



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 fourth report to the Board of the Utilities Regulation and Competition Authority (“the Authority” or “URCA”) for the year ended 31 December 2013 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 provide 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

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- (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 meetings over seven days during the year ended 31 December 2013.

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 2014.

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.

Deloitte & Touche was 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 2015.

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 2013, 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.

Discussions related to financial reporting included The Committee's review and concurrence of a policy developed by management for the reporting of fund balances in the electronic communications fund. The policy states that the Authority will determine, at the end of each financial year, whether any fund balances include amounts that had been previously budgeted, and billed to licensees, for existing contracts, planned projects and other commitments and which are not completed by the end of the year. Such amounts will be designated as funds allocated and deferred for expenditure in future years.

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 31 December 2012 and a copy provided to the Minister responsible for relations with URCA.

Mr. Royston Jones, an independent Consultant, has been engaged by the Committee to provide internal audit services and to function as Internal Auditor, reporting to the Committee. His internal audit work plan is reviewed and approved by the Committee. The Committee meets regularly with the Internal Auditor to discuss the results of audit examinations and to ensure timely remediation of audit findings.

3. Performance against Annual Plan

During 2012, both the Electronics Communications Sector Policy (ECS Policy) and URCA's first Strategic Plan came to an end. In 2013, URCA's principal priority was to ensure completion of key projects that were brought forward from 2012, and commencement of new tasks to pave the way for the new Sector Policy. The focus areas were:

- Developing a New Strategy for the ECS Policy and URCA
- Protecting and Promoting Consumer Interests
- Facilitating and Encouraging Competition
- Promoting Affordable Access to Services Throughout The Bahamas
- Strengthening the Regulatory Framework and Principles
- Promoting a Wide Range of High Quality Content Services
- Managing Radio Spectrum Effectively and Efficiently
- Building Regulatory Capacity and Human Capital

The Audit Committee assesses progress on specific projects and any deviations from the proposed plan. The URCA 2013 Annual Report & 2014 Annual Plan provides a review of the projects completed and identifies projects scheduled to begin or for completion in 2013 which were postponed to 2014. Completed projects include the two major projects related to strategy development and revision of the ECS Policy.

4. Deployment of Financial Resources to Deliver Value for Money

As stated in our 2012 Report:

The objective of the value for money audit is for the Authority to compile measurable 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, 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.

To provide examples of how the KPIs are used to inform Management, the Audit Committee and the Board, historical data and a brief analysis are presented below.

Operational KPIs

KPI in dollars	2010	2011	2012	2013
Fees - variance	\$730,593	\$373,550	\$155,836	\$(76,857)
Other income - variance	276,285	67,689	68,576	55,685
Total income - variance	\$1,006,878	\$441,239	\$224,412	\$(21,172)

Note that the variances in actual, budgeted fees and total income have significantly reduced from 2010 through 2013. This is in response to tightening the budget process and shows positive progress.

Finance KPIs

KPI	2010	2011	2012	2013
Cost of finance function	6.35%	6.6%	6.65%	4.93%
Period end cycle time	11.25 days	10 days	11 days	9 days
Year-end cycle time	26 days	14 days	28 days	21 days
Budgeting accuracy	-2.97%	11.66%	28.32%	16.26%
Cost of licensing invoice	\$1,362	\$307	\$234	\$187
Debtor days	25 days	23 days	33 days	37 days
Number of billing adjustments	9	9	22	3
Value of adjustments	\$169,019	\$21,314	\$34,193	\$5,116
Long outstanding debt as a percentage of total debt	82.55%	89.93%	78.06%	99.82%

Finance KPIs show progress in most areas.

Human Resources KPIs

KPI	2010	2011	2012	2013
Cost of HR function (% of total cost)	5.88%	2.88%	6.36%	5.99%
Cost of HR per employee	\$13,354	\$7,807.67	\$12,131.00	\$12,264.63
Ratio of total personnel to HR personnel	11:1	9:1	7:1	8:1
Average number of training days per employee	6 days	5 days	5.6	4.7%
Leavers as a percentage of total personnel	13.04%	22.73	9%	5.0%
Sick days per annum	7 days	12 days	12 days	6.95
Investment in learning & development as % of payroll	9.9%	4%	3.8%	6.5%
Cost of advisors as a percentage of the total payroll	44.8%	1.03%	4.11%	4.4%
% of roles filled by Bahamians	86.4%	88.90%	90.91%	95.83%
Average lapse time from vacancy to acceptance of offer	60 days	77 days	225 days	69 days
Cost of recruitment per vacancy	\$16,048	\$5,337.56	\$4,971.15	\$6,901.43
% of people still in the post after 12 months of service	91%	88%	100%	100%
Percentage of staff receiving annual appraisals	100%	38.90%	0%	0%

The historical data for HR points to a need to increase staff training and development which is always an issue for an organization working too close to capacity. It is also clear the performance management system needs to be taken seriously and evaluations must be performed for all staff.

For a full review of all KPIs refer to the Annual Reports published on the website, <http://www.urcabahamas.bs/publications.php>.

In 2013, management and the Audit Committee further revised the licensing KPIs to reflect the time from which a “completed” application is received to the issuance of a license. Additional KPIs related to measuring URCA’s public information efforts were also added for testing in 2014 and implementation in 2015.

It is the Committee’s opinion that the 2013 URCA Annual Report and 2014 Annual Plan presents fairly the results of the performance and deployment of resources for 2013.

Respectfully submitted,

A handwritten signature in black ink, appearing to be 'Philip B. Stubbs', with a long horizontal line extending to the right.

Philip B. Stubbs
Audit Committee Chairperson
22 July 2014