

AUDIT COMMITTEE

11 JULY 2013

DISBURSEMENT OF RECOVERED FUNDS

Report from: Mick Hayward, Chief Finance Officer

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Summary

To advise Members of the recovery of funds misappropriated from Temple Mill Primary School and the options for disbursement, and seek Audit Committee recommendation to Cabinet of the favoured disbursement option.

1. Budget and Policy Framework

1.1 It is within the remit of the Audit Committee to take decisions regarding accounts and audit issues. However, it is Cabinet that must ultimately approve the disbursement of these recovered funds.

2. Background

2.1 This committee has received several reports regarding the investigation into the misappropriation of funds from Temple Mill Primary School by the former school business manager, the most recent being in September 2012.

2.2 To summarise the case, following internal audit enquiries in January 2011 into potentially unusual payments from the school's bank account, the school business manager admitted that she had abused her position through misuse of school funds and subsequently repaid £41,656 to the school's account to cover the improper payments identified at that time. She was suspended from duty and subsequently dismissed from her post on grounds of gross misconduct.

2.3 Further audit investigation identified widespread misuse of the school's funds for personal benefit, over a period of at least six years and involving both the main school funds and voluntary funds. The total amount involved was established to be over £200,000, including the £41,656 that had been repaid voluntarily. The matter was reported to the police and the former business manager was subsequently arrested.

2.4 Following a lengthy and detailed investigation, and appearances at Medway Magistrates and Maidstone Crown Court, where she entered not guilty pleas,

at the pre-trial review hearing in July 2012 she pleaded guilty to 23 counts of fraud totalling £212,166.

- 2.5 At a sentencing hearing in late October 2012 the former business manager was sentenced to three years imprisonment, up to 18 months of which will be served in custody, the balance on licence. The Judge also made a confiscation order under the Proceeds of Crime Act to the value of £170,999, to be paid within six months, and a compensation order in favour of Medway Council.
- 2.6 The recovered funds were received by the Council on 15 May 2013 and have been held in a balance sheet account since. A decision on how the amount should be treated is now needed - various options are outlined in the following section for Members' consideration.

3. Options for disbursement and Chief Finance Officer comment

- 3.1 Option 1: Return the total amount recovered to Temple Mill Primary School
- given the length of time over which the misappropriation occurred the purpose for which the funding was provided (educating pupils during the financial years in question) has now passed so the return of these funds could be seen as providing an excess benefit.
 - This option could also be perceived to be rewarding a school when management failings had allowed the ongoing theft of school funds to remain undetected for so long. There are a number of issues to be considered if this option were to be taken, including:
 - A proportion of the misused funds were “voluntary funds” over which the council has no jurisdiction. However it has not been possible to determine the level of voluntary funds misused as the school business manager was using the voluntary account as a conduit for misappropriation of both voluntary and main school funds.
 - The school voluntary fund has subsequently been closed, so any repayment of voluntary funds would have to go into the school's main bank account;
 - The school has already received the £41,656 returned by the school business manager, and a further refund of £15,721 from the bank (in March 2012) in respect of cheques payable to the business manager that had been cleared despite the lack of a second authorised signatory, as required under the bank account mandate.
- 3.2 Option 2: Medway Council to retain the total amount and transfer it to the general fund. Whilst the funding was provided initially for education purposes it could be deemed that the Council did its duty in distributing the amount initially via schools' delegated budgets. However, taking this option could be perceived as the Council taking money from the dedicated schools funding provided by central government.
- 3.3 Option 3: Return the total amount to the overall schools budget and disburse it across all Medway schools using the standard distribution calculation.

3.4 Option 4: Set up a dedicated fund to provide training on governance issues for headteachers and governing bodies of all Medway schools. This would in effect use the funding to reduce the risk of a similar fraud occurring elsewhere within Medway.

4. Preferred option

4.1 Options 3 or 4 are considered to offer equally appropriate treatment for the £170,999 recovered by the Council, though the latter would require ongoing action to maintain the fund and source and provide suitable training opportunities for schools.

5. Risk Management, Financial and Legal implications

5.1 There are no risk management implications arising directly from this report. However, there may potentially be financial or legal implications should the option selected be challenged by the governing body of Temple Mill Primary School.

6. Recommendations

6.1 Members of the Audit Committee are asked to note the recovery of funds misappropriated from Temple Mill Primary School and consider the options for disbursing of these funds, then recommend their favoured option to Cabinet for approval.

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Background papers

Reports to Audit Committee 29 March 2011, 24 November 2011, 29 March 2012 and 26 September 2012