



Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

Thematic Review of Prize Draws in Credit Unions

March 2018

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1. Executive Summary

The Credit Union Act, 1997, sets out that credit unions can offer savings, lending and additional services. The provision of additional services is subject to the requirements set out in Sections 48 to 52 of the Act. Regular draws are excluded from these requirements by the Credit Union Act 1997 (Regulatory Requirements) Regulations 2016. For the purpose of this report, regular draws are referenced hereafter as 'prize draws'.

Prize draws do not require Central Bank approval, however the 2016 Regulations require that prize draws must be conducted on a break-even basis¹. Boards of directors of credit unions are responsible for ensuring compliance with relevant legislation and in this context for ensuring the effective governance of prize draws.

The Central Bank, as part of its 2017 programme of thematic reviews of the credit union sector, selected prize draws as an area for review as a number of issues on such draws had been identified in some individual credit unions during 2016. The overall purpose of the thematic review was to obtain an overview of the governance and operation of prize draws in the credit union sector and set out key findings and recommendations arising.

It was noted that many credit unions use prize draws as a marketing tool. Across the credit union sector, 46% of credit unions offer their members the option to enter a prize draw, with 446,000 members participating in prize draws. Participation is increasing, having grown by circa 46,000 members over the period October 2014 to March 2017. The value of prizes distributed to members has grown, with circa €40m in prizes distributed by credit unions over the same period.

This report includes examples of both good and poor practice observed during the course of the thematic prize draw inspections.

A summary of the findings of the thematic review include:

- Some credit unions have not applied the requirement to conduct the draw on a 'break-even basis', resulting in the accumulation of large cash balances that have not been distributed to members
- Many instances of poor systems and controls in place over prize draws, evidenced by:
 - Poor oversight by boards
 - Lack of documented policies and procedures
 - Poor record keeping
 - Lack of transparency
 - Poor segregation of duties
 - Lack of independent review

While all of the issues outlined above did not arise in each credit union inspected, they are representative of the range of findings across the sample of credit unions. The poor practices at some credit unions suggest that those credit unions are failing to fully and properly apply the guidance which was issued on the area in February 2017. A summary of the key findings in relation to each of the above areas is provided on the following pages.

¹ See Credit Union Act 1997 (Regulatory Requirements) Regulation 2016, Schedule 2 (13)

Prize draws are a significant financial activity across the credit union sector. As such there is an onus on credit unions operating such draws to ensure that the governance, operation and recording of financial transactions are in line with legislation, regulations, and guidance, and are fully transparent to members.

We expect credit unions to review the examples and recommendations set out in the report, and consider how these can inform boards when developing and updating systems and controls in place for prize draws.

Summary of Key Findings

Condition: Conduct Draws on a Break-even Basis

The Credit Union Act 1997 (Regulatory Requirements) Regulations 2016 lists 'Regular draws' as item 13 of Schedule 2, stating that:

- (a) the credit union may carry out regular draws for which members are eligible to enter on payment of a regular subscription,
- (b) condition to be fulfilled— such draws must be conducted on a break-even basis.

Findings on Interpretation of Break-even Basis

'Break-even basis' is not defined in legislation or regulation. A finding from the inspections was that credit unions have applied different interpretations of the term 'break-even basis'.

The broadest interpretation evidenced is that over the life of the draw all funds that are paid in will be paid out as prizes. In these cases credit unions recognise no surplus or deficit on the prize draw, but directly related administration costs may be charged. This interpretation has resulted in some credit unions accumulating large balances in the prize draw account which have not been distributed to members.

Another interpretation that was applied by several credit unions was that, over a defined period of time, all of the funds paid in by members must be paid out as prizes in that period. The balance on the prize draw account is then reduced to zero at the end of the period (or as close to zero as practical).

The narrowest interpretation encountered was that each individual draw must be operated on a standalone basis, and that for each draw all of the funds paid in by members must be paid out, ensuring there is no remaining balance on the prize draw account.

This variety of interpretations has led to differences in the operation and accounting for prize draws. This could give rise to perceptions of governance weaknesses, poor systems and controls and create potential for misappropriation or fraud.

The Central Bank issued guidance on prize draws in February 2017. With this report, the Central Bank provides recommendations on how the regulations and guidance should be applied by credit unions. The recommendations in this report will also be used to update the guidance on prize draws in the credit union handbook.

Recommendations on Conducting a Prize Draw on a Break-even Basis

Break-even Basis

- The board should review the operation of the prize draw regularly to ensure that it complies with the condition set out in the 2016 Regulations to be conducted on a 'break-even basis'.
- All subscriptions collected from members should only be used to pay for prizes and operating costs of the draw.
- An annual budget should be prepared forecasting the income and expenditure for the draw, allowing prizes to be adjusted to ensure the draw is operated on a break-even basis. This could be either on a financial year basis (30 September) or calendar year basis (31 December).
- Regular reconciliations on the prize draw should be prepared, signed by the preparer, independently reviewed, and presented to the Board at least annually.

Throughout the report a number of other recommendations have been made to improve the operation of specific aspects of prize draws. These are collated on the next page, and detailed in Sections A and B of the report.

Other Key Findings

Sectoral Overview

- 128 credit unions (46%) operate a prize draw:
 - 79% of larger credit unions (assets greater than €100m) operate a prize draw
 - 25% of smaller credit unions (assets less than €25m) operate a prize draw
- At 31 March 2017, 446,220 members of credit unions participated in prize draws.
- Over the period October 2015 to March 2017, the numbers participating increased by 11.6%, or 46,297.
- Growth rates in membership participation were significantly higher in smaller credit unions, although this was from a lower base.
- Overall, 95%, or 122 draws, had an element of cash prizes available as part of the draw.
- Circa €40m was distributed in prizes between October 2014 and March 2017.
- 55% of prize draws provided a car as the main prize.
- The average value of prizes over the period was €860,000 for industrial credit unions compared to €215,000 for community credit unions. Two industrial credit unions distribute over €1m per year in prizes.
- Entry costs varied significantly between credit unions, ranging from €1 to €20 per draw.

Detailed Findings

Governance

- 25% of the credit unions operating prize draws did not have a documented policy or procedure in place for the operation of the prize draw.
- In many cases the procedures that were in place had not been regularly reviewed and updated to reflect current practice in the credit union.
- For a significant number of credit unions visited, there was no evidence available to demonstrate approval by the board for the commencement of a prize draw.
- The majority (57%) of prize draws commenced during 2000-2009, with 23% commencing from 2010 onwards.

Member Participation

- In several credit unions there was poor record keeping of members' written authorisation and withdrawal forms.
- Within the credit unions who operate prize draws there is an average participation rate of 21%, with higher participation in industrial credit unions than community credit unions.
- Circa 85% of credit unions allow staff and directors to participate in prize draws.
- In approximately 30% of credit unions who operate prize draws staff and directors have won prizes over the period October 2014 to March 2017.

Operation of Prize Draws

- Draws were conducted by staff, who were eligible to enter the draw, with no independent oversight present.
- In some credit unions there were no records maintained of disbursement of prizes.
- In several credit unions copies of correspondence to winning members were not retained on file.
- There was a significant variation noted across the sector in the frequency of draws, ranging from weekly to annual. The most common frequency was monthly.
- In the majority of credit unions the responsibility for the operation of the prize draw lay with either the manager, the board, or a sub-committee of the board.
- Several credit unions post a full list of winners on their websites and in the local paper, and prize winners are listed in the AGM booklet, however in some cases prize winners were not contacted.

Recording of Financial Transactions

- In some cases there were no formal reconciliations of the prize draw account
- 17% of credit unions who operate a prize draws had never had the draw reviewed by internal or external audit.
- One third of credit unions operate a separate bank account for the prize draw
- The majority of credit unions reconcile the account at least monthly, however there were a number who only reconciled accounts annually or on an ad-hoc basis.

Recommendations

Summary Recommendations

Governance

- There should be a policy in place setting out the principles governing the draw, and this should be reviewed by the board on an annual basis.
- Any changes to operational procedures should be reviewed and approved by senior management.
- The procedure document should be reviewed and updated on a regular basis, and this should be recorded to ensure that the most recent version is used.
- Introductions of prize draws in a credit union should be approved by the Board.
- All decisions taken by a board should be recorded in the minutes, and retained securely.

Member Participation

- Written consent should be obtained from each member to commence deductions for entry fees into a prize draw, and a record of this should be maintained by the credit union.
- The terms and conditions provided to members should clearly state the requirements for participation in the prize draw.
- All written instructions from members in relation to participation in the prize draw should be retained securely by the credit union.
- Detailed records should be maintained on which members are included in each draw.
- The terms and conditions should clarify whether staff, board and volunteers can participate in the prize draw. Boards should also consider whether related parties should participate.

Operation of Prize Draws

- The steps involved in the operation of the prize draw should be clearly documented.
- All draws should be conducted in line with the terms and conditions which have been communicated to members.
- To avoid reputational risk, and ensure independence and impartiality, all staff and volunteers directly involved in the operation of the prize draw should be excluded from participating in the prize draw.
- All draws should be attended by an independent observer, and draw results signed by the person operating the draw and by the independent observer.
- Winning members should be notified via written communication, with a copy kept on file, to ensure an audit trail of the communication.
- Details of all the winners should be made available to all members (with their consent and in compliance with Data Protection legislation) using methods such as:
 - Credit union website and social media and in any newsletters to members
 - Credit union public office
 - AGM booklet
- To ensure an audit trail, where possible, all cash prizes should be lodged directly to a member's account.
- Where prizes are not paid directly to a member's account, a signed record of receipt of the prize by the member should be maintained on file as an audit trail.
- A written record of the selection should be retained on file where a member has a choice of prize e.g. cash alternative in lieu of car prize.

Recording of Financial Transactions

- Prize draws should be regularly reviewed by both internal and external audit to ensure that systems and controls in place are operating as expected. Observations from internal and external audit must be implemented.
- There should be a segregation of duties between staff processing transactions and those reconciling / reviewing those transactions.
- A periodic reconciliation of the prize draw account should be completed. The reconciliation should be prepared at an appropriate level and reviewed and approved by senior management.
- All bank account reconciliations for prize draws should be reviewed and approved by a person independent of the preparer.
- Transactions in the prize draw should be reviewed on an annual basis by the external auditor, and prize draw transactions and balances should be reported separately in the annual accounts.

2. Background

The Central Bank, as part of its 2017 programme of thematic reviews of the credit union sector, selected prize draws as an area for review as a number of issues on such draws had been identified in some individual credit unions during 2016.

Issues identified in 2016 in connection with the operation of prize draws included:

- Misappropriation of funds
- Mismanagement of prize draws funds
- Poor systems and controls
- Lack of independence where officers of the credit union have been prize-winners

Depending on the extent and seriousness, such issues can result in a need for a forensic investigation and potential redress to members. Redress could have a significant impact on the financial position of a credit union, weakening reserves, and ultimately, impacting on the protection of members' funds. In addition, issues of this type may give rise to reputational risks for credit unions and more broadly potentially impact on member confidence.

An example of where member redress was required is set out in the case study of Rush Credit Union Limited (In Liquidation).

Rush Credit Union Limited (In Liquidation)

In February 2016, following engagement with the Central Bank, an independent third party was appointed to carry out a forensic review of Rush Credit Union Limited ('Rush') following the suspected misappropriation of members' funds in the credit union. A circularisation of member balances was completed, and a number of members disputed the deductions from their accounts relating to the car draw in Rush. The third party was unable to locate details of winners of previous car draws, as no information was recorded, or published on Rush's website. The Forensic Review Report detailed recommendations for the Board to undertake a review of the Car Draw, given the limited information on prize winners. The board of Rush made the decision to refund all members with the amounts deducted from their accounts regarding the car draw for the period 2009 to 2016 and the car draw was stopped. The redress amounted to circa €0.45m.

Following media coverage of weak governance over prize draws in the sector, a number of credit unions have conducted reviews of their own prize draws and implemented improvements.

3. Regulatory Framework

Prize draws within credit unions are exempt from the Additional Services requirements under the Credit Union Act, 1997 (Regulatory Requirements) Regulations 2016. There is also guidance issued to credit unions on the operation of prize draws in the Credit Union Handbook.

Legislation

Sections 48 to 52 of the Credit Union Act 1997 set out that credit unions can provide additional services to their members in addition to savings and lending services². The Act also sets conditions that credit unions must meet in order to perform additional services, but empowers the Bank to exclude certain services from these requirements. Prize draws are excluded from these requirements by the 2016 Regulations.

Regulations

Pursuant to Section 48 of the 2016 Regulations “*The services set out in Schedule 2 to these Regulations are services prescribed by the Bank for the purposes of section 48(2)(b) of the Act*”, and that “*A credit union shall not perform the services specified in Schedule 2 to these Regulations unless the appropriate conditions specified in that Schedule are fulfilled*”.

Schedule 2 of the regulation lists ‘Draws’ as item 13, stating that:

- (a) the credit union may carry out regular draws for which members are eligible to enter on payment of a regular subscription,
- (b) condition to be fulfilled— such draws must be conducted on a break-even basis.

Guidance

The Central Bank issued guidance³ in February 2017, setting out the Central Bank’s expectation that, “*where a credit union is operating a draw for its members, it will be done in a clear and transparent manner with appropriate systems and controls in place*”. The guidance advises that credit unions should ensure:

- Members are only included in draws where they have given their written consent for inclusion
- Clear terms and conditions are documented and provided to participating members. Such terms and conditions would be expected to include items such as:
 - eligibility criteria for entry into the draw and the process for entering the draw (it should be clear whether or not volunteers and/or staff are eligible to enter)
 - how the draw fee will be collected
 - information on when and where draws will take place
 - how winners will be advised of their win
 - how any surplus funds arising from the draw will be dealt with
 - how members participating in the draw will be recorded
 - how the draw will be accounted for and audited (e.g. by internal and external audit)

² Section 48(2) states that “regulations made by the Bank may make the exclusion of any services from being additional services conditional on compliance with such conditions as may be prescribed by the Bank”.

³ This guidance was included in the updated Credit Union Handbook in February 2017

Other Legislative Requirements

In addition to Section 48 of the 2016 Regulations, the operation of prize draws is also impacted by other legislative requirements in the Credit Union Act 1997 which require the recording of transactions and putting in place systems and controls, such as:

- Section 108(2)(a) of the 1997 Act requires that the accounting records of a credit union must correctly record and explain the transactions of the credit union
- Section 108(3)(a) requires that accounting records contain “*entries from day to day of all sums of money received and expended by the credit union and the matters in respect of which the receipt and expenditure take place*”
- Section 108(3)(c) requires that in respect of the provision of services the accounting records of a credit union contain a record of services provided and all transactions relating to them

4. Objective and Methodology

The overall purpose of the thematic review was to obtain an overview of the governance and operation of prize draws in the credit union sector and set out key findings and recommendations arising.

The thematic review of prize draws was undertaken in two stages:

- (1) A survey was issued to all active⁴ credit unions in May 2017
- (2) On-site inspections were undertaken in a sample of 34 credit unions operating prize draws

5. Presentation of the Findings

Section A

This contains key findings from the survey responses which provides an overview of prize draws in the credit union sector.

Section B

The results of the survey were combined with information from the on-site inspections to provide detailed findings and recommendations. These are presented in the following sections:

- (1) Governance over the prize draws
- (2) Member participation
- (3) Operation of the prize draws
- (4) Recording of financial transactions

Examples of good and poor practice identified are set out in each of the above sections, along with recommendations for improvements in systems and controls.

⁴ In May 2017 there were 276 active credit unions, and 296 registered credit unions. Credit unions awaiting deregistration were not included in the survey.

Section A: Sectoral Overview of Prize Draws

A survey was issued to all 276 active credit unions in May 2017 to obtain information on the operation of prize draws in the credit union sector. Every credit union provided a response. The survey responses provide a sectoral overview of the following:

- (1) Population of credit unions
- (2) Member participation
- (3) Prizes
- (4) Subscription costs
- (5) Commencement

This information provides a synopsis on the operation of prize draws in the sector. It shows the increase in participation by members, and the significant value of prizes being distributed by credit unions who operate prize draws. It is apparent that the popularity of prize draws is increasing and several credit unions use prize draws as a key marketing tool.

(1) Population

Of the 276 active credit unions, 128, or just over 46% operate a prize draw. For the remainder of the report this is taken as the population of credit unions operating prize draws. The 128 credit unions can be broken down into the following groups by asset size for analysis purposes:

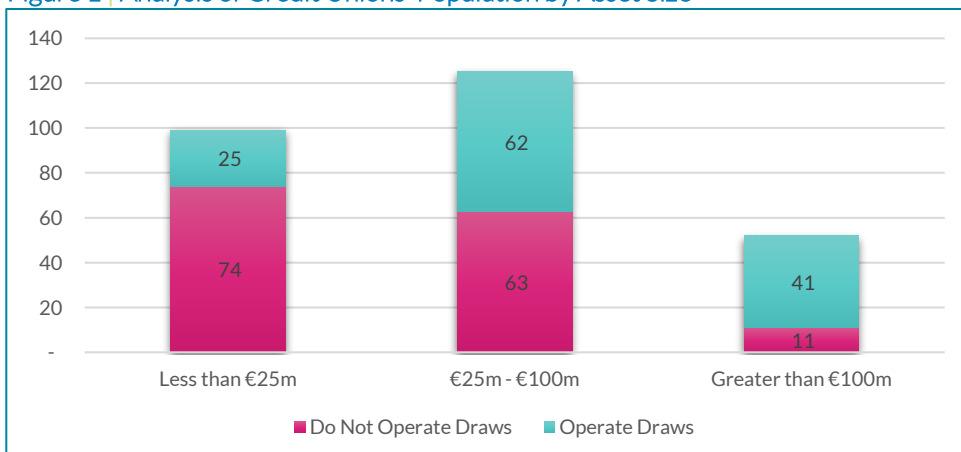
Table 1 | Asset Sizes of Credit Unions Operating Prize Draws

Asset Size	Community	Industrial	Total
Less than €25m	23	2	25
€25m - €100m	54	8	62
Greater than €100m	33	8	41
Grand Total	110	18	128

Within the population groups there were significant variations, linked to asset size.

79% of large credit unions (assets greater than €100m) operate a prize draw, while in contrast 25% of small credit unions (assets of less than €25m) operate a prize draw.

Figure 1 | Analysis of Credit Unions' Population by Asset Size



(2) Member Participation

As part of the survey we requested information on the membership of the prize draws as at 30 September 2015, 30 September 2016 and at 31 March 2017. The results demonstrate that there are a significant number of members participating in prize draws, and that this number is growing. Over the period October 2015 to March 2017, the numbers participating increased by 11.6%, or 46,297.

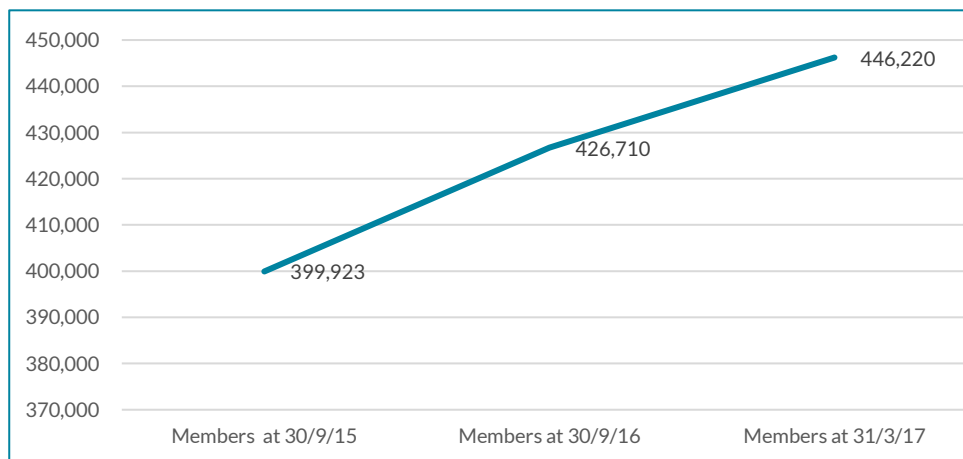
Growth rates in membership participation were significantly higher in small credit unions, although this was from a lower base.

Table 2 | Membership Participating in Prize Draws

Asset Size	Members in the prize draw at 30 September 2015	Members in the prize draw at 30 September 2016	Members in the prize draw at 31 March 2017	Movement from 30 September 2015 to 31 March 2017	Growth
Less than €25m	20,118	22,298	24,631	4,513	22%
€25m - €100m	125,464	134,788	143,393	17,929	14%
Greater than €100m	254,341	269,624	278,196	23,855	9%
Total	399,923	426,710	446,220	46,297	12%

Figure 2 shows a growth in participation by members in prize draws. At 31 March 2017 the overall participation rate was 21% of total membership in the credit unions who operate prize draws.

Figure 2 | Membership of Prize Draws



(3) Prizes

Of the 128 prize draws in operation, just over 55% provided a car as the main prize. Overall, 95%, or 122 draws, had an element of cash prizes available as part of the draw.

There was a significant value of prizes distributed in the period under review, with growth in the value of prizes distributed correlating with the increase in membership.

Figure 3 | Types of Prizes Available

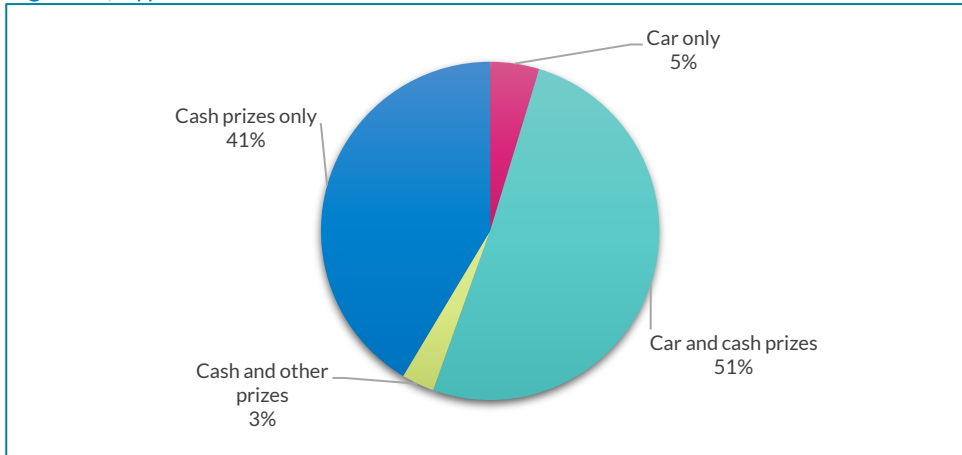


Table 3 | Value of Prizes Distributed

Prize Types	Value of prizes 1/10/2014 - 30/9/2015 €	Value of prizes 1/10/2015 - 30/9/2016 €	Value of prizes* 1/10/2016 - 31/3/2017 €	Total 1/10/14- 31/3/17 €
Car only	627,117	668,714	441,396	1,737,227
Car and cash prizes	8,402,868	8,805,885	5,418,157	22,626,910
Cash and other prizes	1,832,000	1,673,500	904,850	4,410,350
Cash prizes only	3,880,690	3,995,844	2,451,249	10,327,783
Grand Total	14,742,675	15,143,943	9,215,652	39,102,270

*This was a six month period

Although a smaller number of credit unions with an industrial common bond operated prize draws, the value of prizes distributed in these credit unions was significantly higher than in credit unions with a community common bond. This reflected higher participation rates by members in industrial credit unions. The average value of prizes over the period was €860,000 in an industrial credit union compared to €215,000 in a community credit union. Two industrial credit unions distribute over €1m per year in prizes.

Table 4 | Value of Prizes by Common Bond Type

Common Bond Type	No.	Value of prizes 1/10/2014 - 30/9/2015 €	Value of prizes 1/10/2015 - 30/9/2016 €	Value of prizes 1/10/2016 - 31/3/2017 €	Total 1/10/2015 - 31/3/2017 €
Community	110	8,803,085	9,041,903	5,760,997	23,605,985
Industrial	18	5,939,590	6,102,040	3,454,655	15,496,285
Grand Total	128	14,742,675	15,143,943	9,215,652	39,102,270

(4) Entry Costs

Entry costs varied significantly between credit unions, ranging from weekly costs of €1.50 in certain industrial credit unions, to monthly costs of €1 in community credit unions. There were also a number of credit unions that operated annual draws with subscriptions of €20 per draw.

We also observed a variation in the timing of deductions, the amount of deductions, and how these deductions were retained by the credit union. In some cases there was a separate bank account operated and all deductions were transferred to this account. In others, each member had an individual prize draw account in addition to their share and loans accounts.

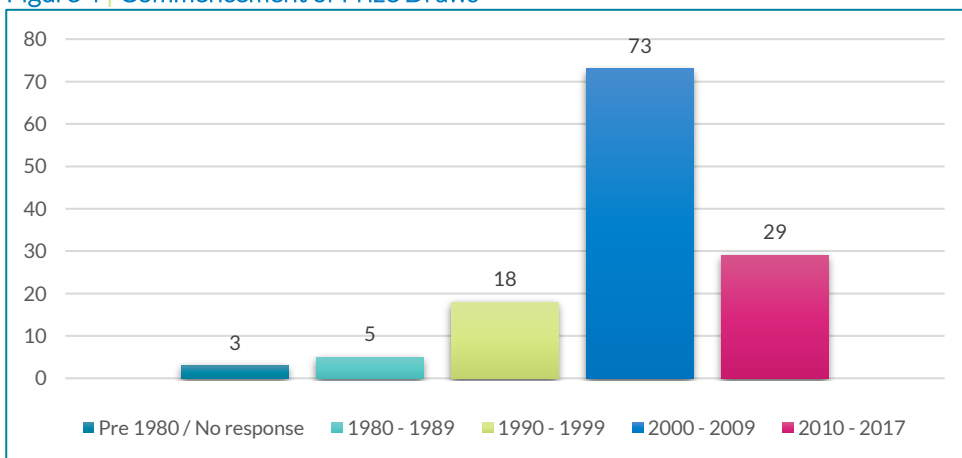
The majority of credit unions had a minimum share balance requirement for participation in the prize draw, but again, a feature was the variation in the amount required, ranging from €5 to €50 depending on the credit union.

(5) Commencement

It was noted from the survey results that only one credit union reported operating a prize draw prior to 1980, and less than 20% of the draws in operation had commenced before the year 2000. The majority (57%) of prize draws commenced during 2000-2009, with 23% commencing from 2010 onwards.

There were no significant differences noted between the commencement patterns of prize draws in community and industrial credit unions.

Figure 4 | Commencement of Prize Draws



Section B: Detailed Findings

(1) Governance

The review of governance of prize draws included an assessment of whether the credit union had:

- Operated the prize draws in accordance with the condition set out in the 2016 Regulations (i.e. that the draw was conducted on a break-even basis)
- A policy in place, and if this was regularly reviewed
- Documented procedures for the operation of the prize draws, and if these were regularly reviewed
- Board approval for the establishment of the prize draws

The 2016 Regulations include a condition that prize draws must be conducted on a break-even basis. The board are responsible for ensuring compliance with all legislation and for the effective governance of the credit union.

In the review, a differentiation was made between a policy, which the board uses to set out the principles guiding how an activity should take place, and an operating procedure, which documents the steps that must be taken to put the policy into practice. The Central Bank expects all board policies to be reviewed at least annually. As part of the review, we sought evidence of the existence of a prize draw policy and its inclusion in the policy review calendar. Detailed operational procedures should also exist and be reviewed periodically, with an update each time there is an operational change to the procedure. The review also assessed whether the board had appropriately approved the establishment of the draw, and that this decision was recorded in the minutes of their meetings.

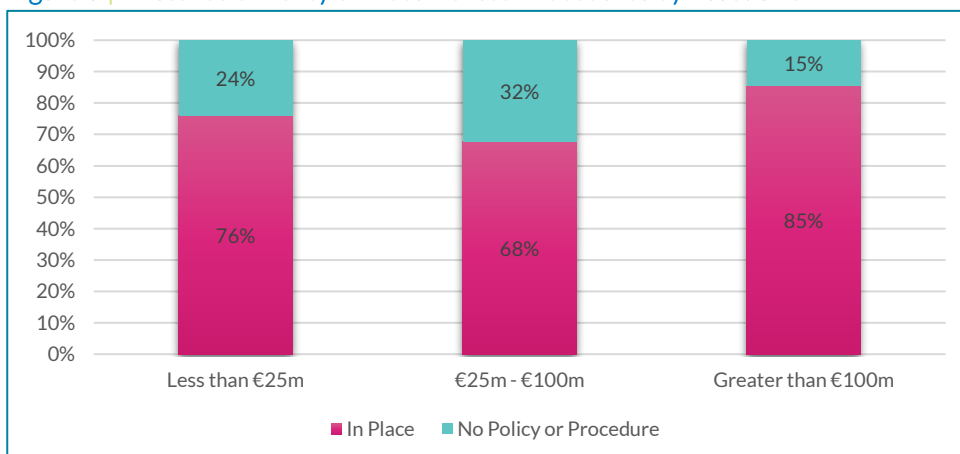
Survey Findings

It was noted from the survey that 25% of the credit unions operating prize draws did not have a documented policy or procedure in place for the operation of the prize draw.

This varied from a high of 32% with no documented procedures in medium credit unions (€25 - €100m asset size), to 15% in large credit unions (greater than €100m asset size).

The majority of credit unions had either a policy or a documented procedure in place. However, a significant minority had either no policy or no documented operational procedures. Also, in many cases the procedures in place had not been regularly reviewed and updated to reflect current practice in the credit union.

Figure 5 | Existence of Policy or Documented Procedures by Asset Size



Governance Findings

Observed Examples of Good Practice	Observed Examples of Poor Practice
<p>Break-even Basis</p> <ul style="list-style-type: none"> A draw is run on the credit union's IT system and the amounts deducted from the members accounts. The manager is then advised of the amount available that quarter for prizes. The credit union disburses as much as it can in prizes each quarter, therefore large balances do not build up in the prize draw account. Hampers being given as additional prizes at year end to use up residual balances and ensure that all draw balances are reduced to zero. In one credit union an annual budget is approved by the board. Monthly accounts for the prize draw are also sent to the Board. Additional prizes are disbursed in the Christmas draw in order to wind down the prize fund. In another example the board had a policy that the prize draw should not cost the credit union money, and so administration expenses are charged to the draw. 	<p>Break-even Basis</p> <ul style="list-style-type: none"> The policy in place stated that the draw shall be self-funding, and that all draw funds shall be discharged as prizes. However, there was a significant balance accruing on the prize draw each year. One board decided to fund the initial prize and the prize draw operated at a deficit as a result. In several credit unions details of the outcomes of prize draws are given to the board, but there is no presentation of the financial information. In one credit union there was no reporting to the board on the prize draw other than the balance on the draw account in the monthly management accounts. The prize draw was viewed as 'operational' and so there was no board oversight.
<p>Policies and Procedures</p> <ul style="list-style-type: none"> Detailed procedures setting out the steps to be taken for each process in the draw, supported by screenshots of the process. In addition to a policy being reviewed and approved by the board, there was also a procedure document and this was regularly reviewed by the Compliance Officer, with any changes reviewed by the CEO. In one example the procedures had been revised each year. Changes to the procedure document are prepared by the manager after a recommendation to the board - all such changes are approved in advance by the board. 	<p>Policies and Procedures</p> <ul style="list-style-type: none"> A number of credit unions where the board had not approved a policy, and there was also no procedure document setting out how the draw operates. Credit unions that relied upon the terms and conditions to govern the operation of the draw rather than having documented policies and procedures in place. A credit union had a policy in place, but it was out of date, and had last been reviewed in 2010.
<p>Commencement</p> <ul style="list-style-type: none"> The prize draw was approved by the Board and recorded in the minutes, all members were then informed in the next AGM booklet prior to the first draw taking place, with updates provided at later AGMs. Preparation of a business case by the CEO to the board for the establishment of a prize draw. The proposed terms and conditions of the draw were also presented to the Board, and approval for the paper and the draw were recorded in the minutes. 	<p>Commencement</p> <ul style="list-style-type: none"> In one credit union the minutes recording the approval could not be located. In another example the minutes recording the approval were misplaced when the credit union moved buildings. One prize draw reviewed was established recently, but there was no evidence of Board approval for the prize draw recorded in the minutes.

Governance Recommendations

Governance - Break-even Basis

- The board should review the operation of the prize draw regularly to ensure that it complies with the condition set out in the 2016 Regulations to be conducted on a 'break-even basis'.
- All subscriptions collected from members should only be used to pay for prizes and operating costs of the draw.
- An annual budget should be prepared forecasting the income and expenditure for the draw, allowing prizes to be adjusted to ensure the draw is operated on a break-even basis. This could be either on a financial year basis (30 September) or calendar year basis (31 December).
- Regular reconciliations on the prize draw should be prepared, signed by the preparer, independently reviewed, and presented to the Board at least annually.

Governance - Policies and Procedures

- There should be a policy in place setting out the principles governing the draw, and this should be reviewed by the board on an annual basis.
- Any changes to operational procedures should be reviewed and approved by senior management.
- The procedure document should be reviewed and updated on a regular basis, and this should be recorded to ensure that the most recent version is used.

Governance - Establishment

- Introductions of prize draws in a credit union should be approved by the Board.
- All decisions taken by a board should be recorded in the minutes, and retained securely.

(2) Member Participation

The review of participation in the prize draws included an assessment of:

- How a member enters a prize draw (i.e. was there a written record of consent)
- How a member withdraws from a prize draw
- Whether staff and directors of credit unions can participate in prize draws

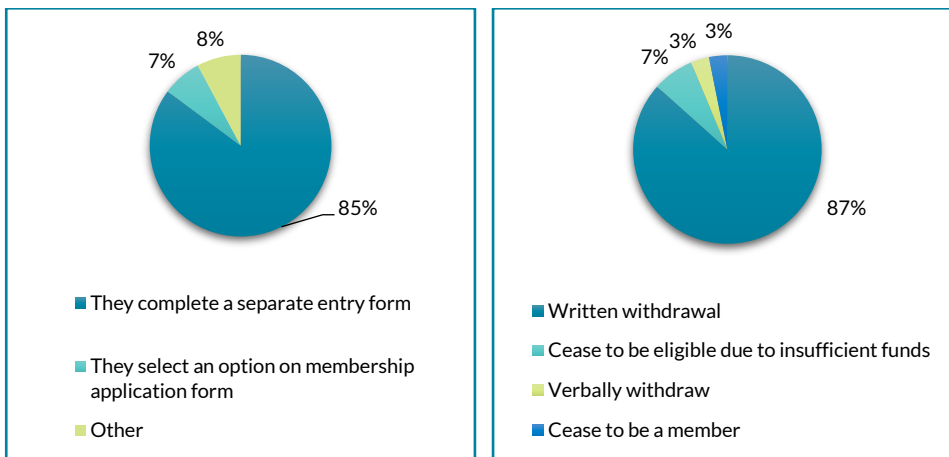
The Central Bank’s expectation as set out in the guidance is that members should actively opt-in to a prize draw and provide their written consent. A record of this should be maintained by the credit union. Similarly, if a member is withdrawing from a prize draw, a written record should be obtained and maintained.

Survey Findings

The survey showed that, in the majority of credit unions, members are required to complete a separate entry form to participate in the prize draws. In a number of credit unions there is also an option to enter the prize draw upon joining the credit union.

The survey asked how members leave a prize draw, and for the majority there are written withdrawal forms in place. Most credit unions also automatically exclude a member when their shares fall below a pre-determined level.

Figures 6 & 7 | How Members Enter Prize Draws, How Members Leave Prize Draws



There have been some references in the media about cases of staff and directors winning prizes in draws operated by their own credit union. This poses a reputational risk for credit unions. The survey results showed that the majority of credit unions allowed staff and directors to enter the prize draws. A significant number of credit unions reported that staff and directors within their credit unions had won prizes in the prize draws during the period under review.

Table 5 | Credit Unions Where Staff and Directors Can Participate in Prize Draws

	% Yes
Can staff of the credit union enter the draw?	85%
Can directors of the credit union enter the draw?	84%

Table 6 | Credit Unions Where Staff and Directors Have Won in Prize Draws

	% Yes
Have any staff have won prizes from 1st October 2014 to 31 March 2017?	31%
Have any directors have won prizes from 1st October 2014 to 31 March 2017?	30%

Member Participation Findings

Observed Examples of Good Practice	Observed Examples of Poor Practice
<p>Entry and Exit from Prize Draws</p> <ul style="list-style-type: none"> All members over 18 written to and asked to return a signed authorisation to enter the draw. Retention of members’ written consent for participation in the draw. Well documented reports on the changes in participation for each draw which were reviewed and evidenced by senior management prior to each draw. Clearly defined terms and conditions, which are in line with the rules of the credit union, setting out the minimum balances which must be retained by the member for continued participation in the prize draw. 	<p>Entry and Exit from Prize Draws</p> <ul style="list-style-type: none"> In one credit union, the prize draw was established after a vote by the members at an AGM in the 1990s, however all members were then automatically entered in the draw unless they completed a written instruction to opt-out of the prize draw. In several credit unions there was poor record keeping of members’ written authorisation and withdrawal forms. Large timing differences between receiving a written instruction from a member and executing that instruction. No record of the reason for a delay was noted on file. In some credit unions, where members were automatically excluded due to falling below the required share balance, there was no record of this exclusion retained on file.
<p>Board and Staff Participation</p> <ul style="list-style-type: none"> In one credit union reviewed while the terms and conditions did specifically state that all Directors, staff and volunteers were eligible to participate in the draw, the board made the decision in June 2017 that staff and directors should no longer be eligible to enter the draw to avoid any reputational risk. A recent decision taken by the management, staff and members of the BOC not to participate in the draw, following comments by the external auditor. The draw was conducted in the member area of the credit union by two independent peace commissioners and overseen by the manager – all of whom are excluded from the draw. 	<p>Board and Staff Participation</p> <ul style="list-style-type: none"> In several credit unions reviewed both staff and board members had won prizes. This can create a reputational risk for credit unions unless clearly set out in the terms and conditions. Following media stories about prize draws in 2016, a Risk Management Report in a credit union recommended that all staff and officers of the credit union should be removed from the draw with immediate effect. However, the board voted not to accept the RMO recommendation.

Member Participation Recommendations

Member Participation - Entry and Exit from Prize Draws

- Written consent should be obtained from each member to commence deductions for entry fees into a prize draw, and a record of this should be maintained by the credit union.
- The terms and conditions provided to members should clearly state the requirements for participation in the prize draw.
- All written instructions from members in relation to participation in the prize draw should be retained securely by the credit union.
- Detailed records should be maintained on which members are included in each draw.

Member Participation - Board and Staff Participation

- The terms and conditions should clarify whether staff, board and volunteers can participate in the prize draw. Boards should also consider whether related parties should participate.

(3) Operation of Prize Draws

The review of the operation of prize draws included an assessment of:

- How draws are operated
- Who is responsible for the operation of the prize draw
- Whether there is independent oversight of the selection of the winners
- How prize winners are notified
- Record keeping of the disbursement of prizes

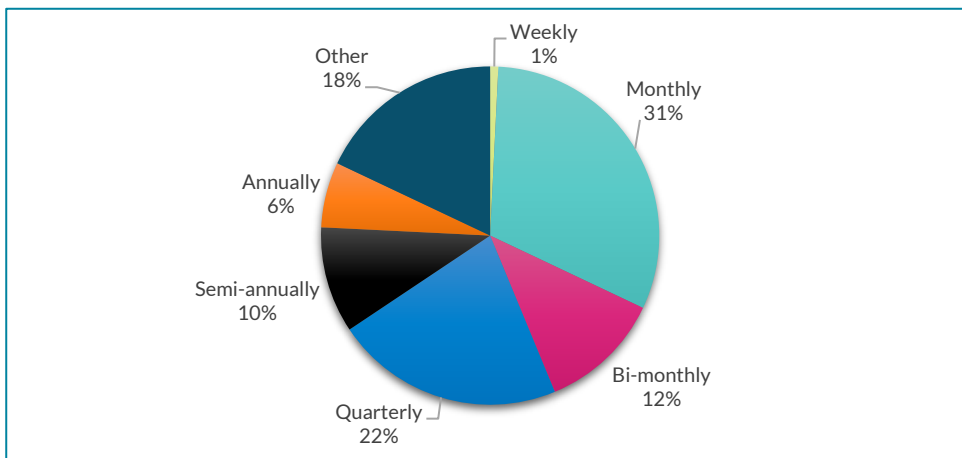
The Central Bank expects that the administration of a prize draw is conducted by a person who is independent and impartial, who is not eligible to enter the draw. The selection of winners should take place with independent witnesses present, and where possible be conducted in public. While this does not necessarily require the presence of the credit union's auditor, there should be persons present who are not staff or volunteers of the credit union. It is recommended that a record of the results should be maintained which should be signed by the independent witnesses present.

Winners should be notified, and a record of the communication maintained for review. The details of all the winners should be publicised (with the consent of members and in compliance with Data Protection legislation) and available to all members of the credit union.

All disbursements by a credit union from the prize draw should have a full audit trail.

Survey Findings

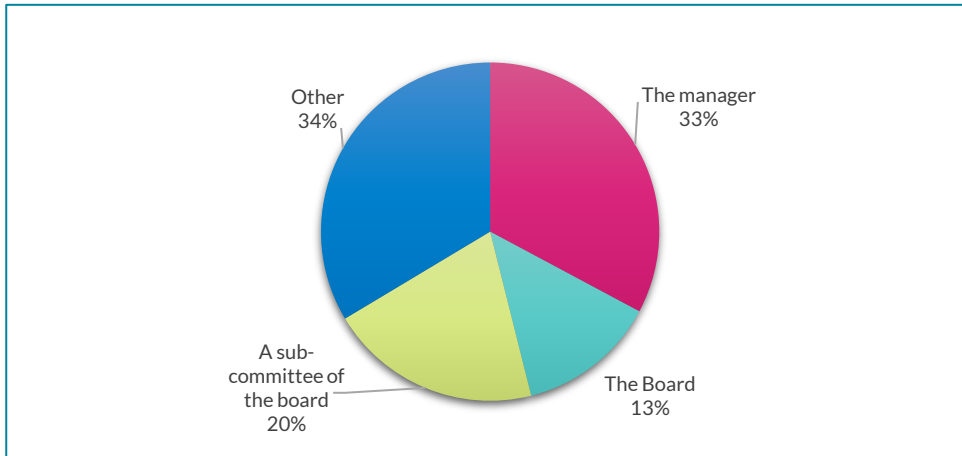
Figure 8 | Frequency of Prize Draws



There was a significant variation noted across the sector in the frequency of draws, ranging from weekly to annual. The most common frequency was monthly. In contrast a single credit union held weekly draws.

While the majority of draws are held regularly throughout the year, 23 credit unions reported 'Other' as the frequency. In most cases these draws were run either 3 or 5 times per year, and tended to be run around major events (e.g. Christmas, Easter, AGM).

Figure 9 | Person Responsible for Operation of the Prize Draws



In the majority of credit unions the responsibility for the operation of the prize draw lay with either the manager, the board, or a sub-committee of the board.

However for a third of credit unions the responsibility for the draw was delegated to the marketing / promotions manager / promotions committee. This reflects the experience during on-site inspections where credit unions outlined the usefulness of a prize draw in marketing the credit union to both members and non-members in the common bond.

Operation of Prize Draw Findings

Observed Examples of Good Practice	Observed Examples of Poor Practice
<p>Conducting the Draw</p> <ul style="list-style-type: none"> In several credit unions visited the prize draw takes place in the public area of the credit union, in front of members. Members of the credit union are invited to select the winning entry. In most cases the person conducting the draw is required to sign the record sheets to confirm the results. In some credit unions the board made the decision that the draw would be conducted by their IT partner to ensure impartiality. The IT system is used to select the winners at random. However, this process is completed by the manager in the banking hall with a Garda and members of the public present to witness the draw. From June 2017 the witnesses sign the sheet as a record of the results. 	<p>Conducting the Draw</p> <ul style="list-style-type: none"> The draws were conducted by staff, who are eligible to enter the draw, with no independent oversight present. A case where the Business Relationship Manager runs the draw using the IT system in his office with the only oversight from the Risk and Compliance manager. The terms and conditions stated that prize draws will be supervised, but the listing of winners is not signed by the supervisors as evidence that they witnessed the draw. The terms and conditions stated that the draw is carried out in public in the credit union office under the supervision of at least one member of the Supervision Committee and a member of the Board of Directors. The terms and conditions had not been updated to reflect legislative changes. The draw was not carried out in line with the terms and conditions.

Observed Examples of Good Practice	Observed Examples of Poor Practice
<p>Notifying Winners</p> <ul style="list-style-type: none"> Several credit unions post a full list of winners on their websites and in the local paper, and prize winners are listed in the AGM booklet. One credit union notifies winners by telephone and in writing. To collect their prize, the winners must attend at the CU with this letter, ID and must sign a receipt stating they have received their prize. Where prize winners are notified by letter, and published in the Annual Report and a monthly magazine. The prize winner of the top prize is also contacted by telephone. Copies of the letters are maintained on file as a record. 	<p>Notifying Winners</p> <ul style="list-style-type: none"> In one case, monthly prize winners of small sums are not contacted. The prize money is lodged directly into the winning members' accounts, and the credit union stated that they rely on word of mouth circulating between members to spread news of the winners. Prizewinners notified by telephone, with cash prize winners getting letters, however copies of letters are not retained by the credit union.
<p>Disbursement of Prizes</p> <ul style="list-style-type: none"> In a credit union reviewed, the top prize winner is required to sign for their prize by filling out the winner request form to indicate if they wish to take the car or the cash prize. Other cash prizes are paid directly to members' accounts once they have been notified. A credit union where members must call into the office and sign for the collection of their prizes. These records are maintained by the credit union and were provided as part of the inspection. Prize winners used to be required to sign to collect their cheques, but management have recently changed procedures so now all prizes are paid directly into the member's account to improve the audit trail. 	<p>Disbursement of Prizes</p> <ul style="list-style-type: none"> A case where winners were not required to sign for their prizes, with cheques issued to the three top prize winners. The minor prizes could be issued as cash from the prize draw account in the office. Winners of non-cash prizes (hampers) were also not required to sign. An example of cash prize winners receiving their prizes in actual cash on the night of the draw. Envelopes are prepared with the cash amounts in advance of the prize draw. There were no records maintained of disbursement. The top prize winner had the option for a cash alternative in lieu of a car, but there was no document to record their request.

Operation of Prize Draw Recommendations

<p>Operation of Prize Draws - Conducting the Draw</p>
<ul style="list-style-type: none"> The steps involved in the operation of the prize draw should be clearly documented. All draws should be conducted in line with the terms and conditions which have been communicated to members. To avoid reputational risk, and ensure independence and impartiality, all staff and volunteers directly involved in the operation of the prize draw should be excluded from participating in the prize draw. All draws should be attended by an independent observer, and draw results signed by the person operating the draw and by the independent observer.
<p>Operation of Prize Draws - Notifying Winners</p>
<ul style="list-style-type: none"> Winning members should be notified via written communication, with a copy kept on file, to ensure an audit trail of the communication. Details of all the winners should be made available to all members (with their consent and in compliance with Data Protection legislation) using methods such as: <ul style="list-style-type: none"> Credit union website and social media and in any newsletters to members Credit union public office AGM booklet
<p>Operation of Prize Draws - Disbursement of Prizes</p>
<ul style="list-style-type: none"> To ensure an audit trail, where possible, all cash prizes should be lodged directly to a member's account. Where prizes are not paid directly to a member's account, a signed record of receipt of the prize by the member should be maintained on file as an audit trail. A written record of the selection should be retained on file where a member has a choice of prize e.g. cash alternative in lieu of car prize.

(4) Recording of Financial Transactions

The review of the financial records of prize draws included an assessment of:

- If a separate bank account is maintained
- The frequency of reconciliations of the prize draw
- Financial reporting to the board
- Independent reviews of the prize draws

The Central Bank expects that financial transactions in the prize draw would be reconciled regularly and that this would be reviewed at an appropriate senior level. Where prizes are paid by cheque or cash it is expected that these transactions would be recorded separately from general credit union business. A clear audit trail must be maintained for all financial transactions.

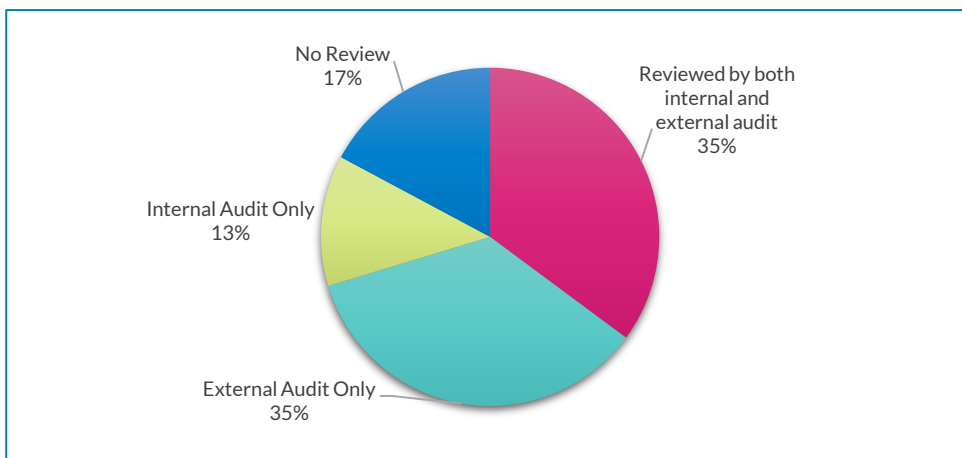
There should be no disbursement of cash, cheques, and other prizes (e.g tickets, hampers, etc.) from the prize draw without an audit trail of the transaction.

The Central Bank expects that all elements of a credit union’s operations should be regularly reviewed by internal and external audit to ensure that systems and controls in place are operating as expected.

Survey Findings

The survey sought information about any reviews of the prize draws by internal audit or external audit, and found that 17% of the credit unions who operate prize draws had never had the prize draw reviewed by internal or external audit.

Figure 10 | Independent Review of Prize Draws Across the Sector

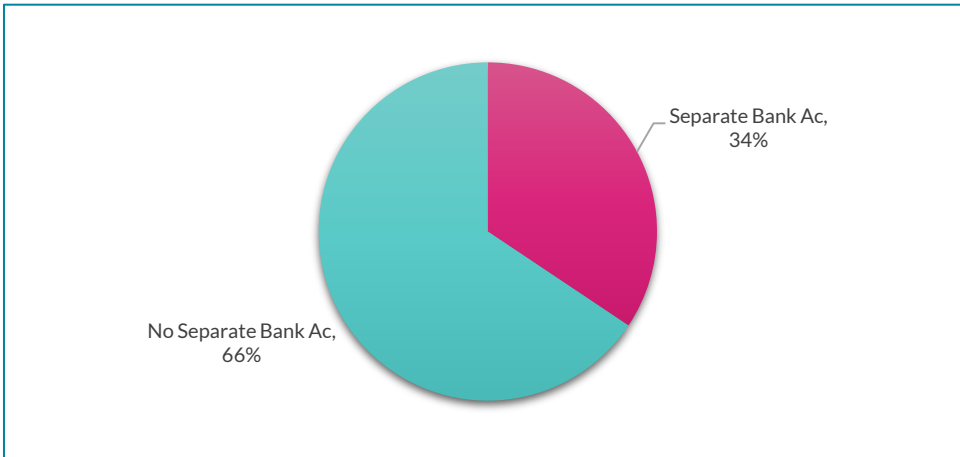


While the level of non-review was broadly similar across the population, the survey revealed that larger credit unions were more likely to have had their prize draws reviewed by both internal and external audit.

Table 7 | Independent Review of Prize Draws by Credit Union Asset Size

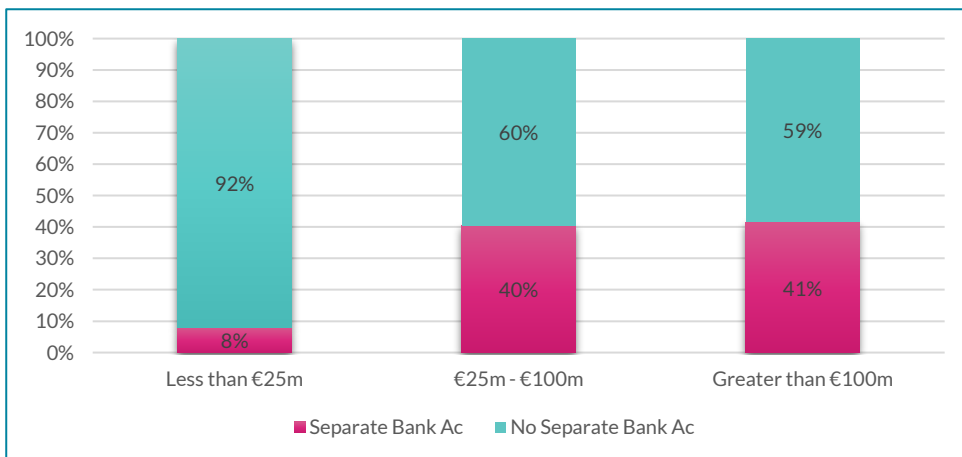
Asset Size	No Review	Internal Audit Only	External Audit Only	Both internal and external audit
Less than €25m	16%	12%	40%	32%
€25m - €100m	18%	18%	39%	26%
Greater than €100m	17%	5%	27%	51%

Figure 11 | Separate Bank Account for Prize Draw



Just over one third of credit unions operate a separate bank account to record the transactions in the prize draw. This varied significantly depending on the size of the credit union, with 8% of smaller credit unions having a separate bank account, compared to 41% for large credit unions

Figure 12 | Separate Bank Account by Asset Size



Of those credit unions who operated a separate account for the prize draw, it was noted that while the majority of credit unions reconcile the account at least monthly, there were a number who only reconciled accounts annually or on an ad-hoc basis.

Table 8 | Frequency of Reconciliation of Prize Draw Accounts

How often the bank account is reconciled	
Daily	2%
Weekly	5%
Monthly	59%
Quarterly	11%
Annually	18%
Ad-hoc basis	5%

Recording of Financial Transactions Findings

Observed Examples of Good Practice	Observed Examples of Poor Practice
<p>Independent Review</p> <ul style="list-style-type: none"> Internal Audit reviewed the prize draw in 2014, and recommended prizes should be increased to reduce accumulating balances. A further review was conducted in March 2017. This found that prizes should be increased further. Following this recent IA report a budget was drafted and put in place to ensure that the balance at the year-end reduced in line with the IA recommendation. A case where there was an Internal Audit report on the prize draw in June 2017 with no significant findings. External audit also reviewed the prize draw finances at year-end and review the operation of draw at the AGM. The prize draw has been reviewed by the Risk Management Officer and by Internal Audit, and it was recommended that staff and volunteers were removed from the draw to avoid reputational risk. 	<p>Independent Review</p> <ul style="list-style-type: none"> In several credit unions it was noted that the prize draws had not been reviewed by internal or external audit, including where such draws had been in operation for several years with significant turnover. One review by internal audit found that procedures for the operation of the prize draws were not yet documented.
<p>Recording and Reconciliations</p> <ul style="list-style-type: none"> In addition to the prize draw system records, there was also an Excel reconciliation prepared which listed receipts, payments (broken down by car, cash, tickets, vouchers), net movement, and closing balance for each month. This also listed the invoice numbers for cars, voucher numbers, and cheque numbers for cash prize winners. This is prepared by the CFO and reviewed by the CEO, and presented to the Board as part of the management accounts. A separate bank account maintained for the prize draw to allow all transactions to be identified separately. Prize draw receipts were paid into this account, and prizes were paid from this account. This account is reconciled after each draw and at year-end by finance staff. All prize draw transactions are recorded in the nominal ledger, and a separate bank account maintained for the prize draw. Prizes are paid from the bank account only by cheque (to either the prize winners or to the supplier in the case of non-cash prizes) to ensure an audit trail. On an annual basis an income and expenditure account is prepared reporting on the transactions and this is audited by the external auditor and reported separately to the members in the AGM booklet. 	<p>Recording and Reconciliations</p> <ul style="list-style-type: none"> Cases where there was no formal reconciliation of the prize draw prepared. In a credit union operating a prize draw with a significant turnover, but there was no separate bank account, and no reconciliations of the system prize draw account are prepared. Where there was no separate bank account maintained for the prize draw or any separate control account on the system. Instead a separate listing of prize draw entries was maintained on a spreadsheet. A manual reconciliation of the opening balance, monies received, monies paid out and closing balances was prepared. This was not reviewed independently of the preparer. There was a balance being carried forward from the operation of the prize draw, with the balance increasing year on year.

Recording of Financial Transactions Recommendations

Recording of Financial Transactions - Independent Review

- Prize draws should be regularly reviewed by both internal and external audit to ensure that systems and controls in place are operating as expected. Observations from internal and external audit must be implemented.

Recording of Financial Transactions - Recording and Reconciliations

- There should be a segregation of duties between staff processing transactions and those reconciling / reviewing those transactions.
- A periodic reconciliation of the prize draw account should be completed. The reconciliation should be prepared at an appropriate level and reviewed and approved by senior management.
- All bank account reconciliations for prize draws should be reviewed and approved by a person independent of the preparer.
- Transactions in the prize draw should be reviewed on an annual basis by the external auditor, and prize draw transactions and balances should be reported separately in the annual accounts.



Banc Ceannais na hÉireann
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