



# Summary

## *Inquiry into management fees paid by South Auckland Middle School and Middle School West Auckland in 2018*

This report describes the results of our inquiry into \$450,000 in management fees that the Combined Establishment Board of South Auckland Middle School and Middle School West Auckland (the Establishment Board) paid to Villa Education Trust in 2018.

South Auckland Middle School and Middle School West Auckland are designated character schools that previously (as separate legal entities) operated as charter schools. After the Government decided to discontinue the charter schools' policy in 2017, both schools were disestablished as charter schools and established as designated character schools, which are part of the state school system.

The Minister of Education appointed the Establishment Board to govern the new state schools. The trustees of the Establishment Board were also the trustees of Villa Education Trust, which was the sponsor for the charter schools. This meant that the trustees were effectively wearing two hats.

We were initially interested in the \$450,000 management fees the Establishment Board paid

Villa Education Trust because our Appointed Auditor was unable to obtain sufficient, appropriate audit evidence to determine how much of the payment was valid expenditure. The auditor also noted the shared membership of the Establishment Board and Villa Education Trust and that the amounts charged were significantly higher than normally seen in other schools under similar circumstances.

We found that the Establishment Board had valid reasons to engage Villa Education Trust but that they did not follow good procurement practices. In summary:

- There was no formal agreement between the Establishment Board and Villa Education Trust, and no scope of work before the \$450,000 was invoiced and approved for payment.
- We did not see any evidence showing how the Establishment Board determined the nature of the services to be performed (that is what it was paying for), assessed the appropriateness of the fees, or actively managed the services that were delivered.



- There is no documentary record of who approved the expenditure as being valid or authorised the invoices for payment and whether they had the appropriate authority to do so.

As public organisations, designated character schools need to be able to show how and when they have spent public money. This enables the public to have confidence that the services paid for with that money have been delivered and that they were delivered for an appropriate amount. That confidence is missing in this case because the Establishment Board has been unable to demonstrate the validity and appropriateness of its payment of \$450,000 to Villa Education Trust.

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We also found the members of the Establishment Board failed to recognise that a conflict of interest arose when they effectively decided to pay money to themselves, and this meant they took no steps to manage the conflict. The shared membership of the Establishment Board and Villa Education Trust was a potential conflict of interest that crystallised into an actual conflict of interest when the Establishment Board considered engaging Villa Education Trust. In a situation like this, we expect a public organisation to recognise the conflict and put a process in place to manage it.

“Members of the Establishment Board failed to recognise that a conflict of interest arose.

Throughout our work and from the time of the school’s annual audit for the year ended 31 December 2018, there appears to have been a lack

of appreciation by the Establishment Board of the position it was in when it became a state school, or of the expectation when spending public money to properly account for that money. As it is now governor of two state schools, the Establishment Board is – like any public organisation – accountable to the public and Parliament for how it has spent the public money entrusted to it.

“It is the responsibility of those governors and managers making decisions to be able and prepared to account for what has happened.

The Establishment Board has not been able to provide us with sufficient assurance about the circumstances in which the \$450,000 fee was determined and paid, and about what exactly has been provided in exchange. We expect more from a public organisation spending public money. It is the responsibility of those governors and managers making decisions to be able and prepared to account for what has happened. The circumstances of this payment create a perception of a lack of integrity. Acting with integrity and being seen to act with integrity are fundamental to maintaining the public’s trust and confidence in public organisations and in the public sector as a whole.

Information about how the fees were determined, agreed, paid, and managed, and what was received for the payment, should be available to our auditor when asked for in the first instance. That information is part of orthodox procurement and contract management and should be properly documented. If that information was prepared and made available, it might not have been necessary for us to carry out all the work involved in this case to find out the circumstances of a payment like this.