

19 March 2015

Nash Anand
Manager Schools and Governance
Ministry of Education
PO Box 1666
WELLINGTON 6140

Dear Nash

ENGAGEMENT LETTER – TE KURA HOURUA ke WHANGARURU

The Ministry of Education ('you' / 'Ministry') has requested Deloitte carry out an assessment of certain aspects of Te Kura Hourua ke Whangaruru ('the School') school governance, financial and operational management structures and application of operational and capital funding.

The purpose of this letter is to confirm the terms of our engagement and the nature of, and limitations to the services that we will provide. All services are provided subject to the terms and limitations set out in this letter and the Agreement to Provide Specialist Business Services between the Ministry and Deloitte ('the Agreement'). In case of any conflict between this and the Agreement, this engagement letter shall prevail.

Background

The School is one of the first five Partnership Schools Kura Hourua in New Zealand ('PSKH'). These schools are a new type of school within the existing network and is designed to bring together the education, business and community sectors to provide new opportunities for students to achieve educational success. The Partnership Schools have been given increased flexibility about how they operate and use funding to deliver school-specific targets.

The Nga Parirau Matauranga Charitable Trust ('Sponsor') and the Ministry entered into an Agreement to operate the School in September 2013. The Agreement expresses the Sponsor's accountabilities to the Crown, and the Crown's commitment to resourcing the School and specific targets for student achievement, student engagement, enrolment of priority learners and financial reporting are in place.

At the end of April 2014 the Ministry received the Education Review Office ('ERO') readiness review report of the School which assessed that the School "was not yet in a position to operate effectively without substantial further support due to (but not limited to) poor leadership, lack of governance capacity, lack of suitably qualified teachers, dysfunctional relationships amongst staff and inadequate curriculum documentation".

As a result of this ERO review, the Sponsor appointed an interim CEO to run the School and to address the areas of concern identified by ERO in order to increase the Ministry's confidence in the ability of the School to operate effectively in 2015.

According to the Sponsor, the interim CEO made a significant number of improvements that were considered critical to the success of the School. However, the interim CEO resigned at the end of June

2014 due to the unwillingness of the Sponsor to reorganise its leadership team to ensure that the School resolved the challenges it faced and delivered on its commitments to the Crown and the community.

On 17 September 2014, ERO submitted its final readiness review report noting "that whilst progress had been made in a number of areas, it found again that "the School was not in a position to operate effectively without further substantial support". This resulted in the Ministry contracting a Governance Facilitator to support the Sponsor and clarify the Sponsor's obligations in relation to financial management, governance, personnel recruitment and compliance. The Ministry also provided to the Sponsor support on crisis intervention, access to Student Achievement Practitioners and direct access to a relationship manager who has provided advice and ongoing support.

The Ministry advised the Sponsor in October 2014, and again in December 2014, that it needed to rebuild the confidence of the schooling community to ensure that it is able to attract and retain students' from 2015 onwards. The Ministry also advised the Sponsor to immediately appoint a qualified CEO to manage the School as well as additional Trust member(s) with current schooling experience. While the Sponsor appointed an additional Trust member with educational experience, the other two recommendations remain unaddressed. In addition, the Sponsor has not met two of the key performance standards set out in the Agreement relating to enrolment and attendance.

As a consequence of these events and lack of progress, the Minister issued the School with a Performance Notice (under clause 24.2 of the Agreement) on 20 February 2015. The Minister also gave notice (under clause 19.3 of the Agreement) to conduct a Specialist Audit¹ at the School (as provided under clause 24.5 of the Agreement). The Specialist Audit is to take place one calendar month from the date of the Performance Notice.

The scheduled ERO Public Assurance review of the School will be put on hold pending the outcome of this Specialist Audit.

The Ministry is working with ERO to seek their involvement in undertaking the assessment of Curriculum and Qualifications (Schedule 2) and Qualifications of Teachers (Part 2, clause 13.1) and supporting Deloitte on other aspects as required.

Objectives and scope

The overall purpose of the engagement is to undertake aspects of the specialist audit. Our assessment of certain aspects of the School's governance and performance issues is intended to provide input into the Ministry's advice to the Minister's determination as to whether the performance failing of the School can be remedied. We will work with ERO to ensure their assessment of the above mentioned academic and teaching qualification are incorporated into one overall report to the Ministry.

In addition, the Ministry would like to gain comfort that the funding provided to date has been applied towards the purpose of the funding and are valid expenditures.

¹ The Agreement for Partnership Schools/Kura Hourua between Her Majesty the Queen in right of New Zealand acting by and on behalf of the Minister of Education and Ngā Parirau Mātauranga Charitable Trust - Clause 19.3 Minister's Audit Rights sets out - The Sponsor agrees that the Minister (or the Minister's delegate) may at any time, but not more frequently than once in any six (6) month period (except where pursuant to an intervention under clause 24.5, and upon giving reasonable notice to the Sponsor, enter on to the Premises in order to conduct an inspection and to audit the Premises and/or the Sponsor's operation of the School (including talking to any Student, teacher or other contractor or employee at the Premises).

Appendix A sets out the in-scope areas as sourced from the Minister's Performance Notice, Funding Agreement and other Ministry requirements. The engagement will carry out the assessment of governance, performance and financial management practices and capability at the school, as they relate to:

- The School meeting the specific performance requirements in respect of:
 - Student achievement
 - Student engagement
 - Financial performance
 - Targeting priority learners.
- School's progress in remediating the relevant in-scope governance, operational support and financial management issues raised on the 17 September 2014 and December 2014 ERO readiness reports that the Minister has explicitly specified in her Performance Notice.
- Governance, financial management processes and controls over operational and capital expenditure approvals, variation and monitoring.
- Our analysis will include tracking the monies (receipts and payments) over the operational and capital work funded since September 2013 between the:
 - Ministry's records
 - School's bank account and accounting records.
- In respect of the above, the practices and capability to meet / deliver against key obligations of:

Part 2: Key requirements of Partnership School / Kura Hourua

Section 7 - Enrolment of Students at School in a Course

- Clause 7.1 Maximum Roll
- Clause 7.5 Providing a safe physical and emotional environment
- Clause 7.8 Reporting to parents.

Section 8 – Student attendance and absences from School

- Clause 8.2 Students' attendance at school.

Section 10 – School Rules, Off-site Activities, Student transportation and interaction with parents and communities

- 10.5 Engagement with a parent making a complaint
- 10.6 Engagement with parents. Family, whanau, iwi and communities.

Section 12 – Governance of the School

- Clause 12.1 Chief executive
- Clause 12.2 Responsibility for teaching and learning.

Section 13- Teachers and other Sponsor employees and contractors

- Clause 13.2 Number of Teaching positions and other staff
- Clause 13.3 Number of percentage of Teaching Positions held by Registered Teacher's and Holders of limited Authority to Teach
- Clause 13.4 Percentage of Curriculum time taught by Registered Teachers and Holders of Limited Authority to Teach
- Clause 13.5 Police vetting.

Part 3: Performance Regime

Section 16 – Minimum Requirements

- Clause 16.1 Minimum requirements
- Clause 16.3 Declaration as to compliance with Minimum Requirements.

Section 17 – Performance Management System

- Performance Standards in the Performance Management System.

Section 18 – Records and reporting

- Clause 18.1 Records
- Clause 18.2 Reporting to the Minister
- Clause 18.3 Reporting to the Ministry
- Clause 18.4 Annual reporting to the public
- Clause 18.5 Audited accounts
- Clause 18.6 Information required by the Secretary
- Clause 18.7 Reporting generally.

Section 158G of the Act covering the Sponsor's duties

Section 158H of the Act they set out the Sponsor's obligation to manage a Partnership School.

- ERO will undertake a follow up assessment to determine whether the school has begun to address the issues ERO identified within the Readiness Review, and if those issues are capable of being remedied; and will also undertake a direct assessment of the following areas, which we will incorporate (their findings) into a separate section of our overall report:

Section 9 - Curriculum and Qualifications

- Clauses 9.1 Curriculum
- Clause 9.2 Qualifications offered.

Section 13- Teachers and other Sponsor employees and contractors

- Clause 13.1 Qualification of teachers
- 13.2 Number of Teaching positions and other staff.

Out of scope:

- ERO's assessment of Section 9 and 13 of the Agreement practices and prognosis including their findings and conclusions associated with their follow up of issues from their last two reviews
- Validation / audit of any performance information or metrics (we will accept information provided and not seek to recalculate metrics and reported information)
- Tendering and engagement of staff, contractors and other suppliers
- Programme and project management.
- Business continuity and disaster recovery management processes
- Health & Safety governance and operational readiness processes to meet H&S legislative reforms
- Outputs are /were delivered in accordance with the funding provided or contracted for
- Communication to School regarding our report findings
- Any review of external providers' practices including the relief teachers and contractors

- Any activity related to the Partnership school's appointment process up to the execution of the agreement
- Communications by the auditor to the Sponsor regarding the audit findings
- A legal assessment of the School or Sponsor compliance to the agreement, Education Act 1989 or the Education Amendment Act 2013
- Providing a judgement or conclusion as to whether the performance standards breaches or reported ERO issues are capable or incapable of being remedied.

Approach

Key features of our approach will include but may not be limited to the following:

- Confirm understanding of the context, specific risks, issues and concerns with the Ministry team including ERO and the Contract Manager. In particular, identify / confirm the Minister critical School performance and capability issues this assessment will focus on, as defined / confirmed by the Ministry (set out above and Appendix A)
- Working with the Ministry, we will contact the School to make necessary arrangements to ensure that planning, scheduling and information requirements are addressed prior to the site visit as practical (Ministry to pre advise School that Deloitte has been engaged and purpose of the engagement so that expectations and requirements are transparent)
- Assess relevant practices through information/documentation and interviews with key School stakeholders, including:
 - Sponsor
 - CEO /General Manager
 - Principal/Education Director
 - Key staff
 - School finance team; and
 - Parents association (TBA).
- Ascertain the progress /current state of those identified critical issues and assess the School's remediation plan and current state, if any, and how likely the plan will be successful by assessing risks, having regard to:
 - Clarity of the planned actions
 - Reasonable and appropriate / realistic timeframes relative to risks/exposure (drive/urgency)
 - Clear ownership / accountability for remediation
 - Leadership and capability to remedy (in place/ can they deliver)
 - Financial capacity - resources to do so (or would require/expect further Crown support)
 - Oversight, monitoring and management of the issues at the right levels and timeliness
 - Other risks/ issues.
- Taking into account above - consider if the critical matters can be remedied. This assessment will be made with Ministry and ERO staff
- Keep you verbally apprised of any significant findings as they arise (including weekly conference call progress update)
- Raise any key issues identified with the School contact point as appropriate during fieldwork (Principal or other nominee)
- Discuss and agree with you further analysis required if there are significant issues identified
- Following a "headlines" preliminary findings discussions with you, draft report findings, including specific recommendations for the Ministry
- Seek the Ministry's and ERO's feedback on the report
- Finalise and issue the report

Note: it is expected that the Ministry will work through any issues identified with the School.

Deliverables and reporting

We will provide a report to the Ministry that sets out our findings, analyses and conclusions.

Our reports will be prepared solely for the use of the Ministry. No responsibility to any other party shall be accepted, as our reports will not be prepared, and shall not be intended for any other purpose. Our reports will contain a statement of responsibility that will draw attention to the Ministry's responsibility for establishing and maintaining an effective control structure.

We accept or assume no duty, responsibility or liability to any party, other than you, in connection with the reports or this engagement, including without limitation, liability for negligence in relation to the factual findings expressed or implied in the reports.

Timing

We propose to commence from 20 March 2015, with an initial team briefing from the Ministry. We will aim to commence fieldwork on 23 March at the School. Subject to availability of stakeholders and access to information, the proposed timeframes are:

- Site visit: 23 March to 27 March
- Preliminary "headlines" discussion with Ministry and draft report: 3 April
- Finalise report: 10 April.

Where any delay arises or additional time is required to undertake the work, we will advise you immediately.

Professional Standards

As a member of Chartered Accountants Australia and New Zealand, all work performed by Deloitte is subject to the Accounting Professional and Ethical Standards, which include requirements in the areas of ethics, independence, documenting the terms of the engagement, and quality control.

The procedures that we will perform will not constitute an assurance engagement in accordance with New Zealand Standards for Assurance Engagements, nor will it represent any form of audit under New Zealand Standards on Auditing, and consequently, no *assurance conclusion* or *audit opinion* will be provided. We will provide a factual findings report that addresses the purpose, objectives and scope of the engagement, in accordance with the approach set out above.

Deloitte Personnel

I will be the Engagement Partner and the work will be managed by Liz Garvie, who will be supported by a field staff experienced in undertaking business and financial management reviews of funding for public sector clients.

Fee

We estimate a fee of \$50,000 excluding out of pocket expenses (which will be on charged at cost).

Should additional effort or travel be required as a result of significant issues arising we will seek your prior approval before committing additional effort. Fees will be billed as the work progresses and are payable upon receipt of our invoices.

Management Responsibilities

You agree and acknowledge that our performance of the Services is conditional and dependant on your timely and effective performance of your obligations under this Contract. You agree to provide all information that is relevant to the services even if the same information has been given to us previously in the course of a different engagement.

You agree that you remain solely responsible for managing all aspects of your business, for taking all decisions and operating all accounting, internal control (including effective control over financial reporting) or management information systems. You will identify and comply with, and assist Deloitte to comply with, all applicable laws and regulations and all professional standards which relate to the Services.

Unless both parties agree, Deloitte undertakes not to offer employment to any of the Ministry's staff for the purpose of providing the service to the Ministry. Similarly, the Ministry undertakes not to offer employment to the Deloitte staff providing the service, for a period of one year after the service has been terminated.

Master Terms of Business

All services are provided subject to the terms and limitations set out in the attached Deloitte Master Terms of Business for Consultative Services ("Terms") except as modified or amended by this engagement letter.

Agreement

Please confirm your agreement to this engagement letter by signing below and returning a copy to us.

Yours sincerely
DELOITTE



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Aloysius Teh
Partner

Client Acceptance

The Ministry confirms and accepts the engagement of Deloitte to provide the Services on the terms and conditions set out in this engagement letter dated 19 March 2015 and the Master Terms of Business for Consultative Services.

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(Signature)

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(Name)

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(Position)

.....
(Date)

Appendix A - Scoping Matrix

In- scope areas below cover the Ministry's Notice, Sponsor Obligations and Specific Matters raised by the Ministry. ERO Reports 1 and 2 findings provide a basis for specific follow up of Minister raised issues and applicable progress assessment since their review.

Minister's Notice outlining key issues	Sponsor Obligations Under the Agreement	ERO Report 1 (Readiness Review April 2014)	ERO Report 2 (Final Readiness Review September 2014)	Other Specific Matters Raised by Ministry (Nash Anand 8 s 9(2)(a) OIA)
Safe Environment Not stated	Enrolment of Students at School and in Courses Clauses 7.1 to 7.9	Identified as an area of concern	Identified as an area of concern	7.5 Providing a safe physical and Emotional environment (for staff and students – we have staff testimony (ex ERO) where this is raised as a concern) Roll Audit
The variable implementation of leadership (governance) roles	Governance of the School Clauses 12.1 to 12.2	Poor leadership Lack of governance capacity Dysfunctional relationships among staff	Identified as an area of concern	12.2 Responsibility for teaching and learning – Was the academic leader ever up to the task. Has the sponsor misrepresented their capabilities in this regard.
Not stated	Teachers and other Sponsor employees and contractors Clauses 13.1 to 13.6	Identified as an area of concern	Identified as an area of concern	13.1 Qualifications of teachers 13.5 Police vetting
Not stated	Minimum requirements Clauses 16.1 to 16.3	Identified as an area of concern	Identified as an area of concern	16.1 Minimum Requirements – all
The quality of teaching and learning	Minimum requirements Cause 16.1 Curriculum & qualifications Schedule 2	Inadequate curriculum documentation to provide guidance for untrained and relieving teachers	Identified as an area of concern	16.1 Minimum Requirements – all Schedule 2 – Curriculum and Qualifications
The quality of school management	Minimum requirements Cause 16.1	Poor leadership Dysfunctional relationships among staff	Identified as an area of concern	16.1 Minimum Requirements – all
Recruiting suitable staff	Minimum requirements Clause 16.1	Lack of suitably qualified teachers	Identified as an area of concern	16.1 Minimum Requirements – all
Disengaged students	Student Engagement Clause 17.1 (b) and	Disengaged students	Identified as an area of concern	Not stated

Minister's Notice outlining key issues	Sponsor Obligations Under the Agreement	ERO Report 1 (Readiness Review April 2014)	ERO Report 2 (Final Readiness Review September 2014)	Other Specific Matters Raised by Ministry s 9(2)(a) OIA
	schedule 6 Targeting priority learners Clause 17.1 (d) and schedule 6 Student Achievement Clause 17.1 (a) and schedule 6			
The lack of business expertise	Not covered	Identified as an area of concern	Identified as an area of concern	Not stated
Not covered	Representations, warranties and undertakings Clause 30	Not covered	Not covered	30 Representations, Warranties and Undertakings
Unjustified Absence rate failing to meet performance standards	Schedule 6 Student Engagement Standard 2.2	Not covered	Not covered	Not stated
Enrolment Variance rate failing to meet performance standards	Schedule 6 Financial Performance Standard 2.3	Not covered	Not covered	Financial expenditure assessment
Student achievement rates putting agreed achievement rate in jeopardy	Schedule 6 Student Achievement Standard 2.1	Not covered	Not covered	Not stated
Rectify the ERO Issues by the time of the specialist audit	Remedial Plan Clause 23.3 (e)	Not covered	Identified as an area of concern	Yes gap analysis
Recruit and engage suitably qualified and experienced persons into the governance and management teams by the time of the specialist audit	Not covered	Not covered	Identified as an area of concern	Not stated
To demonstrate material improvement of the schools performance by the time of the specialist audit	Minimum requirements Clause 16.1 and Schedule 6 Performance Standards	Not covered	Identified as an area of concern	Yes - Minimum requirements Clause 16.1 and Schedule 6 Performance Standards