 5.1.3 I am also not certain on what basis the accounts were prepared, and this is very important. Normally accounts are prepared on what is called the accruals basis, which means that the accounts show all of the income earned and expenditure incurred in a period, whether or not the cash amounts were received or paid within the period. The alternative to this is cash accounting which would have been common amongst non-commercial organisations in the period. It appears more likely to me that the Goldenbridge accounts are cash accounts.
- 5.1.4 This has important implications for an analysis of whether funds were actually available at any point in time, because if accounts show a surplus, it is important to know whether that translated into a cash surplus in the period, or whether some of it represented income earned but not necessarily paid. Given that the late payment of grants by local authorities was an issue which has been referred to as causing problems, it would be important to have established the position as far as Goldenbridge was concerned but this has not proved possible.
- 5.1.5 I also note that there is only limited information available in respect of bead making, and the information that is available makes it difficult in my view to draw firm conclusions.
- 5.1.6 Because of the absence of full information, it is very important that any review makes clear that the conclusions are based on limited information and must therefore be illustrative at best.

5.2 Basic errors with Mazars analysis

- 5.2.1 My review has highlighted a number of fundamental problems with the analysis presented by Mazars, the most important of which is that it simply does not add up.
- 5.2.2 The table at 7.3, which shows a surplus over the period 1951 to 1969 of €42,008, cannot be tied in to the detailed summary of income and expenditure at Appendix XIV of their report. The Appendix actually shows a surplus of €4,756. However if one then tries to check the accuracy of Appendix XIV a number of further errors are identified which render it completely unreliable.
- 5.2.3 Firstly, the figures shown in respect of the individual items of expenditure in each year do not add up to the total expenditure shown in any year.
- 5.2.4 Secondly, Mazars have adopted an illogical and flawed approach to dealing with those years where only six month results are available. For two of the years, 1957 and 1968, they have included only the six month results, but for the other two years, 1960 and 1969, they have taken the six month results and doubled them.
- 5.2.5 I am not satisfied that there is any logical reason to assume that the half year figures can be doubled to give the full year figures, and I can see no reason why Mazars took two different approaches. My own view would be that the correct approach is to include only the actual six month figures provided but note that the results for these four periods are incomplete.
- 5.2.6 Attached at Appendix 4 is a calculation which my staff have prepared which shows the KPMG calculation of the income and expenditure together with that of Mazars.
- 5.2.7 Because of these basic errors in Mazars analysis, it follows that their tables of analysis at pages 111, 112, 115 and 116 are incorrect and cannot be relied upon.
- 5.2.8 I have also been unable to find evidence which supports Mazars calculation of the level of capital expenditure at Goldenbridge which they state to be €164,134. I have only been able to identify approximately €130,000 of capital expenditure.

5.3 Other issues with Mazars' conclusions

- 5.3.1 In addition to the fact that many of the conclusions reached by Mazars are based on flawed data, I also believe that some of their conclusions do not give a complete picture of the situation at Goldenbridge. For example, they refer to a surplus over the period but do not look to identify when that surplus arose.
- 5.3.2 Whilst I recognise that my own findings are subject to the potential impact of the actual results in the two years (ie four times six months) for which accounts are not available, Appendix 4 suggests that the bulk of the surplus arose during the latter half of the 1960's, with the net cumulative surplus from 1951 only rising above €10,000 in 1965. In earlier years there was a pattern of small surpluses which suggests that the School was operating around break even level.
- 5.3.3 If it is believed that the capitation grant was inadequate, this must mean that the School was taking action to "cut its cloth accordingly".
- 5.3.4 I should also point out that neither my analysis nor that of Mazars is clear on what the opening position was in 1951 and this is clearly important, since the existence of a large accumulated surplus or deficit would be of relevance. The only evidence I have seen is the reference to Goldenbridge having debts of £1,138 in 1949.
- 5.3.5 The improvement in the latter part of the 1960's appears to be due to the fact that School numbers increased which took the School above break-even. This appears to have been contrary to the trend across the country and I have not established why this was, or whether it would have provided the School with confidence that this would continue.

5.4 Bead Making income

- 5.4.1 Mazars have undertaken an analysis of the limited information available to the Commission in relation to bead making income at Goldenbridge. The main information has come from one of the two companies for whom the beads were prepared on a contract basis.
- 5.4.2 In addition to that information, Mazars have referred to evidence from the School resident manager that cheques of £50 were received by the school from this activity and that this may indicate a possible weekly level of earnings.

- 5.4.3 I assume that Mazars consider that the evidence in relation to these cheques supports their conclusion that the income may have been £2,500 per annum but I cannot see any basis for Mazars concluding that the £50 cheque was a possible weekly level of earnings, as opposed to monthly or even fortnightly.
- 5.4.4 Mazars have calculated a range of possible annual incomes which range from £858, if 30 children were involved, up to £3,432, if 120 children were involved. I understand from the Sisters of Mercy that they consider it more likely that the income was at the lower end of the range as bead making took place in one of the classrooms which would place a limit on the number of children involved.
- 5.4.5 It appears to me that Mazars' calculations ignore the following:
- I have been advised by the Sisters of Mercy that there were quality issues with the beads produced and that the company wrote to the Sisters of Mercy in 1963 indicating that up to 50% of those produced were incorrect. The suggestion of quality issues is supported in part by a letter referred to by the Commission⁶⁰. Clearly any improperly prepared decades would have to be reworked and the Order would not receive any payment for incorrect decades;
 - The assumption that the children involved worked 5 days a week, 52 weeks a year and produced 60 decades a day ignores the holiday periods. I am advised that evidence will be produced that the children would not work on bead making for most of July and August when children would either be at home or at Rathdrum, and that they did not make them at Christmas either. However there may have been occasions when they worked for six days per week rather than five.
- 5.4.6 As previously noted, I believe it is difficult to produce meaningful financial analysis due to the lack of information, and that certainly applies to the calculation of bead making income.
- 5.4.7 I do not believe that the estimate made by Mazars of £2,500 income per annum is reasonable based on the evidence which is available. The evidence from the Sisters of Mercy that only one classroom was available would lead me to the view that perhaps 30 to 40 children would have been involved and that any figures calculated would need to be reduced to take account of the quality issues and the periods of holidays.
- 5.4.8 If the figure of £858 represents 30 children working at full capacity, five days per week, then it might be reasonable to reduce this to £500 to £700 to take account on these other issues. This would be equivalent approximately 2.5% to 3.5% of the typical expenditure incurred by the

School, and I note that there is evidence that the amounts raised, at least in the earlier years, was used to fund the purchase of the holiday home at Rathdrum.

5.5 Other matters raised in the Mazars report

5.5.1 From the records available to us we have not been able to ascertain what the payments to the Reverend Mother were for. Based on our review and discussion with staff at the Sisters of Mercy we have been provided with several possible explanations for the payments:

- Prior to the implementation of the primary grant system it is likely that some of the payment could have been for teaching services provided by the nuns from the convent;
- I understand that a common theme in the accounts of other institutions was that individual staff members at the Institutions, such as cooks, were often paid in cash by the Reverend Mother and part of these payments could be to cover this. This would explain the classification of the amounts some months as wages in the accounts of Goldenbridge;
- The other explanation for the payment is that prior to chefs being brought into the Institutions nuns would have helped in the kitchen and part of this money could have been to pay for their services.

5.5.2 The Sisters of Mercy purchased a holiday home in 1954 Rathdrum for the use of the children who did not have homes to go to in the schools holidays. I understand that around 50% of the children had nowhere to go home to during the holidays.

5.5.3 I understand that work was required to make the home safe for the children and to decorate. This could explain why 1953 and 1954 were peak years for wages as referred to at page 114 of Mazars report as this work would require extra payments to tradesmen.

5.5.4 In my opinion it is important to make clear that the holiday home at Rathdrum was purchased for the benefit of the children of Goldenbridge and to enhance their overall standard of care by providing a holiday home for those children who had no home to go to.

⁴⁰ In the Commission's letter to Arthur O'Hagan dated 7 November 2006

6 Other schools and comparative analysis

6.1 Scope of my review

6.1.1 I have undertaken a review of the information contained in the Mazars report for:

- Christian Brothers – Artane
- Rosminian Fathers – Upton and Ferryhouse
- St Conleth's Reformatory School – Daingean

6.1.2 My review has only been based on the information provided by Mazars and I have not been able to hold any discussion with representatives of any of the Orders, unlike the situation in relation to Goldenbridge.

6.2 Christian Brothers - Artane

6.2.1 This appears to be the school for which most financial information was available, including a full set of income and expenditure accounts for the School for the period 1940 to 1969 and for the House.

6.2.2 In summary the School accounts show a deficit over the whole of the period of €70,818 whilst the House showed a surplus of €339,724.

6.2.3 In the case of the School the results on an annual basis showed, in the main, small surpluses or deficits of around €10,000, with the exception of a small number of years where the deficits (1962, 1963 and 1964) or surpluses (1952, 1959 and 1969) were more significant.

6.2.4 However, Mazars have taken the view that the manner in which the Order produced its financial statements over the period may not have given a true view and that in order to obtain an overall view of the financial position it is necessary to aggregate the School and House. They have undertaken this exercise and this results in their conclusion⁴¹ that: "it is our opinion that the Christian Brothers Order showed a surplus from the operation of the Industrial School at Artane between 1939 and 1969."

⁴¹ Page 90 of the Mazars report

- 6.2.5 My own view is that it may be dangerous to attempt to restate or reinterpret the financial information that is available, so long after the event, particularly if you are unable to discuss this restatement with anyone who was involved in the management or accounting for the School at the time. I would be interested in discovering whether the Order itself accepts this restatement as being reasonable.
- 6.2.6 Mazars have also attempted to interpret the financial information provided in order to extract an income and expenditure account for the farm operated by the School. They have taken the amounts listed as farm income and farm expenditure in the School income and expenditure accounts to arrive at an overall farm surplus of €79,271 over the period.
- 6.2.7 However they draw attention⁶² to the fact that their results appear inconsistent with other contemporaneous evidence in two years.
- 6.2.8 These discrepancies may be evidence of some flaw in the approach to the extraction of this information from the School income and expenditure accounts, which again supports my view of the need to proceed with caution when restating or seeking to interpret the results without the benefit of discussing it with anyone with knowledge of how the information was collected and put together in the first place.
- 6.2.9 Mazars overall conclusion on farm and trade income is that the contribution made was very significant and was not fully captured by the financial accounts⁶³.
- 6.2.10 My own view is that the farm surplus of €79,271 was equivalent to only 3.3% of the total income of the Community.
- 6.2.11 I would also note that I would not expect the contribution to have been captured in the financial accounts. The income and expenditure accounts which were prepared were very simple in nature and, as I have indicated in Section 5 above, may well have been purely a record of cash income and payments. To have expected the Orders to undertake calculations to impute value to work done by the farm or trade and include this in the financial accounts would, in my view, be a complex exercise which would have added little if any value to the Orders at the time.

⁶² Page 76 of the Mazars report

⁶³ Page 76 of the Mazars report

6.3 Rosminian Fathers – Upton and Ferryhouse

6.3.1 The analysis undertaken by Mazars in relation to these Schools has been severely hampered by a lack of financial information. There is practically no information prior to 1950 and for the 19 years from 1950-1969 they only had access to financial information for 9 years in the case of Upton and 13 in the case of Ferryhouse. They also had 9 years financial information for the Province.

6.3.2 I can see no basis on which Mazars can sensibly conclude that :

"It is our view that the Schools were, when the entire period is viewed, a net contributor to the Province, but that the year on year contribution was not sufficient to yield the Order a significant surplus"

6.3.3 The period referred to is 1939 to 1969 and I do not believe that it can be reasonable to attempt to draw any conclusions on the financial position of the Schools and the Province if you only have information covering 9 of the 30 years the period (in the case of Upton and the Province) or 15 years (in the case of Ferryhouse).

6.4 St Conleth's Reformatory School – Daingean

6.4.1 Financial information is available for this school for all years from 1940 to 1969 and this shows an overall deficit of €17,706, which arose from 1960 to 1969.

6.4.2 The overall impression is of a school which was operating around break even point throughout the period, which would suggest that, like Goldenbridge, it cut its cloth according to its means. This would be supported by the evidence quoted at page 134 of the Mazars report from the Oblate's Discovery file:

"The income deficit, plus the capital starvation for building projects, put a severe strain on Oblate management throughout the fifties and sixties. The Oblates were in no position to provide cash injections from other funds"

- 6.4.3 Despite this evidence Mazars state⁶⁴: "...although the School ran in deficit during the 1960's this cannot necessarily be interpreted to mean that the financial consequence to the Order as a result of running the Reformatory School was one of loss".
- 6.4.4 I would have to say that the evidence produced by Mazars to support this claim is fairly limited:
- The Payments made to the Order of €78,022 over the 30 year period (equivalent to €2,600 per annum) might reasonably be seen in the context of the non payment of any salaries to brothers and fathers who worked in the School;
 - The existence of benefit accruing to the Order from the annual sale of work is only supported by a couple of quotations on page 124, which would not, in my view support the conclusion that "a reasonably significant amount of money was raised"
 - I would make the same comments about the reliability of farm accounts derived from the income and expenditure accounts of the School as I made in relation to Artane – see paragraph 6.2.6 above;
 - The items referred to as being not necessarily for the direct benefit of the boys, consists of payments for turf in 1946 and 1947⁶⁵ and some petty cash expenditure of €9,604 during the 1960's the purpose of which, Mazars themselves state is not known⁶⁶;
- 6.4.5 I would therefore conclude that the available evidence does suggest that the financial consequence of running the School for the Order was one of loss.

6.5 Comparative analysis

- 6.5.1 I have briefly reviewed Section 9 of the Mazars report which deals with a comparative analysis of the Schools and includes a break-even analysis.
- 6.5.2 I do not believe that any substantial points are raised by this analysis, which have not been covered elsewhere in this report.
- 6.5.3 In relation to the analysis itself, it appears to me to be of limited value in any event, due to the fact that information was not available for all of the Schools for the whole of the period. For example the comparative calculation of the break even point at page 149 in the case of Upton is based on two years and for Ferryhouse only four years.
- 6.5.4 In the case of Goldenbridge, as noted in Section 5, there are significant problems with Mazars' analysis and calculations. As noted at paragraph 5.2.6, the analysis in respect of Goldenbridge as a stand alone unit cannot be relied upon, so I do not believe that the comparative analysis

⁶⁴ Page 143 of the Mazars report

⁶⁵ Page 122 of the Mazars report

⁶⁶ Page 123 of the Mazars report

ABCD

*Report on financial matters relating to St Vincent's Industrial
School at Goldenbridge
A report to the Commission prepared by Terence O'Rourke, a
Partner in KPMG
Forensic
December 2006*

which includes Goldenbridge can be relied upon either, since it is based on incorrect expenses in every year and takes inconsistent approaches to those periods where only six months accounts are available in a year.