



# **ANNUAL REPORT TO THE BOARD BY THE AUDIT COMMITTEE**

*COVERING THE PERIOD 1 JANUARY – 31 DECEMBER 2012*

**ECS 12/2013**

**Dated: 13<sup>th</sup> August 2013**

**UTILITIES REGULATION & COMPETITION AUTHORITY**

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# REPORT OF THE AUDIT COMMITTEE

**TO: The Board of the Utilities Regulation and Competition Authority**

## **1. Statutory Framework**

The Audit Committee (“the Committee”) hereby presents its third report to the Board of the Utilities Regulation and Competition Authority (“the Authority” or “URCA”) for the year ended 31 December 2012 in accordance with the provisions of section 33 of the Utilities Regulation and Competition Authority Act, 2009 (“the URCA Act”). This Report provides details of the work of the Committee in relation to the activities performed by the Committee during the year.

The Committee is governed by and carried out its duties during the period under review in compliance with sections 33 and 39(4) of the URCA Act and also follows best practices for the governance of audit committees. The Committee reports that in October 2009 it adopted formal Terms of Reference as its charter, has regulated its affairs in compliance with those terms of reference, and has attempted to discharge its responsibilities as stipulated therein.

The Terms of Reference provides that the responsibilities of the Committee include:

- (i) Overseeing the financial reporting and disclosure process of the Authority on behalf of the Board;
- (ii) Monitoring URCA’s choice of accounting principles and policies;
- (iii) Recommending the appointment of URCA’s external auditors, approving the overall audit scope and oversight of their hiring, performance and independence;
- (iv) Oversight of URCA’s financial compliance, ethics and protected disclosure principles and policies;
- (v) Monitoring URCA’s internal control process;
- (vi) Overseeing the performance of URCA’s internal audit function; and

- (vii) Oversight of risk management policies and practices and discussing the same with URCA's executive management.

The Committee is comprised of Mr. Philip Stubbs as Chairperson, being an independent registered public accountant appointed by the Board, and subsequently reappointed, pursuant to section 33(1) of the URCA Act, and the Non-Executive Members of the Board, namely Mr. Randol Dorsett, Mr. J. Paul Morgan and Mrs. Katherine Doehler. The Secretary to the Board also acts as Secretary to the Committee. The Committee also invited URCA's Financial Officer and Internal Auditor to attend Committee meetings as a standard practice. Where circumstances required it, URCA's Chief Executive Officer was also invited to attend parts of meetings for briefing or reporting purposes. During the period under review, the Committee held seven (7) meetings over seven (7) days during the year ended 31 December 2012.

The Committee conducted a self-assessment of its performance as compared with best practices for such committees. The evaluation focused on the activities performed by the Committee to ensure the effectiveness of its planned activities for 2013.

Under section 33(2)(c) of the URCA Act, the Committee is required to report to the Board on:

- i. URCA's performance against its Annual Plan; and
- ii. The extent to which URCA's deployment of its financial resources has delivered value for money.

## **2. Financial Reporting and Audit**

The Authority's management has the primary responsibility for:

- (i) preparing the Authority's financial statements;
- (ii) maintaining effective internal control over financial reporting; and
- (iii) assessing the effectiveness of internal control over financial reporting.

PricewaterhouseCoopers has been appointed as the independent auditing firm for the Authority, having been selected by the Committee after a competitive selection process, and approved by the Minister responsible for relations with URCA. The appointment is for the annual audits for each of the three years ending 31 December 2012.

The Committee discussed the overall scope and plans for the audit with the Authority's independent auditing firm. The Committee reviewed the Authority's audited financial statements with the independent auditing firm which was responsible for expressing an opinion on the conformity of those audited financial statements with International Financial Reporting Standards. The Committee also reviewed the firm's judgments as to the quality (not just the acceptability) of the Authority's accounting principles; and such other matters as are required to be discussed with the Committee pursuant to the International Standard on Auditing 260 (*Communication with Those Charged with Governance*), other standards and best practices of corporate governance, and other applicable laws and regulations governing the Authority. In addition, the Committee has discussed the independent auditing firm's independence from the Authority's management and the Authority, and considered the compatibility of non-audit services with the independent auditing firm's independence. The Committee also discussed with the independent auditing firm (with and without management present) the results of the firm's examination; their evaluation of the Authority's internal controls, including internal control over financial reporting; and the overall quality of the Authority's financial reporting and risk management procedures. The Committee was satisfied with the results of the external audit work, which enabled the Committee to formulate its own conclusions to the Board of URCA.

In fulfilling its monitoring and oversight responsibilities, the Committee also reviewed and discussed with management the Authority's audited financial statements for the year ended 31 December 2012, including a discussion of the quality, not just the acceptability, of the accounting principles; the reasonableness of significant judgments; the clarity of disclosures in the financial statements; the results of management's assessment of the effectiveness of the Authority's internal controls; and the independent auditing firm's evaluation of internal controls, including internal control over financial reporting. The Committee discussed with management and the independent auditing firm deficiencies identified during the course of the assessment and the audit. The Committee is satisfied with management's plan to remediate those deficiencies and will monitor the steps taken by management to address each of the issues raised.

In reliance on the reviews and discussions referred to above, the Committee recommended to the Board, and the Board approved, that the audited financial statements be included in the Annual Report for the year ended December 31, 2012 and a copy provided to the Minister responsible for relations with URCA.

A request for proposals was issued in May 2013 for the competitive selection of an independent auditing firm for each of the three years ending 31 December 2015.

Mr. Royston Jones, an independent consultant, was engaged by the Committee to provide internal audit services and to function as Internal Auditor, reporting to the Committee. His internal audit work plan and audit findings are reviewed and approved by the Committee.

### 3. Performance against Annual Plan

Each year projects are identified to further the strategic priorities of the Electronics Communications Sector. Those priorities are:

- **Implementing Regulatory Safeguards** that are necessary for a level-playing field, eliminating barriers to entry and competition, and allowing for effective regulation of the sector, in terms of access and interconnection, retail price regulation, and fostering competition through the relevant provisions of the Communications Act.
- **Promotion of Competition** in converging markets through new licences for fixed telephony, Pay TV, and broadband; driving forward market-based approaches to spectrum licensing; making spectrum available for cross-platform services; and removing barriers to switching suppliers for consumers.
- **Public Interest** policies that deliver on the objectives of providing quality public service broadcasting and protecting consumers through content regulation and supporting new approaches to online issues.
- **Consumer Protection** that empowers the public to make informed choices through education programmes encompasses developing and enforcing consumer protection policies, and driving improvements in quality of service.
- **Institutional Capacity Building** – the key policy strategies are to be delivered through developing institutional capacity by ensuring that URCA has skilled and trained colleagues and is sufficiently resourced to carry out its functions.

The Audit Committee assesses progress on specific projects and any deviations from the proposed plan. The Annual Plan for 2013 identifies projects scheduled to begin or for

completion in 2012 which were postponed to 2013. The Audit Committee believes every reasonable effort was made to achieve the plan. The Audit Committee has considered the explanations provided for delays in specific projects and is satisfied that the fulfillment of the priorities is not unduly affected.

In addition to the initiatives within the above noted priorities, URCA undertook two major projects: strategy development and a revised Electronic Communications Sector (ECS) Policy. Strategy development commenced with discussions with staff, industry and Government to ensure URCA's priorities are in line with those of its stakeholders. The development of strategy is to be completed later in 2013. URCA has a statutory responsibility to update the ECS policy every three years. The current ECS policy was adopted in October 2009. This revision process started in 2012 and included a comprehensive review of industry developments, nationally and internationally, and recommendations for update initiatives. The draft was submitted to Government for review in the fall of 2012 and will be completed after Government, industry and public review in mid-2013.

#### **4. Deployment of Financial Resources to Deliver Value for Money**

As stated in our 2011 Report:

“The objective of the value for money audit is for the Authority to compile measureable data to track economy, efficiency and effectiveness. By collecting basic statistical data and comparing activities to objectives, areas requiring improvement can be identified. The Audit Committee assisted management in developing relevant Key Performance Indicators (KPIs) in the areas of Regulatory Affairs, Finance, and Human Resources and Information Technology to measure performance against plans. Ideally we will also be able to gather regional data to measure URCA's performance against other regulators. It will require a few years to put practices into place to get the information we need to critically assess value for money. As more robust data becomes available, the Audit Committee will continue to assist management with developing additional KPIs. The Audit Committee will continue to review best practices in this field for implementation in URCA.”

As of this date, we have been unable to source relevant regional data.

Although URCA's KPIs are still undergoing analysis for relevancy and robustness, it is beginning to develop measures that provide performance information. Specifically:

- Training time for staff is improving but is still not reaching targets.
- Hiring new staff in 2012 took considerably more time than in 2011.
- All staff members now have remote access to the URCA network.
- Almost all licencing applications were processed within the 30-day target.
- Work needs to be done on completing publication of final decisions and means needs to be established to factor industry requests for extensions into this measurement.

It is the Committee's opinion that the 2012 URCA Annual Report and 2013 Annual Plan presents fairly the results of the performance and deployment of resources for 2012.

Respectfully submitted,



**Philip B. Stubbs**

Audit Committee Chairperson

13<sup>th</sup> August 2013