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Ministry of Education

Review of Te Pūmanawa o te Wairua
(formerly known as Te Kura Hourua ki
Whangaruru)

28 May 2015

Enterprise Risk Services

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Contents

1. Executive Summary	3
2. Introduction	7
3. Minimum Requirements and Schedule 6: Performance Management System	10
Targeting priority learners	13
Annex A: Performance Standards for Student achievement against NCEA	13
Annex B: Performance Standards for Student achievement - improvement against NCEA	13
Annex C: Performance Standards for Student Engagement	14
4. Student Achievement	15
5. Student engagement	20
6. Financial Performance Standards	24
7. Governance, Operational and Financial Management	31
Appendix A – High Level Cash Flow Projection	37
Appendix B – Minimum Requirements	40
About Deloitte	42

1. Executive Summary

Scope and Focus of Review

- 1.1 The Ministry of Education ("the Ministry") engaged Deloitte on the 19 March 2015 to undertake an assessment of certain aspects of Te Pūmanawa o te Wairua ("the kura") school governance, financial and operational, intended obligations and application of foundation and operational funding. Certain aspects of the assessment were undertaken by the Education Review Office ("ERO") as set out in 1.4 below and in the report.
- 1.2 This assessment, also referred to as "review", is to be used as an input into the Ministry's advice to the Minister on the kura's progress in remediating the relevant in-scope governance, operational support and financial management issues raised in the April 2014 and 17 September 2014 ERO readiness reports that the Minister has explicitly specified in her Performance Notice, as they relate to the School meeting the specific performance requirements in respect of:
- Student achievement
 - Student engagement
 - Financial performance
 - Targeting priority learners.
- 1.3 Additionally we were asked to assess:
- The governance and financial management processes and controls over the use of foundation and operational funding.
 - The kura's ability to continue operating for the foreseeable future at its current rate of expenditure.
- 1.4 ERO undertook its follow up assessment of the kura to determine whether the school has begun to address the issues identified during the Readiness Review, and if those issues are capable of being remedied. Additionally, ERO undertook a direct assessment of Section 9 – Curriculum and Qualifications, Section 13 Teachers and other Sponsors employees and contractors. The findings for both the follow up review and direct assessment are incorporated in this report, Section 3 – Student Achievement and Section 4 Student Engagement of this report.

Summary of Key Findings

- 1.5 Our review of the kura found that the performance standards in relation to student achievement, student engagement and financial performance have not been met. The performance standard relating to the targeting of priority learners appear to have been met.
- 1.6 The kura was not insolvent at the time we conducted our field work, however, based on the information provided to us, it appeared to have negative working capital as at the end of March 2015. It is our view that the kura's cash position may get tight from time to time throughout the year and there is a risk that liquidity will deteriorate if careful financial management is not in place.
- 1.7 The kura also has poor financial systems and many examples of documented operational and financial policy statements that have not been followed by staff, which contribute to breaches of contractual obligations and failings in performance standards as raised in this report.
- 1.8 The breaches and failings noted in the report are continuous and are a result of systemic process shortcomings with the kura's governance, operational and financial management practices.
- 1.9 Specifically we note the failure to meet the following minimum requirements¹ resulting in a breach of the Partnership Agreement relating to Partnership Schools/Kura Hourua between the Minister and Nga Parirau Matauranga Charitable Trust ("the Agreement"):
- 16.1(c) the Sponsor operates the School in accordance with the requirements set out in the Gazette Notice.
 - 16.1(h) the Sponsor complies with the requirements in relation to standing down, suspending, excluding or expelling.
 - 16.1(i) the Sponsor complies with every direction given under the Act or this Agreement.
 - 16.1(k) the Sponsor has a person appointed as the person responsible for teaching and learning at all times.
 - 16.1(l) the number or percentage of Teaching Positions filled by Registered Teachers and Holders of Limited Authority to Teach does not fall below the minimum number or percentage set out in Schedule 4, clause 2.
 - 16.1(m) the percentage of the Curriculum time taught by Registered Teachers and Holders of Limited Authority to Teach as compared with the total Curriculum time taught by any person holding a Teaching Position does not fall below the minimum percentage set out in Schedule 4, clause 3.
 - 16.1(n) the Sponsor has complied with all requirements in relation to Police vetting under clauses 78C to 78CD of the Act (as applied by section 158U of the Act) and

¹ Refer section 2 for the minimum requirements under the Agreement.

reporting on Police vetting under this Agreement.

- 1.10 Notwithstanding there has been some progress with health and safety matters identified in previous ERO reports, it is difficult to be certain that the Trust is able to provide a safe physical and emotional environment for staff and students at all times.
- 1.11 During interviews the trustees² acknowledged that they and current staff do not have the experience and capability to govern and operate the kura to the standard required under “the Agreement without further significant support and resources.

Report Clearance

- 1.12 The contents of the report have been discussed with Ministry officials Nash Anand, Manager Schools and Governance. [REDACTED]

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- 1.13 This report is provided solely for the exclusive use of the Ministry. Our report is not to be used for any other purpose, recited or referred to in any document, copied or made available (in whole or in part) to any other person without our prior written express consent. We accept or assume no duty, responsibility or liability to any other party in connection with the report or this engagement, including without limitation, liability for negligence in relation to the factual findings expressed or implied in this report.

Statement of Responsibility

- 1.14 This engagement was performed in accordance with the terms contained in our Engagement Letter, dated 19 March 2015. Certain aspects of the assessment and findings set out in this report were undertaken by ERO. Where Deloitte or ERO has provided advice or recommendations to the Ministry, we are not responsible for whether, or the manner in which, suggested improvements, recommendations, or opportunities are implemented. The management of the Ministry, or their nominees, will need to consider carefully the full implications of the findings, including any adverse effects and any financing requirements, and make decisions, as they consider appropriate.
- 1.15 The work performed did not constitute an assurance engagement in accordance with the New Zealand Institute of Chartered Accountants. Our work was designed to provide a report on the specific objectives and scope of the engagement letter. It was not designed to provide assurance according to international or New Zealand auditing or assurance standards such as ISAE3000. Accordingly, no assurance opinion or conclusion has been provided.
- 1.16 The matters detailed in our report are only those which came to our attention during the course of

² Trust currently consist of four members, Hori Parata (Chair) Robert Carpenter, Rose MacLean, and Wayne Johnston

performing our procedures and did not necessarily constitute a comprehensive statement of all the weaknesses or issues that exist or actions that might be taken. Accordingly, management should not rely on our report to identify all weaknesses and issues that may exist in the systems and procedures discussed. The report should be read in the context of the scope of our work.

- 1.17 This report should not be relied upon as a substitute for actions that the Ministry should take to assure itself that the relevant controls are operating efficiently.

2. Introduction

Context

- 2.1 The kura 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 are designed to bring together the education, business and community sectors to provide new opportunities for students to achieve educational success.
- 2.2 The Partnership Schools have been given increased flexibility³ about how they operate and use funding to deliver school-specific targets.
- 2.3 The Nga Parirau Matauranga Charitable Trust ("Sponsor") and the Ministry entered into an Agreement to operate the kura in September 2013. The Agreement expresses the Sponsor's accountabilities to the Crown, and the Crown's commitment to resourcing the kura. Specific targets for student achievement, student engagement, enrolment of priority learners and financial reporting were put in place. At this time, a Governance Facilitator was provided by the Ministry, through until the end of June 2014, to offer support to the Sponsor and assist in clarifying the Sponsor's obligations in relation to financial management, governance, personnel recruitment and compliance.
- 2.4 At the end of April 2014 the Ministry received the Education Review Office ("ERO") readiness review report on the kura which concluded that the kura "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".
- 2.5 In May 2014, the Sponsor appointed an interim CEO to run the kura and to address the areas of concern identified by ERO in order to increase the Ministry's confidence in the ability of the

³ Press Release from Associate Minister of Education 19 July 2012 " Charter schools will be fully-funded schools outside the state system, accountable to the Crown for raising student achievement through a contract to deliver a range of specified school-level targets. The contract will be with a Sponsor who can run the school not for profit or for profit. Sponsors will have more freedom over how they run their school, so they can innovate to better meet the needs of their students and achieve their school-level targets. This includes greater flexibility over curriculum, qualifications, staff pay and conditions, hours of operations and school leadership. Charter schools will be open to all students who apply for entry, regardless of background or ability, and will have no tuition fees."
<http://www.minedu.govt.nz/~media/MinEdu/Files/TheMinistry/PublicationsAndResources/Developing%20and%20Implementing%20a%20New%20Zealand%20Model%20of%20Charter%20School%20%20%20Cab%20Paper.pdf>

kura to operate effectively in 2015.

- 2.6 According to the Sponsor, the interim CEO made a significant number of improvements that were considered critical to the success of the kura. However, the interim CEO resigned at the end of August 2014 due to the unwillingness of the Sponsor to reorganise its leadership team to resolve the challenges the kura faced and able to deliver on its commitments to the Crown and the community.
- 2.7 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". The Ministry provided the Sponsor with support on crisis intervention, access to Student Achievement Function Practitioners and specific professional development in leadership and assessment, as well as direct access to a relationship manager who has provided advice and ongoing support.
- 2.8 The Ministry advised the Sponsor in October 2014, and again in December 2014, that it needed to rebuild the confidence of the community to ensure that it was able to attract and retain students from 2015 onwards. The Ministry also advised the Sponsor to immediately appoint a qualified CEO to manage the kura as well as additional Trust⁴ 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.
- 2.9 As a consequence of these events and lack of progress, the Minister issued the kura with a Performance Notice (under clause 24.2 of the Agreement) on 20th February 2015. The Minister also gave notice (under clause 19.3 of the Agreement) of her intention to conduct a Specialist Audit at the School (as provided under clause 24.5 of the Agreement). The Specialist Audit (this review) took place one calendar month from the date of the Performance Notice.
- 2.10 The scheduled ERO New Schools Assurance Review of the School has been put on hold pending the outcome of this Specialist Audit.
- 2.11 The Ministry asked ERO to undertake the assessment of Curriculum and Qualifications (Schedule 2) and Qualifications of Teachers (Part 2, clause 13.1) and to support Deloitte on other aspects as required.
- 2.12 This review noted the concerns raised by ERO in relation to the quality of teaching and operational management systems still exist. Additionally, our assessment found the trustees lack the knowledge to effectively govern, and manage the finances of the kura as required under the terms of the Agreement [Part 3, para 15 (a) and (b)]. While systems are now documented, there is little evidence to demonstrate these have been consistently implemented

⁴ Nga Parirau Matauranga Charitable Trust

and therefore the Trust remains reliant on the knowledge of individuals. For instance, our review of the personnel files for both teaching and administrative staff found a lack evidence of key documentation such as police vetting, driver's licences, and lack of understanding and acceptance of policy demonstrating significant inconsistencies in appointment processes, induction and training in health and safety.

3. Minimum Requirements and Schedule 6: Performance Management System⁵

Minimum requirements

- 3.1 Para 16.1- The Minimum Requirements which must be complied with by the Sponsor at all times during the term of this Agreement include, but are not limited to, the following:
- a. no serious incident occurs in relation to the School that compromises the health and safety of a Student that the Minister reasonably considers could have been prevented by the Sponsor;
 - b. no serious criminal activity is discovered to have taken place on the Premises;
 - c. the Sponsor operates the School in accordance with the requirements set out in the *Gazette Notice*;
 - d. the Sponsor does not exceed the Maximum Roll;
 - e. the Sponsor accepts students in accordance with clauses 7.2 and 7.4 of the Agreement;
 - f. the School hours and term dates never reduce below the minimum levels set out in Schedule 1;
 - g. the stand-down or suspension periods for Students do not exceed the maximum periods set out in the Act;
 - h. the Sponsor complies with the requirements in relation to standing down, suspending, excluding or expelling;

⁵ Of the Agreement relating to Partnership Schools/Kura Hourua between the Minister and Nga Parirau Matauranga Charitable Trust – 16 September 2013.

- i. the Sponsor complies with every direction given under the Act or this Agreement;
- j. any transport required is provided as described in Schedule 3;
- k. the Sponsor has a person appointed as the person responsible for teaching and learning at all times;
- l. the number or percentage of Teaching Positions filled by Registered Teachers and Holders of Limited Authority to Teach does not fall below the minimum number or percentage set out in clause 2 of Schedule 4;

Schedule 6, Performance Management standards

3.2 The objectives the School relate to:

- Participation;
- Engagement;
- Retention; and
- Student Achievement.
- Performance Standards

Student achievement

3.3 The Sponsor will be periodically assessed against the following Performance Standards in relation to student achievement:

Measure	Metric	Performance Standard	Measurement Frequency
Students achieving NCEA	NZQA reporting	See Annex A of this Schedule for separate Performance Standards for each Class Level (and where appropriate course)	Annually at the end of each year
Improvement in Students achieving NCEA	Results from tools to be determined (Class Levels 9 and 10) NCEA data (Class Levels 11 to 14)	See Annex B of this Schedule for separate Performance Standards for each Class Level (and where appropriate course)	To be determined once baseline data has been collected

Student engagement

3.4 The Sponsor will be periodically assessed against the following Performance Standards in relation to student engagement:

Measure	Metric	Performance Standard	Measurement Frequency
Unjustified absences	Measured through attendance data provided to the Ministry	See Annex C of this Schedule for separate Performance Standards for each Class Level	Quarterly
Stand downs	Measured through information provided to the Ministry	See Annex C of this Schedule for separate Performance Standards for each Class Level	As they occur
Suspensions	Measured through information provided to the Ministry	See Annex C of this Schedule for separate Performance Standards for each Class Level	As they occur
Exclusions	Measured through information provided to the Ministry	See Annex C of this Schedule for separate Performance Standards for each Class Level	As they occur
School culture	wellbeing@school annual student survey	Collect baseline data	Annually

Financial performance

3.5 The Sponsor will be periodically assessed against the following Performance Standards in relation to financial performance:

Measure	Metric	Performance Standard				Measurement Frequency
		2014	2015	2016	2017	
Operating surplus	Measured through information provided to the Ministry	2%-5%	2%-5%	2%-5%	2%-5%	Quarterly
Working capital ratio	Measured through information provided to the Ministry	2:1	2:1	2:1	2:1	Quarterly
Debt/equity ratio	Measured through information provided to the Ministry	0.5:1	0.5:1	0.5:1	0.5:1	Quarterly
Operating cash	Measured through information provided to the Ministry	Positive cash flow forecast = actual	Positive cash flow forecast = actual	Positive cash flow forecast = actual	Positive cash flow forecast = actual	Quarterly

Enrolment variance	Measured through information provided to the Ministry	71	TBD	Quarterly
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Targeting priority learners

3.6 The Sponsor will be periodically assessed against the following Performance Standards in relation to targeting priority learners:

Measure	Metric	Performance Standard				Measurement Frequency
		2014	2015	2016	2017	
Enrolment of priority groups	Number of Students who are Māori, Pasifika, students with special education needs and students from low socio-economic backgrounds)	75%	75%	75%	To be determined at a later date	Quarterly

Annex A: Performance Standards for Student achievement against NCEA

Secondary (Class Levels 11 to 14)

Class Levels 11 to 14 (NCEA)

NCEA level	Performance Standard			
	2014	2015	2016	2017
School leavers with NCEA level 1	80.9%	87.2%	88%	90%
School leavers with NCEA level 2	66.9%	78.3%	82.3%	85%

Annex B: Performance Standards for Student achievement - improvement against NCEA

Secondary (Class Levels 9 to 14)

Class Levels 9 and 10

Class Level	Performance Standard
9	Collect baseline data
10	Collect baseline data

Class Levels 11 to 14

NCEA level	Performance Standard
1	Collect baseline data
2	Collect baseline data

Annex C: Performance Standards for Student Engagement

Measure	Performance Standard			
	2014	2015	2016	2017
Unjustified absences	0.028 multiplied by the number of Students multiplied by the number of days the School is open	0.028 multiplied by the number of Students multiplied by the number of days the School is open	0.028 multiplied by the number of Students multiplied by the number of days the School is open	To be determined
Stand downs	2.1 days per year per 100 Students	2.1 days per year per 100 Students	2.1 days per year per 100 Students	To be determined
Suspensions	0.42 days per year per 100 Students	0.42 days per year per 100 Students	0.42 days per year per 100 Students	To be determined
Exclusions	0.15 days per year per 100 Students	0.15 days per year per 100 Students	0.15 days per year per 100 Students	To be determined
Expulsions	0	0	0	To be determined

4. Student Achievement

4.1 In this section we set out ERO's⁶ findings in relation to the assessment of the funding agreements clauses governing student achievement:

- Student Achievement Performance Standard [Schedule 6, para 2.1]
- 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 Qualifications of teachers
 - 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

Summary Student Achievement requirements

4.2 ERO's assessment of the leadership of teaching and learning across the kura has found the proficiency and knowledge of staff to develop and implement the proposed project-based learning curriculum model to be ineffective, resulting in the breach of the requirements under

⁶ ERO's involvement was sought for undertaking the assessment of Curriculum and Qualifications (Schedule 2) and Qualifications of Teachers (Part 2, clause 13.1) and supporting Deloitte on other aspects of this review as required.

Sections 9 and 13 of the Agreement and failure to meet all three of the Student Achievement Performance standards [Schedule 6 para 2.1].

Measure	2014 Performance Standard Annex A and B	Sponsor reported in the 2014 Annual Report	Finding	Review Assessment
Students Achieving NCEA	School leavers with NCEA level 1: 80.9%	0%	0%	Standard not met.
	School leavers with NCEA level 2: 66.9%	93.3%	1 student 100%	Cannot determine.
Improvement in Students achieving NCEA	Collect Baseline data years 9 &10; 11 -14	NCEA 1 – 54.1% NCEA 2 – 100% NCEA 3 – 0%	The kura has begun to collect data. The worth of the data to form a base line is in question.	Reported as met however cannot be validated.

Curriculum leadership

- 4.3 The kura reports it is using a project-based learning curriculum model to educate its students. This model includes the provision of a wide range of learning areas and activities related to the place, its geography, science and history, as well as making provision for general life skills. The majority of curriculum time is to be used for project-based learning, where the different threads of foundation education are to be woven through the learning experience. ERO's review of teaching plans and student assessments noted that project time was not well used and that very few of the planned credits were obtained in this area of the curriculum.
- 4.4 ERO's review also noted the curriculum model is not designed to support the aspirations of students. ERO spoke to several students who had been encouraged by the teachers to study medicine and veterinary science, despite the kura not providing an adequate base of science and math to enable students to pursue these goals.

Achievement data

- 4.5 ERO's review observed that staff do not have adequate knowledge of the standardised assessment tools that are used to build baseline data and monitor student progress. PAT data in 2014 highlight a significant gap in the understanding and use of this testing tool. ERO expressed concern about this in March 2014 and professional development was made

available, but the matter has not been remedied. e-AsTTle⁷ has also been administered recently but the majority of staff are unable to access the programme and are waiting for someone to help them. As a result, there are no reliable baseline data for student achievement.

- 4.6 In addition, we were unable to verify the integrity of the achievement data in the annual report due to incomplete data being maintained in the school student management systems and teacher assessment records. ERO noted the kura had been using different measures for reading, writing and mathematics achievements throughout the year. Additionally, we were unable to determine where the baseline data for Years 11 to 13 was derived from. Review of the quarterly reports to the Ministry noted wide ranging variances between projections of how well students are tracking to achieve NCEA Levels 1, 2 and 3. For example, 29 students are shown as tracking to achieve Level 1 NCEA in the second quarter however only two achieved Level 1. We consider the kura has not acted as required under the good faith obligation [Part 3, para 20.1(c)(ii)] "may believe or maintain it is acting in good faith but, when viewed objectively with regard to the Student educational and other outcomes sought under this Agreement, could reasonably be viewed by the Minister as not acting in the spirit of the Agreement".

Student achievement in NCEA and assessment of teaching practices

- 4.7 Student achievement data obtained from NZQA indicate that students are able to gain NCEA credits through internal courses and through external providers. ERO noted that most credits achieved by students were obtained from programmes administered by external providers. Many senior students completed credits in courses run by Papataiao (the Department of Conservation) in fencing and possum control, and by Coastguard in recognising daytime navigation signals. Where courses were well organised students achieved at expectations. Science credits for all students were offered through dual enrolment at Te Kura The Correspondence School. Students reported that they were disappointed to receive less than 9 credits in Level 1 Science from a course that potentially offered 34 credits, and attributed this to a lack of support to complete work. An external programme run in association with The Farm was never documented sufficiently for students to be able to gain the intended credits in horse riding and farm-bikes.
- 4.8 While NZQA data obtained by Deloitte indicates that 46 students were entered for NCEA credits, only one school leaver gained a formal qualification at the school. This student was able to achieve both Level 1 and Level 2 NCEA in the same year. The other students who left during 2014 gained no formal qualifications during that time, although they may have accumulated some credits. One Year 11 student also gained NCEA Level 1 and has continued at the school. Two students, who had achieved NCEA Level 1 and 2 prior to

⁷ a nationally standardised assessment tool that provides diagnostic and comparative data

enrolment at the school, did not achieve Level 3.

- 4.9 Achievement standards were offered through the core curriculum in the school. The standards taught internally were in te reo Māori and te reo rangatira, English, Maths, Physical Education and performing arts. The overall success rate is low. Some students were endorsed with excellence and merit in English and te reo Māori, the subjects taught by the Curriculum Director. Achievement in other areas was very low.
- 4.10 We consider that assessment practices in the school are not consistent with what was outlined and agreed with NZQA for Consent to Assess Against Standards accreditation. NZQA external moderators expressed concern about the lack of evidence to show assessment over time in maths, inadequate record keeping and undated assessment material. Internal curriculum management was inadequate to ensure that quality standards were met and that student records were well maintained.

Recruiting suitable staffing

- 4.11 The Sponsor has not met the requirements for the number or percentage of registered teachers (and holders of Limited Authority to Teach or the percentage of curriculum time taught by Registered teachers and Holders of Limited Authority to teach set out in Schedule 4 of the Agreement
- 4.12 Currently, there are four teachers in the kura, three of whom were there last year. Two of these teachers are unregistered and have only just applied for Limited Authority to Teach. The one new teacher is fully registered. The other full-time teacher is registered Subject to Confirmation but when she was employed by the Trust; her registration had lapsed, as had that of the Curriculum Director.
- 4.13 Appraisal observations to support an application for full registration demonstrate a poor understanding of the requirements for ongoing appraisal and professional development to demonstrate that teachers meet the Registered Teacher Criteria.
- 4.14 There is no database in place to enable the Sponsor to be confident that all employees have been police vetted, and that vets will be renewed in a timely fashion. The administrative staff were able to produce records of requests for police vets, but there was inadequate evidence of prior police vetting returns. Furthermore, there is no systematic follow up and no database to ensure that vetting will be renewed as it comes due (every three years of employment) as required under section 78C of the Education Act 1989. Albeit the kura appears not to be in technical breach of its statutory requirements, its internal systems need strengthening to ensure auditable records of these checks are maintained to ensure ongoing compliance.
- 4.15 Continued lack of clarity about roles and failure to delegate has done little to build the capability of staff. The level of reporting to the Sponsor specified in Trust policies has not occurred. There continues to be an unusually high number of administrative staff employed for a school with a roll of 34.

Professional Development

- 4.16 We observed that the support and access to professional development provided by the MoE has not had a lasting impact. While some work was done to document shared curriculum expectations across the school, further work suggested by MoE to improve assessment practice was not carried out. This is despite the willingness of the Student Achievement Function practitioner and other providers to work with staff to improve their understanding of assessment tools and how to use them.

5. Student engagement

5.1 In this section we set out ERO's findings in relation to the assessment of the clauses in the Agreement governing student engagement:

- Section 13 - Teachers and other Sponsor employees and contractors
- 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; and
 - 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.

Summary of Student Engagement Requirements

5.2 ERO's assessment of the student engagement requirements under sections 7, 8, 10 and 13 of the Agreement and performance standards [Schedule 6, para 2.2] determined the kura has failed to meet almost all performance standards and is in breach of most of the sections under consideration.

Measure	2014 Performance Standard	Sponsor reported in the 2014 Annual Report	Review Finding
Unjustified absences	0.028 multiplied by the number of Students multiplied by the number of days the School is open	23.3%	Cannot determine ⁸
Stand downs	2.1 days per year per 100 Students	1 student	Standard not met 5 days stood down for 5 days or, formally stood down 5 days
Suspensions	0.42 days per year per 100 Students	2 students	Standard not met 5 days, 7 days
Exclusions	0.15 days per year per 100 Students	0	0 ⁹
Expulsions	0	1 student	Standard not met ¹⁰
School culture	wellbeing@school annual student survey	Aspire to Inspire Evaluation Report at the end of Term 4, 2014. (Appendix 3)	Standard not met ¹¹

- 5.3 ERO noted the kura has not implemented the NZCER Wellbeing @school survey. This is a requirement of all PSKH and clear advice about how to do it is available in the Sponsors' manual, [Performance Standard 2.2 Student Engagement].
- 5.4 The kura's formal records show that there has been a failing of the performance standards relating to student stand-downs, suspensions and expulsions. We also note that there is a discrepancy between what is in staff meeting minutes (September 8, 2014), 6 students are recorded as having served suspensions however these suspensions do not appear in school incident reports or KAMAR¹² records.
- 5.5 The extent to which there has been a failing of the standard in relation to the number of unjustified absences cannot be determined because the metric for measuring compliance with the performance standard is based on student enrolment which varied substantially throughout the year.

⁸ refer to para 5.5 below

⁹ It appears from our discussions with trustees, some students excluded themselves once appearing in front of the disciplinary board

¹⁰ refer to para 5.4 below

¹¹ refer to para 5.4 below

¹² KAMAR is a student management system offered to Schools by the Ministry

Promoting Student Engagement

- 5.6 The Trust has continued to employ a trained social worker who is in the kura three days each week. The social worker provides support for both students and teachers. The social worker believes that the highly unsafe behaviour exhibited by students last year has been significantly reduced and students are more aware of boundaries of all kinds. However, there is no provision for access to trained counselling, and the premises are inadequate to provide sufficient privacy for this to enable compliance with section 7.6 (a) of the Agreement.
- 5.7 Steps to promote student wellbeing include providing lunch, and supporting students to participate in the Te Tai Tokerau kapa haka festival, consistent with the kura's commitment to promoting the language, culture and identity of Ngati Wai.
- 5.8 Students report that the kura feels more settled this year. The roll at the end of Term 1 was 34. Nine of the students are new to the kura this year, five of them coming in at Year 9. Students feel that they are more accepting of each other telling us "we have grown on each other".
- 5.9 However, two staff members reported that they have removed their children from the kura this year. They cited the negative impact of three hours travel each day to and from the kura on their children and consequently on their family life. While the kura's day appears to have been shortened this year, the bulk of the students who are travelling in and out from Whangarei are missing the life opportunities that most students enjoy, including time for homework, sports and cultural activities and part-time jobs.
- 5.10 The isolation of the kura continues to provide a barrier to accessing other support services. As a result, when a student was allowed to return to school last year after a suspension, the student was unable to meet the conditions imposed which included regularly accessing Rubicon, the police youth drug prevention programme.
- 5.11 Systems for monitoring student attendance and following up on absences have improved. Staff have increased confidence in using KAMAR and ENROL and students were able to explain what happens when they are thought to be truant. Accordingly, roll data are more accurate. The attendance rate for the first term is 78.2%, consistent with the rate in the first half of 2014, and significantly better than the 60% reported in August 2014. Of the 34 students on the roll in 2015, 29 were present on day 1 of our visit and the staff could account for the missing five.

Providing a safe physical and emotional environment

- 5.12 The isolation of the kura and the lack of easy access to support and emergency services remain a concern. Some steps have been taken to make the environment physically safer, such as health and safety meetings, evacuation notices, and some staff have completed first-aid training. There is now some provision in place should the kura be cut off in an emergency.
- 5.13 Many school activities are designed to take place outdoors and away from the kura. The good quality material in place to support the externally provided surfing programme, including the required safety plans for courses run off site, highlights the inadequacy of documentation held in the kura for other courses. This is another example of the sponsors' and staff's lack of awareness of their statutory obligations.
- 5.14 The space for administrative staff remains cramped and difficult to work in productively. Facilities for staff are poor and not well maintained. It is not clear what advice staff receive about occupational health and safety, particularly in addressing matters such as the stress that has been evident for staff at times.

6. Financial Performance Standards

Summary of Performance Standards

- 6.1 We were asked to assess the extent to which the kura has met its financial performance standards under schedule 6, clause 2.3 of the Agreement and also consider whether or not the kura is able to continue operating for the foreseeable future at its current rate of expenditure. In this section we set out our analysis on these two points.
- 6.2 We found poor financial controls and the kura was unable to provide key financial information such as operational budgets, forecasts and management reports. Consequently, we are unable to rely on the Xero financial records to verify the accuracy or completeness of the financial performance standards in section 4.4 of the 2014 Annual Report. This necessitated us to reconstruct the statement of financial position and cashflow based off available records.
- 6.3 We set out below the detail of our analysis of the solvency and expenditure of Te Pūmanawa o te Wairua. The kura is not insolvent, however based on the limited information available to us, it is our view that the kura's cash position may get tight from time to time throughout the year and there is a risk that liquidity will deteriorate if careful financial management is not in place.
- 6.4 The last audited financial statements that were prepared for the kura, were as at 31 December 2013. Management accounts have been prepared since then; however, as set out above, we have found these to be unreliable.
- 6.5 In addition to the financial statements as at 31 December 2013, we have used the following documents to undertake our assessment:
- Management accounts printed on 24 March 2015 described as being "as at 31 December 2015". These accounts appear to have captured some of the transactions in the 2015 financial year. This report includes comparative results as at 31 December 2014.
 - Data from the Westpac bank '01 and '02 accounts and the Westpac debit card account between 3 October 2013 and 31 March 2015.
 - A "payment reconciliation" spreadsheet provided by the Ministry which shows the breakdown of the funding payments from the Ministry.

- A detailed "account transaction report" extracted from the Xero accounting system on 24 March 2015. This report appears to show the list of transactions that had been processed in the accounting system from 1 September 2013 until the date of extraction.

6.6 In order to form a view of whether the kura has met its financial performance standards and its ability to continue operating at its current rate of expenditure, we were required to make certain assumptions as set out below. We have not received all of the information that we have requested, including bank statements, loan statements and agreements and Inland Revenue statements for outstanding GST, PAYE and other taxes. This is basic information that is critical for testing the reliability of the figures provided to us. Further, some of the information that was provided to us was incomplete or unreliable.

6.7 For this reason, our assessments should be considered indicative. Given the lack of quality information available, there is a risk that the kura's financial position may be materially different to the assessment outlined below. Accordingly, our assessment of the kura's financial position is subject to change if further information is provided.

Financial Performance Standards

6.8 As a result of the poor financial records, we have not been able to validate two of the five performance standards against Schedule 6, section two measures. The working capital ratio, debt/to equity ratio and enrolment variance (based on the above financial analysis, see paragraph 6.10) and KAMAR data indicate the School is not meeting the performance standards, and that information reported to the Ministry by the Sponsor as at 31 December 2014 was inaccurate.

Measure	2014 Performance Standard [Schedule 6 Section 2.3]	Sponsor reported in the 2014 Annual Report	Assessment
Operating Surplus	2% - 5%	1.45%	Cannot determine
Working capital ratio	2:1	0.87:1	08:1
Debt/equity ratio	0.5:1	0.05:1	0.13:1
Operating cash	Positive Cash Flow Forecast = Actual	Forecast:\$314,301 Actual: \$15,431	Cannot determine
Enrolment variance	71	46	31

Statement of Financial Position

6.9 Set out below is a summary of the kura's Statement of Financial Position as at 31 December 2013 (per audited financial statements), 31 December 2014 (per management accounts), 24 March 2015 (per management accounts) and 31 March 2015 (based on management accounts with adjustments we have made to address obvious accuracy issues):

Statement of Financial Position				
	31/12/2013	31/12/2014	24/03/2015	Restated at 31/03/15
Current Assets				
Westpac Bank Account	20,760	194	274,777	95,626
Westpac 01 Account	846,892	671	346	-
Westpac Debit Card	-	616	6,046	1,298
Accounts Receivable	-	764	764	764
Petty Cash	29	4,219	4,220	1,000
Prepayments	-	12,040	12,040	8,427
Total Current Assets	867,681	18,504	298,193	107,115
Non-Current Assets				
Furniture & Equipment	89,123	99,433	99,433	99,433
ICT	15,547	40,053	40,053	40,053
Land	507,600	507,600	507,600	507,600
Motor Vehicles	-	3,576	3,576	3,576
School Buildings	457,291	972,578	972,650	650,000

Statement of Financial Position				
	31/12/2013	31/12/2014	24/03/2015	Restated at 31/03/15
Total Non-Current Assets	1,069,561	1,623,242	1,623,312	1,300,664
TOTAL ASSETS	1,937,242	1,641,746	1,921,505	1,407,779
Current Liabilities				
Accounts Payable	7,983	54,305	3,948	54,305
AP - Accruals	84,508	6,267	6,267	6,267
Grants received in advance	345,820	-	-	48,627
GST	(47,256)	(33,992)	27,085	27,085
Mastercard - G Sadler	-	1,892	1,892	1,892
Total Current Liabilities	391,055	24,688	35,408	134,392
Non-current Liabilities				
Loans & Mortgages	-	49,997	49,997	49,997
TOTAL LIABILITIES	391,055	74,685	85,405	184,389
NET ASSETS	1,546,187	1,567,061	1,836,100	1,223,390

6.10 We have estimated the financial position as at 31 March 2015. Broadly our approach was to use the management accounts as at 24 March 2015 then make adjustments for known issues. Set out below is a summary of the figures we have applied as at 31 March 2015:

- **Bank:** Based on the records available it was apparent that the kura did not have approximately \$280,000 cash on hand as at 31 March 2015. The kura's accounting system does not reflect some of the transactions in the bank account from approximately mid-February onwards. Our approach, which is the best available given the lack of bank statements, was to take the bank balance as at 31 December 2013 and add the bank transactions provided to us by the kura for the period 1 January 2014 to 31 March 2015. Importantly we have not been provided with bank statements for any of the bank accounts. This means that we have not been able to reconcile the estimated closing bank balances to the bank statements.

- Accounts receivable: We have not been provided with any details of accounts receivable and we have assumed that the balance at 31 December 2014 is materially accurate.
- Petty Cash: We understand that the Petty Cash float is now a maximum of \$1,000, so we have adjusted this from \$4,000 per the management accounts as at 24 March 2015 to \$1,000.
- Prepayments: The prepayments balance at 31 December 2014 related to insurance paid in advance. We have assumed that it reflects a prepayment of ten months insurance as a large insurance payment was made on 30 October 2014. On this basis we have adjusted the prepayment to assume the insurance covers a further seven months as at 31 March 2015.
- Land: The value of the land is recorded as \$507,600, being the amount that appears to have been paid for the land in October 2013. This compares to the Government valuation of \$590,000 at 1 September 2012. In the absence of a valuation, the book value of \$507,600 appears reasonable, although we note that the remote location of the property means it may take a long time to sell the property at a reasonable price.
- School Buildings: The school buildings are recorded at a value of \$972,578 as at 24 March 2015. This figure includes a material amount spent on land development (e.g. drainage, rubbish and fence removal, spreading topsoil), project management costs and transport of buildings to the property. We have not completed a valuation of the property, but we have some doubts that the kura would be able to realise \$972,578 from these buildings (or put another way – to sell the property for \$1,480,178 (i.e. land of \$507,600 plus buildings of \$972,578). For the purpose of this exercise we have assumed a realisable value of \$650,000 based on the cost of purchasing the buildings and the direct building costs associated with them. In any case, this lower value has no bearing on our overall assessment of solvency. If the precise value is important to the Ministry or the kura we recommend an independent valuation be obtained.
- Accounts payable: When on-site, we noted that several outstanding invoices were on staff members' desks and had not been entered into the accounting system. We have assumed that the level of creditors as at 31 December 2014 (year-end) materially reflects the normal level of accounts payable.
- Accruals: We have not been provided with any information on this liability. The accrual may be for unpaid holiday pay at 31 December 2014. As we have no other information we have assumed the same liability at 31 March 2014.
- Grants received in Advance: The quarterly funding from the Ministry for the three months to 31 March 2015 was received in January.
- Other liabilities: Due to a lack of information we have assumed that the other liabilities

listed in the management accounts are materially correct (refer 6.8 above).

6.11 We conducted an analysis of key ratios:

	31/12/2013	31/12/2014	24/03/2015	Restated Position at 31/03/15
Key Ratios				
Working Capital	476,626	(6,184)	262,784	(27,277)
Current Ratio	2.22	0.75	8.42	0.80
Debt to Total Assets	0.20	0.05	0.04	0.13

6.12 An explanation of these ratios is as follows:

- a) **Working Capital:** This ratio is calculated by subtracting current liabilities from current assets. It measures the operating liquidity (cash and other current assets that can be easily converted to cash) available to the business to meet short term liabilities. The analysis shows that as at 31 December 2014 there was negative working capital and therefore there were not enough liquid funds available to cover short-term debt. Based on the assumptions applied above, it appears that the working capital position had deteriorated by 31 March 2015.
- b) **Current Ratio:** This ratio is calculated by dividing current assets by current liabilities. It also measures whether or not a business has enough short term assets (current assets) to pay its debt within 12 months. Acceptable or target current ratios vary from industry to industry. However as a rough guide a current ratio of 2 is considered to provide a high level of liquidity. If a current ratio is below 1, then the entity may have problems paying its debts as they fall due. At both 31 December 2014 and 31 March 2015, the current ratio of Te Pumanawa o te Wairua was below 1. The ratio of 0.80 at 31 March 2015 means that the kura only had 80 cents of current assets to fund every \$1.00 of current liabilities.
- c) **Debt to Total Assets Ratio:** This ratio is calculated by dividing total liabilities by total assets. It is a leverage ratio that shows the amount of debt in an entity relative to the assets. Simply put, if the ratio is greater than 1 then the entity has greater levels of debt than assets. The ratio of 0.13 at 31 March 2015 shows that assets of the kura are significantly greater than the liabilities. Put another way, for every \$1.00 of assets, the kura has 13 cents of debt and 87 cents of equity.

6.13 Overall, the analysis of the kura's balance sheet reveals that the kura may be under some liquidity pressure from time to time. We comment on the kura's expected cash position further in the next section. Provided the assessment as at 31 March 2015 is materially correct it

appears that the kura's total assets easily exceed its total liabilities (i.e. it passes the second limb of the Solvency Test).

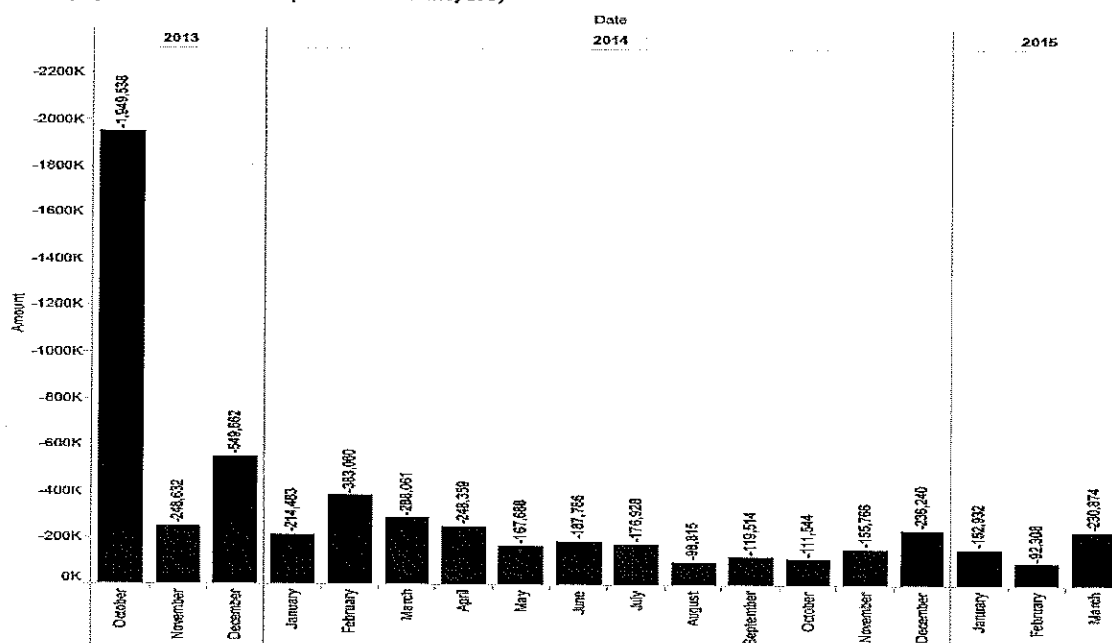
Cash flow analysis

- 6.14 The kura did not provide us with a cash flow forecast. Accordingly we have prepared a high level monthly cash flow forecast for the period 1 April 2015 to 31 December 2015 in order to understand the kura's cash flow position. This forecast is included in Appendix A.
- 6.15 Our approach for projecting the future cashflow for the kura was to firstly consider the payments that were made in the 2014 year. Some of these transactions were cheques and others were to multiple payees that could not be identified. We grouped these transactions together and then reviewed the other payments made in 2014 and removed the expenditure that appeared to be one-off (in particular set-up costs) or immaterial. We then estimated what the likely ongoing costs will be in 2015, recognising that some expenses will have been captured in the "multiple payees". The resulting cashflow forecast is set out as Appendix A.
- 6.16 This approach may not capture all of the expenditure that will be incurred going forward as we did not have enough information to accurately assess what were one off costs in 2014 and what costs may be ongoing. For this reason, it is important to perform a cross check with other available information. The cross checks that we performed were against the total monthly expenditure up to March 2015 and the kura's draft budget.
- 6.17 This approach provided us with a range of potential scenarios that enabled us to form a view on the possible cash position that the kura will face during 2015.

Historical Expenditure

- 6.18 Our high-level cash flow projection shows an average monthly spend of approximately \$152,000. We wanted to compare this to the historical monthly expenditure up to March 2015.
- 6.19 The following graph shows the monthly expenditure from all bank accounts since they were opened (excluding account transfers).

Total payments over time (excludes transfers)



6.20 As expected, this shows that the expenditure was significant during the time that the school was set up and becoming operational. It seems that a "normal" level of operating expenditure commenced around May 2014. Between May 2014 and March 2015, the monthly expenditure ranged from \$92,308 (February 2015) to \$236,240 (December 2014). December appears to include a lot of expenses that relate to end of year functions or prize giving, along with a larger than usual salary payment. The average monthly spend during this eleven month period was \$157,309.

6.21 This is approximately \$5,000 a month more than what we have allowed in our forecast and suggests that an accurate projection of expenditure for the rest of 2015 may be in the range of \$150,000 to \$160,000 per month.

Sense check

6.22 We also tested the cash flow forecast in Appendix A by comparing this to:

- The kura's 2015 draft budget.
- The kura's actual spend in the first three months of 2015.

Draft budget

- 6.23 The kura's draft budget for 2015 assumes revenue of \$1,926,788. This is greater than the actual funding due from the Ministry for 2015 of \$1,876,921 including GST. The kura has also budgeted to receive funding from donations and fundraising of \$107,500. We have assumed that only Ministry of Education funding will be available in the forecast.
- 6.24 The total expenses for 2015 recorded in the draft budget (provided to us by the kura) are \$1,954,028. This does not include any capital expenditure but does include depreciation of \$139,350.
- 6.25 This total expenditure translates to a monthly amount of \$162,836. The material item of expenditure in this budget is \$820,000 for salary and wages. This is significantly higher than the amount of \$662,600 that we estimated in preparing our cash flow, based on the current payroll data provided to us. We note that the payroll information that we have is incomplete in that we have not been provided with a list of current staff members and their contracted salaries. We have based our estimate on data from a recent payroll run.
- 6.26 This budgeted level of salaries is also an increase on the salary paid during 2014. If this budget is accurate and salaries are increased to a total cost of \$820,000 per annum, this would have a significant impact on the cashflow if other expenses are not reduced. It is likely that liquidity issues would arise as early as September 2015 if salaries were at this level.
- 6.27 The total expenditure for the first three months of 2015 was \$476,114. This is an average monthly amount of \$158,705 and is therefore lower than the budgeted monthly spend, but within the range of \$150,000 to \$160,000 spend per month referred to above.

Sensitivity analysis

- 6.28 Our initial high-level cash flow projections, set out in Appendix A, are based on average monthly expenditure of \$152,026. Expenditure at this level can be funded by the current cash reserves and the Ministry of Education grants in the short term. The cash funds available would decrease to approximately \$9,000 by December 2015, resulting in a bank balance at the end of the year of approximately \$86,000.
- 6.29 However, if the level of expenditure is more in line with the average monthly spend of the eleven months from May 2014 (when it appears the monthly cash spend "settled") to March 2015, this will have a greater impact on cash reserves. The bank balance at the end of December 2015 will be approximately \$39,000, a decrease from 31 March 2015 of approximately \$57,000.
- 6.30 If instead we were to assume that the total spend for 2015 will be in-line with the draft budget, this suggests that for the remaining nine months of the year the expenditure will be in the

vicinity of \$1,477,914¹³ or \$164,213 per month for the remaining nine months of the year.

- 6.31 From a cashflow perspective, the impact of expenditure at the levels set out in the draft budget would result in the kura experiencing a cash shortfall during December 2015.
- 6.32 To prevent exhausting the cash reserves during the 2015 calendar year, monthly expenditure will need to be restricted to approximately \$161,000 per month. However expenditure at this level would utilise the current cash reserves and all of the 2015 funding from the Ministry.

Cash flow summary

- 6.33 Our analysis of the cash flow of the kura, both historically and projecting forward to December 2015, shows that currently the kura appears to be able to pay its debts as they fall due. However, if the outflows of cash occurs at the level budgeted by the kura (\$164,213 per month), a cash shortfall is likely to occur.
- 6.34 If the monthly expenditure is restricted to being within the region of \$150,000 to \$160,000 per month, liquidity issues should not arise during the 2015 year. However, cash reserves would be depleted and liquidity would likely worsen during 2016. Maintaining expenditure within this range should be achievable based on our analysis of expenditure in 2014, however it would be more difficult if there was a material increase in salaries. If expenditure is restricted to below \$150,000 per month, the kura should be able to maintain the current level of cash reserves.
- 6.35 This high-level analysis suggests that the kura's cash position may get tight from time to time (i.e. just before receiving the Ministry's funding), but it should not run out of cash in the 2015 calendar year provided it receives the forecast funding and the monthly spend is limited to approximately \$150,000. Based on the information that we have available, it is our view that with the current level of funding from the Ministry the kura is currently able to meet its debts as they fall due out to 31 December 2015.
- 6.36 Further, the kura owns land, buildings and other fixed assets and has a low level of debt. Based on the information available, it seems clear that the value of the assets is greater than the value of the liabilities.
- 6.37 There is a risk that the liquidity will deteriorate if careful financial management is not in place. We also stress this assessment is made on incomplete and poor quality financial information.
- 6.38 There are several key steps the School should take to improve its financial management including:

¹³ Total budgeted spend of \$1,954,028 less spend to 31 March 2015 of \$476,114 = \$1,477,914

- Bring the management accounts up to date.
- Finalise the budget and prepare an updated cash flow forecast based on complete information.
- Monitor actual financial results against budget on a monthly basis.

7. Governance, Operational and Financial Management

7.1 This section sets out findings in relation to the assessment of the funding agreements clauses governing:

- Section 12 – Governance of the School
- Section 16 – Minimum Requirements (refer Appendix C)
- Section 17 – Performance Management System
- Performance Standards in the Performance Management System
- Section 18 – Records and reporting

Summary of Governance, Financial Management and Controls

7.2 The trustees and administration staff lack the governance and business experience required to effectively oversee and manage the strategic and day to day activities required to run a kura. The trustees do not appear to be fully aware of their statutory requirements or obligations under clause 16 of the Agreement and appear to have been overly reliant on the former Curriculum Director to advise them of their obligations. Additionally, we noted the trustees throughout the lifetime of the kura have been heavily involved in the day to day management of staff and operations of the kura despite successive recommendations by the Ministry's and ERO's advisors not to do so.

7.3 When interviewing the trustees for the purposes of this review, the trustees had yet to formally agree to any plans to address the issues raised in the Minister's Performance Notice outside of the changes made to the Curriculum Director and Chief Executive. It is only under the strong recommendation of the Ministry's Director of Education for Tai Tokerau, that the trustees have considered seeking to fill the vacant positions through seconding a Principal with appropriate skills to turn the school around. At this time of writing this report an appointment has yet to have been made and is in breach of the Agreement [paragraph 16.1(k)].

7.4 Additionally, our assessment is that the kura's operational, administration and financial management practices found that these systems do not appear to enable effective compilation or processing of information into its financial management or student management systems. Therefore, we were unable to validate or verify the majority of information reported to the Ministry as being accurate or complete and is in breach of the Agreement's good faith obligation [paragraph 20.1(c)(ii)].

Governance

7.5 The Nga Parirau Matauranga Charitable Trust was formed to promote education and to contract with the Ministry as Sponsor of the intended Whangaruru partnership school kura hourua. The Trust deed sets out the intention to improve education opportunities by:

- a. Establishing and operating places of education at first in the Whangaruru area, and then throughout Northland, the Northern parts of New Zealand, and eventually throughout Oceania.
- b. Promoting diverse areas of education and knowledge to engage and excite students including but not limited to standard and non-standard school curricula, outdoor education, sustainable agriculture and horticulture, music, Ngā Toi Maori, environmental kaitiakitanga, and life and leadership training for all levels of student needs.
- c. Promoting the ancestral Ngatiwai narratives of the iwi kaitiaki, Manu Tukaiaia the balance of the traditional and contemporary worlds in all things pertaining to tikanga, and the authentic cultural land and water environment of Whangaruru Ngatiwai to challenge and educate students.

7.6 Discussions with the trustees determined that no formal systems are in place to monitor or ensure that the trustees are provided with the information required for them to discharge their responsibilities under the Partnership Agreement [paragraph 18.1(c)] and their Trust Deed.

7.7 Since being served the Performance Notice, three of the four members of the Trust acknowledged to Deloitte and ERO that they do not have the capability to govern the kura to the level required. In response, the Trustees have engaged a lawyer and Te Puni Kōkiri to provide immediate and long-term support and training aimed at equipping the trustees with the skills and knowledge required to uphold their obligations under the Agreement and Trust Deed. However, outside of these engagements, we are not confident the trustees understand how to develop plans to address the Performance Notice issues. The Trustees do not appear to be aware of what specifically needs to be done in order to address the performance requirements under the Agreement or what systems needed to be put in place to ensure long-term compliance and operational effectiveness of the kura.

7.8 Furthermore, during our visit we were aware the kura should have been preparing its first quarterly report to the Ministry, however it was apparent neither the trustees, Acting CEO, Office

Manager or Acting Curriculum Director were aware of this deliverable.

- 7.9 We were also concerned to observe three of the four trustees could not identify its students as a stakeholder of the school and all of the same three assumed their role was to oversee the day to day business operations of the school rather than oversee the effective delivery of education to students as defined in the Partnership Agreement.

Operational Management

- 7.10 Our review of the kura's management systems and associated information against the quarterly and annual reports provided to the Ministry highlighted several inconsistencies between what was reported to the Ministry and records maintained within the School and is in breach of the Agreement [paragraph 20.1(c)(ii)] good faith obligation. These inconsistencies were not able to be explained by the Trustees, outgoing CEO or Office Manager as the Curriculum Director competed and submitted all Ministry reports in isolation.
- 7.11 Furthermore, the kura has breached point 6 of the Gazette Notice (December 2013)¹⁴ Schedule 1 Annex A as it had Year 8 students on its roll in 2014 and 2015, and, provided for single sex classes.
- 7.12 Due to the poor records maintained by the kura we were unable to determine if the kura has complied with school hours and terms as defined in Clause 8.1 of the funding agreement¹⁵. Over the course of our review, each day we observed classes finishing around 3:30pm and all students had vacated the kura grounds by 3:50pm each day, which is in breach of the agreed time of 4pm.
- 7.13 The kura's Health and Safety policy is in place; signage is visible throughout the school. However, our observance of activities around the kura indicates the policy is not widely understood and is further evidence of the Sponsor's lack of awareness of their statutory obligations under the Education Act 1989 and it's Agreement with the Ministry required to run a kura. While there is evidence the kura's Health and Safety Committee has met twice since November 2014, staff were unaware if a hazard or incident register existed. Furthermore, the kura do not appear to have a register or systems in place to raise awareness of staff, students and visitors of hazards such as uneven ramps, uncompleted decking, uncleaned bathrooms, damp and dark administration offices - all of which pose a health and safety hazard to staff,

¹⁴ For the year 2014, the school will enrol students in class levels 9 to 13. As from 2015, the school will enrol students in class levels 9 to 14. None of the class levels at Te Kura Hourua ki Whangaruru will be single-sex.

¹⁵ **School hours and terms -**

The Sponsor is permitted to set and change the School hours and term dates when Students are required to be in attendance at the School, provided that:

- (a) the hours and term dates do not reduce below the minimum levels set out in Schedule 1 (except where the reason the hours and term dates have reduced below these minimum levels is due to a strike or lockout or a Force Majeure Event which caused a closure of the School during ordinary School hours and term dates); and
- (b) the Students and parents of the Students are notified in writing, and with reasonable advance notice, of the School hours and term dates and any changes to those hours and dates.

students and visitors.

- 7.14 The annual performance report stipulated the kura had received no complaints from families, parents or its community. During the course of this review we were made aware by external advisors and past employees that this statement was incorrect. However, due to the poor record keeping and system awareness we were unable to validate or verify the accuracy of this statement.
- 7.15 As part of its policy suite, the kura has a Whānau and Community Engagement Policy in place; however the kura lacks any system to gather information about the needs of the parents, family, whānau, iwi and the community. From our review of enrolment data, observance of behaviours and discussions with the trustees and CEO, it appears there is an outward perception of engagement without any evidence of follow through by the trustees, CEO or Curriculum Director. Specifically, in the Annual Performance Report it was stated:
- a. Whānau are involved in supporting and making important decisions at our kura as we provide an opportunity for a parent led whānau support group to give feedback to the kura. A written report was submitted to the kura from the parent representative.
 - b. Local iwi kaumātua input into curriculum delivery and co-construction.
 - c. The timetabling committee have taken feedback from whānau at the whānau hui in term 4 whilst developing the 2015 timetable.
 - d. Professional Learning Development is to be made available to staff in 2015 to strengthen their knowledge in Te Reo me ngā tikanga o Ngātiwai ki Whangaruru.
- 7.16 There is no evidence to suggest either a) or b) occurred, and trustees acknowledgement the timetabling committee hui has not occurred nor has any professional development plans been made for staff this year which is further evidence of statutory obligations under the Education Act 1989 not being complied with.
- 7.17 The kura is supportive of modern learning requirements and appears to be ensuring students are provided with resources to promote these practices. The kura has leased 45 Macbook Air computers (30 are available for classroom use and the remaining 15 for staff), and procured and installed during this 2014/2015 holiday period second hand electronic smart boards in all four classrooms.
- 7.18 However ERO still observes little evidence to support a view that these computers are used effectively to support learning other than providing access to Te Kura lessons. ERO noted access to broadband remains frustratingly slow for users, and this is likely to have a negative impact on the proposed teaching model. Additionally, the electronic smart boards remain inoperable (at time of review) due to faulty installation. Again due to the location is it difficult for the kura to secure a technician to remedy IT issues.

Financial Management

- 7.19 During October 2013, the trustees engaged BDO Whangarei to assist with the purchase of the property and the establishment and ongoing financial guidance. During January 2014, BDO assisted the School in selecting and establishing a chart of accounts using Xero based the 31 December 2013 Financial Statements developed for the School. Under this arrangement the kura was responsible for the raising of Ministry invoices, processing and payment of supplier invoices, wages and the associated reconciliations to the bank, with BDO reviewing the monthly reconciliations and filing of the School's GST Claims. s 9(2)(a) OIA
- 7.20 In April 2014 the School notified BDO it no longer required its services and engaged [REDACTED] as recommended by Chris Saunders, Ministry of Education Governance Facilitator to assist with the training for the School to self-manage its finances.
- 7.21 Our analysis of the kura's use of the foundation funding (\$1,679,862.54) found that the funds appear to have been used for the purpose it was granted. We obtained from the Ministry the Whangaruru payments schedule and verified the full amounts were deposited into the School's nominated bank account.
- 7.22 We then sought to verify the foundation funding was used in accordance for what it was granted for, i.e. the purchase of the land, buildings, furniture and fittings associated to the establishment of the School. We requested from the Office Manager to review the fixed asset register, once she located it we found it to be incomplete and unable to be relied upon.
- 7.23 Subsequent to discussions with Scott Kennedy, Partner of BDO Whangarei we became aware of the 31 December 2013 financial statements they prepared for the School. Using the financial statements and associated working files were satisfied the foundation funding was used for the procurement of land, relocation prefab classrooms from Whangarei to Whangaruru and associated furniture and fittings required establish the school.

Operational Funding

- 7.24 To validate that the operational funding was used in accordance for what it was granted, we were requested to obtain and analyse the operational budgets, monthly and or quarterly management report to the trustees, Xero balance sheet, profit and loss, detailed transaction listing and Westpac bank transactions for the period 1 October 2013 to 27 March 2015. s 9(2)(a) OIA
- 7.25 Our review and subsequent discussions with both BDO and [REDACTED] noted the 2014 operational budget was aspirational and not focused on the operational costs associated to running a School. Both advisors expressed concerns regarding the inability of the trustees to focus on developing budgets to monitor its expenditure against its plans.
- 7.26 Our initial review of invoices found that a high proportion of transactions had been coded to illogical accounts and that there were a disproportionately high number of journals. Discussions with [REDACTED] noted as part of her review she will pass journals to fix miscoded expenses s 9(2)(a) OIA

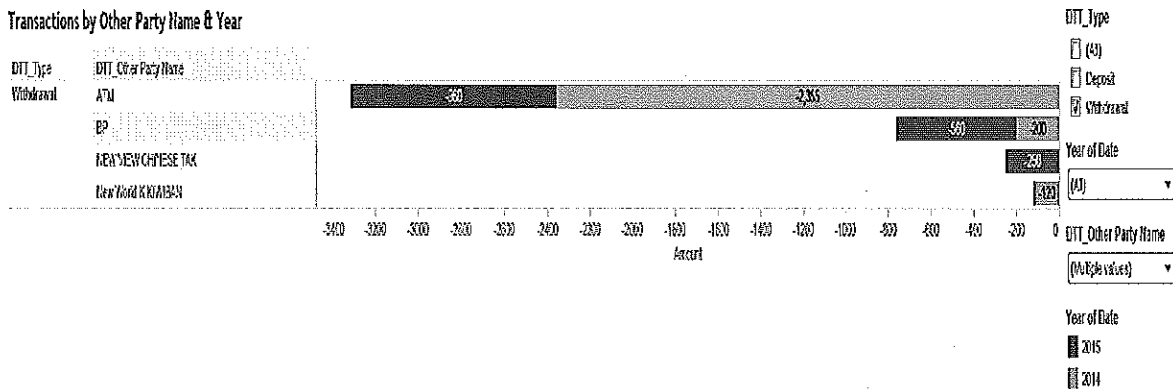
based on the description of supplier or invoice. She confirmed our observations that neither the Office Manager or Administration staff understands the purpose or importance in maintaining accurate and complete financial records.

7.27 As part of our analysis we examined 111 expense related items across 30 General Ledger expense accounts to determine transactions recorded a were supported by valid GST invoices, transactions appeared reasonable and were appropriately approved. 57.6% of these invoices could not be located by the School. Further analysis of the transactions with invoices brought us to question whether or not certain expenses would be considered normal operational expenses at any other School.

7.28 Using Tableau¹⁶ we were able to further analyse the bank transaction and detailed general transaction listing gain an insight as to what the operational funding was used for. Our analysis raised further questions around the validity of some transactions specifically the ATM, round dollar EFTPOS withdrawals from Takeaways, BP, and purchases from Café's, Domino's Pizza, KFC and Burger King. Using Tableau our analysis identified since January 2014 the debit card has been used to make:

- 18 ATM withdrawals totalling \$3,315.00
- 5 EFTPOS withdrawals at BP totalling \$760.00
- 2 EFTPOS withdrawals at New View Chinese Takeaways totalling 250.00
- 1 withdrawal from the New World Kiwibank ATM totalling \$120.

The kura could not locate receipts or invoices support these transactions.



7.29 Based on our findings above we are unable to determine if all the operational funds received by the kura were used for the purposes for which they were granted.

¹⁶ Tableau Software is American computer software used for data analytics

Appendix A – High Level Cash Flow Projection

Appendix A TKHK Whangaruru High level cashflow projection - Nine months to December 2015									
	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15
Opening bank balance	95,625.99	376,965.47	215,823.27	69,987.05	391,980.32	266,511.48	74,604.51	392,369.49	210,497.03
Revenue									
1 Grant funding	420,503.44			469,230.26			469,230.26		
Total Revenue	420,503.44			469,230.26			469,230.26		
Expenses									
2 Salaries	53,008.95	53,008.95	53,008.95	79,513.43	53,008.95	53,008.95	53,008.95	53,008.95	53,008.95
3 Loan Payments			25,001.00			25,001.00			
4 Trustee fees and reimbursements	2,100.00	2,100.00	2,100.00	2,100.00	2,100.00	2,100.00	2,100.00	2,100.00	2,100.00
5 Cash withdrawls	663.00	663.00	663.00	663.00	663.00	663.00	663.00	663.00	663.00
6 Bank charges	28.13	28.13	28.13	28.13	28.13	28.13	28.13	28.13	28.13
7 Vehicle Lease	6,502.33	6,502.33	6,502.33	6,502.33	6,502.33	6,502.33	6,502.33	6,502.33	6,502.33
8 Social worker	4,643.70	3,714.96	3,714.96	4,643.70	3,714.96	3,714.96	4,643.70	3,714.96	4,643.70
9 Insurance							17,445.70		
10 IT Costs	1,883.67	1,883.67	1,883.67	1,883.67	1,883.67	1,883.67	1,883.67	1,883.67	1,883.67
11 Catering	1,816.67	1,816.67	1,816.67	1,816.67	1,816.67	1,816.67	1,816.67	1,816.67	1,816.67
12 Accountancy	5,244.38		5,244.38			5,244.38			5,244.38
13 Supermarkets	1,925.08	1,925.68	1,925.68	1,925.08	1,925.08		1,925.08	1,925.08	1,925.08
14 Stationery		987.76		987.76		987.76		987.76	
15 Photocopier lease	426.65	426.65	426.65	426.65	426.65	426.65	426.65	426.65	426.65
16 Power	345.00	345.00	345.00	345.00	345.00	345.00	345.00	345.00	345.00
17 Dunning's & The Warehouse	577.60	577.60	577.60	577.60	577.60	577.60	577.60	577.60	577.60
18 BP	152.00	152.00	152.00	152.00	152.00	152.00	152.00	152.00	152.00
19 Uber Group Ltd	99.00	99.00	99.00	99.00	99.00	99.00	99.00	99.00	99.00
20 Rentokil	69.77	69.77	69.77	69.77	69.77	69.77	69.77	69.77	69.77
21 Xero	48.87	48.87	48.87	48.87	48.87	48.87	48.87	48.87	48.87
22 Uber phone	377.00	377.00	377.00	377.00	377.00	377.00	377.00	377.00	377.00
23 Integrated Projects		7,980.00			7,980.00			7,980.00	
24 Papa Talo Tutoring fee	17,500.00			17,500.00			17,500.00		
25 Camp								8,806.00	
26 Flights								2,406.00	
27 Legal fees	694.75	694.75	694.75	694.75	694.75	694.75	694.75	694.75	694.75
28 Road User Charges		587.80		587.80		587.80		587.80	
29 Flexirent	2,120.22	2,120.22	2,120.22	2,120.22	2,120.22	2,120.22	2,120.22	2,120.22	2,120.22
30 ACC					1,899.00				
31 Prizegiving awards & decorations								2,690.00	
32 Water 4 U	224.25	224.25	224.25	224.25	224.25	224.25	224.25	224.25	224.25
33 Contingency & capital expenditure	10,000.00	10,000.00	10,000.00	10,000.00	10,000.00	10,000.00	10,000.00	10,000.00	10,000.00
34 Other Expenses from 2014	28,812.94	28,812.94	28,812.94	28,812.94	28,812.94	28,812.94	28,812.94	28,812.94	28,812.94
35 GST - Payable on revenue		54,861.32				61,203.95		61,203.95	
35 GST - claimable on expenses		18,865.52		14,862.84		16,708.76		18,379.90	
Total Expenses	139,263.95	161,142.20	145,836.22	147,236.99	125,488.85	181,906.97	151,465.28	181,872.45	121,763.96
Closing Bank Balance	376,965.47	215,823.27	69,987.05	391,980.32	266,511.48	74,604.51	392,369.49	210,497.03	88,733.07

Assumptions

Info from MoE

Fortnightly payments - March actuals, 3 pymts in July

Assume still payable

4 trustees @ \$500 per month, plus 100 per mth for reimbursements

Average spend on debit card

SALY

Avge mthly payment to Fleetpartners in 2015

Weekly pymt of \$928.74 to Northland Youth Heal

Insurance paid in Oct 2014 - assume 5% increase due Oct 2015

2014 pymts to Sirius IT & Tony Coyle

2014 payments to Marlene Leuluai

Average payments to KJ Halligan - quarterly -no payment to date in 2015

Average spend on debit card

Office products average 2015 spend

Payments to Ricoh

Average monthly payment to Meridian

Average spend on debit card

Average spend on debit card

Monthly Direct debit

Regular payment

Monthly Direct debit

Monthly Direct debit

One project per term - based on "The Farm" costs in December, also Moana Futures, Surfaris

First quarter payment made in January

based on A2i Costs

Flights for prizegiving - SALY

2014 costs to Rob Harte and WRMK Lawyer

based on previous transactions assume \$587.80 every second month

New direct debit - assume ongoing

SALY

SALY

based on previous transactions assume \$224.25 per mth

Allowance for omitted expenses including one-off capital purchases

Other 2014 expenses

Being "multiple payees", No other party name (eg cheques), "TKHK Whangaruru", batch payments, NDSL, Jeff Oliver Print, Belltech & Vodafone

Don't yet know if GST is up to date - assume March expenses same as April

Appendix B – Minimum Requirements

16.1 Minimum requirements¹⁷

The Minimum Requirements, which must be complied with by the Sponsor at all times during the term of this Agreement include, but are not limited to, the following:

- a. no serious incident occurs in relation to the School that compromises the health and safety of a Student that the Minister reasonably considers could have been prevented by the Sponsor;
- b. no serious criminal activity is discovered to have taken place on the Premises;
- c. the Sponsor operates the School in accordance with the requirements set out in the *Gazette Notice*;
- d. the Sponsor does not exceed the Maximum Roll;
- e. the Sponsor accepts students in accordance with clauses 7.2 to 7.4 of this Agreement;
- f. the School hours and term dates never reduce below the minimum levels set out in Schedule 1;
- g. the stand-down or suspension periods for Students do not exceed the maximum periods set out in the Act;
- h. the Sponsor complies with the requirements in relation to standing down, suspending, excluding or expelling;
- i. the Sponsor complies with every direction given under the Act or this Agreement;
- j. any transport required is provided as described in Schedule 3;
- k. the Sponsor has a person appointed as the person responsible for teaching and learning at all times;

¹⁷ Of the Agreement relating to Partnership Schools/Kura Hourua between the Minister and Nga Parirau Matauranga Charitable Trust – 16 September 2013.

- l. the number or percentage of Teaching Positions filled by Registered Teachers and Holders of Limited Authority to Teach does not fall below the minimum number or percentage set out in clause 2 of Schedule 4;
- m. the percentage of the Curriculum time taught by Registered Teachers and Holders of Limited Authority to Teach as compared with the total Curriculum time taught by any person holding a Teaching Position does not fall below the minimum percentage set out in clause 3 Schedule 4;
- n. the Sponsor has complied with all requirements in relation to Police vetting under clauses 78C to 78CD of the Act (as applied by section 158U of the Act) and reporting on Police vetting under this Agreement;
- o. the Sponsor reports to the Minister in accordance with clause 18.2 of this Agreement;
- p. the Sponsor reports to the Ministry in accordance with clause 18.3 of this Agreement;
- q. the Sponsor reports to parents in accordance with clause 7.8 of this Agreement;
- r. the Sponsor reports to the public in accordance with clause 18.4 of this Agreement;
- s. the Sponsor provides audited accounts as required by clause 18.5 of this Agreement; and
- t. the Sponsor provides all of the required reports to the Minister by the dates or within the timeframes set out in clause 18.2.

16.2 Compliance with Minimum Requirements a factor in relation to using interventions

The Sponsor's compliance with the Minimum Requirements and the frequency of any non-compliance with any of the Minimum Requirements, either individually or collectively, may be a factor taken into account for the purpose of the intervention regime in Part 4 of the Agreement.

16.3 Declaration as to compliance with Minimum Requirements

The Minister may, from time to time, require the Sponsor to provide a declaration that it has met all of the Minimum Requirements. The Sponsor agrees to provide such a declaration as and when required by the Minister. The declaration may be required as part of a Quarterly Report or Annual Report.

As required by clause 16.3(a), the Sponsor must also report publicly as part of its annual reporting to the public on its compliance with the Minimum Requirements during the previous Year.

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