

**Report to the Board on
the audit of**

Regional Software Holdings
Limited

For the year ended 30 June 2020

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Key messages

We have completed the audit for the year ended 30 June 2020. This report sets out our findings from the audit and draws attention to areas where Regional Software Holdings Limited (the company) is doing well and where we have made recommendations for improvement.

Audit opinion

We have issued an unmodified audit opinion dated 30 November 2020 with an emphasis of matter relating to COVID-19.

Matters identified during the audit

We have assessed the impact of COVID-19 and found that appropriate disclosure has been made.

We reviewed the Board's impairment assessment of IRIS and based on our review and discussions we agree that no impairment of the IRIS software needed to be recognised. We will continue to review this in future years.

We reviewed the performance measure disclosures and are satisfied that the updated disclosures provide appropriate context and clearly explains the company's performance story.

We have noted some minor areas for improvement in section 4 of the report.

Thank you

We would like to thank the Board, management, and staff from shareholder Regional Councils for their assistance during the audit.



Debbie Perera
Appointed Auditor
22 April 2021

1 Recommendations



Our recommendations for improvement and their priority are based on our assessment of how far short current practice is from a standard that is appropriate for the size, nature, and complexity of your business. We use the following priority ratings for our recommended improvements.

Priority	Explanation
Urgent	<p>Needs to be addressed <i>urgently</i></p> <p>These recommendations relate to a significant deficiency that exposes the Regional Software Holdings limited to significant risk or for any other reason need to be addressed without delay.</p>
Necessary	<p>Address at the earliest reasonable opportunity, <i>generally within six months</i></p> <p>These recommendations relate to deficiencies that need to be addressed to meet expected standards of best practice. These include any control weakness that could undermine the system of internal control.</p>
Beneficial	<p>Address, <i>generally within six to 12 months</i></p> <p>These recommendations relate to areas where the Regional Software Holdings limited is falling short of best practice. In our view it is beneficial for management to address these, provided the benefits outweigh the costs.</p>

1.1 New recommendations

The following table summarises our recommendations and their priority.

Recommendation	Reference	Priority
<p>Depreciation of IRIS software</p> <p>Ensure that the depreciation is adjusted over the remaining useful life of the IRIS software once a decision has been made to replace it to ensure that the software is fully depreciated at the end of its life.</p>	4.1	Necessary

Recommendation	Reference	Priority
<p>Publication of documents by each shareholding local authority</p> <p>Remind each shareholding local authority of the new requirements under the Local Government Act 2002 (LGA) to publish required documents on their website.</p>	4.2	Necessary
<p>Sensitive expenditure improvements</p> <p>Consider enhancing the following sensitive expenditure policies:</p> <ul style="list-style-type: none"> - Expenditure and travel policy – outline that fines and infringements obtained by staff while travelling on business are the responsibility of the staff member. - Credit card policy to include considerations of security when purchasing online. 	4.3	Beneficial

1.2 Status of previous recommendations

Set out below is a summary of the action taken against previous recommendations. Appendix 2 sets out the status of previous recommendations in detail.

Priority	Priority			
	Urgent	Necessary	Beneficial	Total
Open		1	1	2
Implemented or closed		1		1
Total		2	1	3

2 Our audit report

2.1 We issued an unmodified audit report



We issued an unmodified audit report. This means we were satisfied that the financial statements and statement of service performance present fairly the Regional Software Holdings Limited's (RSHL) activity for the year and its financial position at the end of the year. Without modifying our audit opinion, we included an emphasis of matter paragraph to draw attention to the disclosures in the financial statements relating to the effect of the Covid-19 pandemic on Regional Software Holdings Limited (RSHL).

In forming our audit opinion, we considered the following matters. Refer also to section 3 for items raised in the Audit Plan.

2.2 Uncorrected misstatements

The financial statements are free from material misstatements, including omissions. During the audit, we have discussed with management any misstatements that we found, other than those which were clearly trivial. The misstatements that have not been corrected are listed below along with management's reasons for not adjusting these misstatements. We are satisfied that these misstatements are individually and collectively immaterial.

Current year uncorrected misstatements	Reference	Assets	Liabilities	Equity	Financial performance
		Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
Capital expenditure treated as operating expenditure – not adjusted as not material.		\$10,125			(\$10,125)

2.3 Uncorrected disclosure deficiencies

All financial statement disclosure misstatements identified during the audit were resolved.

2.4 Uncorrected performance reporting misstatements

All performance and disclosure misstatements identified during the annual audit were corrected in the non-financial performance information.

2.5 Corrected misstatements

There were no corrected misstatements.

2.6 Corrected disclosure deficiencies and performance reporting improvements

We noted minor disclosure deficiencies and improvements to the performance reporting, financial and variance explanation disclosures. These were subsequently improved in the updated annual report.

2.7 Quality and timeliness of information provided for audit



Management needs to provide information for audit relating to the annual report of the Regional Software Holdings limited. This includes the draft annual report with supporting working papers.

Management prepared a quality annual report with good supporting workpapers in a timely manner. The delays encountered in the completion of the audit were due to Audit resourcing delays as a result of Covid-19.

3 Matters raised in the Audit Plan



In our Audit Plan we identified the following matters as the main audit risks and issues:

Audit risk/issue	Outcome
The risk of management override of internal controls	
<p>There is an inherent risk in every organisation of fraud resulting from management override of internal controls. Management are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Auditing standards require us to treat this as a risk on every audit.</p>	<p>To address this risk we:</p> <ul style="list-style-type: none"> • Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. • Reviewed accounting estimates for biases and evaluated whether the circumstances producing the bias, if any, represented a risk of material misstatement due to fraud. • Reviewed capital work in progress and capitalisation of expenditure. • Ensured there were no significant transactions that were outside the normal course of business, or that otherwise appear to be unusual given our understanding of the entity and its environment and other information obtained during the audit. <p>We found no indications of management override that would result in a material misstatement, in the financial statements, due to fraud.</p>

Audit risk/issue	Outcome
Impairment assessment of IRIS	
<p>Ownership and maintenance of the IRIS software constitutes the main activities of the Company. As technology advances and client's needs change there is a risk that the IRIS asset will become outdated and not fit for purpose.</p> <p>The company has identified that the IRIS software platform will need to be replaced within the next three – five years.</p> <p>The company will need to perform an impairment assessment to confirm that the IRIS asset continues to provide operational benefit for its expected remaining life and the carrying value of the asset does not exceed its fair value.</p> <p>The impairment assessment should also be reviewed by the board and approved prior to the audit commencing.</p>	<p>The Company performed an impairment assessment to check that the IRIS asset continues to provide operational benefit and to gain comfort that there was no material difference between the carrying value and its fair value.</p> <p>We reviewed the Company's impairment assessment of IRIS and had discussions with management.</p> <p>Based on these discussions and our review of the Company's performance and activities we agree that there was no impairment of IRIS for the year ended 30 June 2020.</p>
Capitalisation of IRIS costs	
<p>Expenditure relating to the development of intangible assets must meet certain criteria in order to be capitalised in accordance with the accounting standard <i>PBE IPSAS 31 - Intangible Assets</i>.</p>	<p>We reviewed the costs relating to the development of IRIS to ensure that costs meet the requirements of the relevant accounting standards for capitalisation. We did not find any issues for the year ended 30 June 2020.</p>
Capital Work in Progress	
<p>The company can have several software projects under development at any one time.</p> <p>A review of these projects should occur at year end to confirm whether these projects are still ongoing and the end product continues the criteria to be capitalised in accordance with standard <i>PBE IPSAS 31 - Intangible Assets</i>.</p>	<p>We reviewed capital work in progress assessment performed by the company for the year end accounts.</p> <p>No concerns were identified.</p>

Audit risk/issue	Outcome
ReCoCo	
<p>The Company delivers collaborative technology project for groups of regional councils under the ReCoCo programme.</p>	<p>We reviewed the ReCoCo revenue, expenditure and projects and confirmed that the accounting treatment is appropriate.</p> <p>Refer to our recommendation in Appendix One about considering including a separate note disclosure in future annual reports clearly showing all the funding and expenditure relating to ReCoCo including any applicable overhead costs.</p>
Impact of COVID-19	
<p>COVID-19 has had extraordinary and profound implications on the, country and the world.</p> <p>This in turn has had implications for the company’s business and operations, and financial and performance information.</p> <p>The company needed to consider the impact of COVID-19 and its response to COVID-19 (including Government and company’s decisions) on the items in the financial statements and performance information. In addition, we expected there will be some significant variances between budgeted and actual figures/results which will require explanation.</p> <p>We have published Bulletins to provide high-level guidance on the implications of COVID-19 on public sector reporting, including revaluations of property plant and equipment and investment property, financial statements and performance information, refer to https://auditnz.parliament.nz/good-practice/public-sector-reporting</p>	<p>The Company has appropriately disclosed the impact of COVID-19 on its operations and any effect this has on the finances and performance in the annual report. While there was no significant financial impact, the lockdown did cause minor delays to work programmes. We are satisfied that impact assessment performed and relevant disclosures in the annual report are adequate.</p> <p>Although the impact of COVID-19 on the RSHL’s operations has been minimal, an emphasis of matter paragraph was included in the audit opinion to draw the users’ attention to the relevant notes in the annual report that describe the overall impact of COVID-19.</p>

4 Other Matters Arising from the Audit



The following recommendations came out of our audit for the year ended 30 June 2020:

4.1 Depreciation of IRIS software

Recommendation

Ensure that the depreciation is adjusted over the remaining useful life of the IRIS software once a decision has been made to replace it to ensure that the software is fully depreciated at the end of its life.

Findings

The current policy is to depreciate the IRIS software over a period of 10 years. The original software was established in 2013 and there have been several updates over this period.

The Company is currently looking at the next generation software and at the time of the audit a decision on this was yet to be made. Once a decision is made it is important that the current software is depreciated over the remaining useful life to ensure the asset is fully depreciated at the end of its life.

Management comment

The issue of when to depreciate and/or impair the IRIS Asset is an active discussion with the board and member councils. We expect to have better information about the timing and nature of the replacement for IRIS in FY2022.

4.2 Publication of documents by each shareholding local authority

Recommendation

Remind each shareholding local authority of the new requirements under the Local Government Act 2002 (LGA) to publish required documents on their website.

Findings

Updates to sections 64(9)), 66(5) and 67(4) of the Local Government Act 2002 require that each local authority that receives an annual report, half year report and SOI from a Council Controlled Organisation under the relevant section must publish the document on an internet site maintained by or on behalf of the local authority within 1 month of receiving it, and must maintain the report on that site for a period of no less than 7 years.

From our review of the local authority shareholder's websites this new requirement did not appear to be being met. While the onus is on the shareholders to comply, we recommend that management remind each Council of these new requirements.

Management comment

As noted in the findings, the requirement to publish these documents is a statutory obligation on the member councils, and so falls outside the scope of this audit. However, we will remind councils of their obligations when the SOI, Annual Report and Interim Report are provided to them.

4.3 Sensitive expenditure policies

Recommendation

Consider enhancing the following sensitive expenditure policies:

- Expenditure and travel policy – outline that fines and infringements obtained by staff while travelling on business are the responsibility of the staff member.
- Credit card policy to include considerations of security when purchasing online.

Findings

We reviewed the sensitive expenditure policies against the OAG good practice guidelines and found that, given the size of the entity, the policies were largely compliant with the guidelines. Coming out of this review we have identified the above areas where the policies can be enhanced.

Management comment

The Expenditure and travel Policy and Credit Card Policy will be reviewed in August 2022 as part of our regular review cycle. Noting that the policies are largely fit for purpose and the risk is minimal, this feedback will be incorporated into that review.

4.4 Verbally raised items – reporting under appropriate accounting tiers

We have discussed with management the need to review requirements and timing of transition to Tier 2 reporting if expenditure levels are budgeted to remain over the threshold to report as a Tier 3 entity.

We are aware that the Company is monitoring the situation and will adjust their reporting level when necessary.

5 Public sector audit



The Regional Software Holdings limited is accountable to its shareholding Councils and to the public for its use of public resources. Everyone who pays taxes or rates has a right to know that the money is being spent wisely and in the way the Regional Software Holdings limited said it would be spent.

As such, public sector audits have a broader scope than private sector audits. As part of our audit, we have considered if the Regional Software Holdings limited has fairly reflected the results of its activities in its financial statements and non-financial information.

We also consider if there is any indication of issues relevant to the audit with:

- compliance with its statutory obligations that are relevant to the annual report;
- the Regional Software Holdings limited carrying out its activities effectively and efficiently;
- the Regional Software Holdings limited incurring waste as a result of any act or failure to act by a public entity;
- any sign or appearance of a lack of probity as a result of any act or omission, either by the Regional Software Holdings limited or by one or more of its members, office holders, or employees; and
- any sign or appearance of a lack of financial prudence as a result of any act or omission by a public entity or by one or more of its members, office holders, or employees.

There were no issues to report in relation to this.

6 Useful publications



Based on our knowledge of the Regional Software Holdings limited, we have included some publications that the Board and management may find useful.

Description	Where to find it
COVID-19 Impact on Public Sector Reporting	
<p>The state of emergency in response to the COVID-19 coronavirus has significantly impacted most public sector entities. The consequences for the completion of annual reports and the annual financial statements are one part of this impact.</p> <p>We are developing a series of Bulletins in response:</p> <ul style="list-style-type: none"> • revaluations of property, plant and equipment and investment property; • service performance reporting; • financial reporting; 	<p>On our website under good practice.</p> <p>Link: COVID-19 bulletins</p>
Client updates	
<p>As part of our response to the COVID-19 situation, we developed online client updates to replace the in-person sessions that were cancelled.</p> <p>This year's material is accessible via video presentations on our website. You can explore the material at a pace that takes account of your busy schedule.</p> <p>The themes respond to challenges that our clients now face, such as planning for unexpected events or dealing with additional reporting requirements related to COVID-19 and climate change.</p>	<p>On our website under publications and resources.</p> <p>Link: Client updates</p>

Description	Where to find it
Model financial statements	
<p>Our model financial statements reflect best practice we have seen. They are a resource to assist in improving financial reporting. This includes:</p> <ul style="list-style-type: none"> • significant accounting policies are alongside the notes to which they relate; • simplifying accounting policy language; • enhancing estimates and judgement disclosures; and • including colour, contents pages and subheadings to assist the reader in navigating the financial statements. 	<p>Link: Model Financial Statements</p>
Tax matters	
<p>As the leading provider of audit services to the public sector, we have an extensive knowledge of sector tax issues. These documents provide guidance and information on selected tax matters.</p> <p>This includes new guidance on the reduction in deferred tax on buildings that was reintroduced as part of the COVID-19 response package.</p>	<p>On our website under good practice</p> <p>Link: Tax Matters</p> <p>Link: Reduction in deferred tax on buildings</p>
Client substantiation file	
<p>When you are fully prepared for an audit, it helps to minimise the disruption for your staff and make sure that we can complete the audit efficiently and effectively.</p> <p>We have put together a toolbox called the Client Substantiation File to help you prepare the information you will need to provide to us so we can complete the audit work that needs to be done. This is essentially a toolbox to help you collate documentation that the auditor will ask for.</p>	<p>On our website under good practice.</p> <p>Link: Client Substantiation File</p>

Description	Where to find it
Conflicts of interest	
<p>The Auditor-General has recently updated his guidance on conflicts of interest. A conflict of interest is when your duties or responsibilities to a public organisation could be affected by some other interest or duty that you have.</p> <p>The update includes a printable A3 poster, an animated video on predetermination and bias, gifts and hospitality, and personal dealings with a tenderer. There is also an interactive quiz.</p> <p>These can all be used as training resources for your own employees.</p>	<p>On the Office of the Auditor-General's website under 2019 publications.</p> <p>Link: Conflicts of interest</p>
Good practice	
<p>The OAG's website has been updated to make it easier to find good practice guidance. This includes resources on:</p> <ul style="list-style-type: none"> • audit committees; • conflicts of interest; • discouraging fraud; • good governance; • service performance reporting; • procurement; • sensitive expenditure; and • severance payments. 	<p>On the OAG's website under good practice.</p> <p>Link: Good practice</p>
Post implementation review of simple format reporting standards	
<p>The New Zealand Accounting Standards Board (NZASB) have begun a post-implementation review of the simple format reporting standards used by tier 3 and 4 not-for-profit and public sector entities. This is an opportunity for you to comment on how well the Simple Reporting Format Standards work and provide feedback on any specific issues you have identified.</p>	<p>On the XRB's website.</p> <p>Link: Review of Simple Format Reporting Standards</p>

Description	Where to find it
Procurement	
<p>The OAG are continuing their multi-year work programme on procurement.</p> <p>They have published an article encouraging reflection on a series of questions about procurement practices and how processes and procedures can be strengthened.</p> <p>Whilst this is focused on local government, many of the questions are relevant to all types of public sector entities.</p>	<p>On the OAG's website under publications.</p> <p>Link: Procurement article</p>

Appendix 1: Status of previous recommendations

Open recommendations

Recommendation	First raised	Status
Necessary		
<p>Review of Journals</p> <p>Perform a monthly review of manual journals.</p>	<p>2019</p>	<p>Outstanding</p> <p>During our review of journals, we noted some instances where journal entries were corrected multiple times.</p> <p>As journal entries in Xero are generally prepared and posted by the same person, there is a risk that incorrect journals are posted or that corrections/reversal are inappropriate. A monthly review, performed by the General Manager, over manual journals would reduce the risk of inappropriate journals not being identified.</p> <p>Management comment</p> <p><i>As part of the review of the Management Reports each month the General Manager check the journals in Xero.</i></p> <p><i>As part of the preparation of the Interim and Annual Report all journals are peer reviewed by our financial services provider.</i></p>

Recommendation	First raised	Status
Beneficial		
<p>Revenue and Expenditure disclosures for Regional Council Collaboration (ReCoCo) projects</p> <p>Consider including a separate note disclosure in future annual reports clearly showing all the funding and expenditure relating to ReCoCo including any applicable overhead costs.</p>	<p>2019</p>	<p>Outstanding</p> <p>For the 2019/20 financial statements a proportion of overheads was allocated to the ReCoCo programme based on an agreed formula.</p> <p>We continue to recommend separate disclosure in the notes to the accounts.</p> <p>Management comment</p> <p><i>Our 2021 Financial Management Reports and Interim report split ReCoCo activity and RSHL activity, providing this disclosure.</i></p>

Implemented or closed recommendations

Recommendation	First raised	Status
<p>Recognition of capital work in progress</p> <p>Costs should only be recognised as capital work in progress from the time it is probable that an asset will be recognised, and the future benefits will flow to the Company.</p> <p>Formally document and approve the end of year review of capital work in progress.</p>	<p>2017</p>	<p>Cleared</p> <p>We reviewed the capitalisation approvals and tested the work in progress.</p> <p>There were no issues noted in the 30 June 2020 audit.</p>

Appendix 2: Disclosures

Area	Key messages
Our responsibilities in conducting the audit	<p>We carried out this audit on behalf of the Controller and Auditor-General. We are responsible for expressing an independent opinion on the financial statements and performance information and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001.</p> <p>The audit of the financial statements does not relieve management or the Board of their responsibilities.</p> <p>Our Audit Engagement Letter contains a detailed explanation of the respective responsibilities of the auditor and the Board.</p>
Auditing standards	<p>We carried out our audit in accordance with the Auditor-General’s Auditing Standards. The audit cannot and should not be relied upon to detect all instances of misstatement, fraud, irregularity or inefficiency that are immaterial to your financial statements. The Board and management are responsible for implementing and maintaining your systems of controls for detecting these matters.</p>
Auditor independence	<p>We are independent of the Regional Software Holdings limited in accordance with the independence requirements of the Auditor-General’s Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): <i>Code of Ethics for Assurance Practitioners</i>, issued by New Zealand Auditing and Assurance Standards Board.</p> <p>Other than the audit, we have no relationship with, or interests in, the Regional Software Holdings limited.</p>
Fees	<p>The audit fee for the year is \$7,198, as detailed in our Audit Proposal Letter.</p> <p>No other fees have been charged in this period.</p>
Other relationships	<p>We are not aware of any situations where a spouse or close relative of a staff member involved in the audit occupies a position with the Regional Software Holdings limited that is significant to the audit.</p> <p>We are not aware of any situations where a staff member of Audit New Zealand has accepted a position of employment with the Regional Software Holdings limited during or since the end of the financial year.</p>

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