



## 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 fifth report to the Board of the Utilities Regulation and Competition Authority (“the Authority” or “URCA”) for the year ended 31 December 2014 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, the Non-Executive Members of the Board, namely Mr. Randol Dorsett, Mr. J. Paul Morgan and (until 31<sup>st</sup> July 2014) Mrs. Katherine Doehler, and the Secretary to the Committee, Mr. Vincent Wallace Whitfield, who is also General Counsel and Secretary to the Board. 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 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 2014, 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 with 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 categorised by the Authority as "funds which are immediately required" that had been previously budgeted, and billed to licensees, for existing contracts, planned projects and other commitments which are not completed by the end of the year. During the year ended 31 December 2014, the Authority identified \$425,000 as funds which were immediately required as at December 31, 2014 (2013: nil).

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 2014 and a copy provided to the Minister responsible for relations with URCA.

Mr. Royston Jones, an independent registered public accountant and 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

The URCA 2014 Annual Report and 2014 Annual Plan provides a review of the projects planned and completed, and identifies projects scheduled for completion in 2014 that were postponed to 2015. The Audit Committee assesses progress on the specific projects and deviations from the proposed plan.

In its 2014 Annual Plan, URCA identified eighteen (18) projects that it planned for 2014, ten (10) of which were continued from 2013. Twelve (12) of the eighteen (18) planned projects were scheduled to be completed in 2014 with the remaining projects expected to be completed in 2015, ongoing, or, in the case of 'Cellular Mobile Liberalisation', the date was expected to be subsequently announced.

The following tables provide a statistical summary of the completion of projects in relation to the Annual Plan:

Description of Project	# of Projects
Projects brought forward from 2013	10
New 2014 projects	8
<b>Total projects for 2014 per the Annual Plan</b>	<b>18</b>
Scheduled to be completed after 2014, ongoing, or date not established	6
<b>Projects scheduled to be completed in 2014</b>	<b>12</b>
Projects <u>not</u> completed in 2014	6
<b>Projects completed in 2014</b>	<b>6</b>
<b>Projects not completed in 2014 (from above)</b>	<b>6</b>
Projects where work commenced in 2014	4
<b>Projects where work did not commence in 2014 (re-scheduled to 2015)</b>	<b>2</b>

Of the twelve (12) projects scheduled to be completed in 2014, six (6) were completed in the year, and of these, three (3) were completed by the targeted completion date specified in the Annual Plan.

Six (6) projects scheduled for completion in 2014 were not completed. However, work commenced on four (4) of these projects in 2014 and the remaining two (2) projects were rescheduled to commence in 2015.

Details of the 2014 projects planned, completed and postponed (to 2015) can be obtained from URCA's 2014 Annual Report and 2015 Annual Plan.

Achievement of targets was affected by the Authority prioritising resources to the liberalisation of the mobile sector. Commenced in 2014 and continuing as a priority in 2015, URCA's involvement includes participation in the selection process and optimization of the regulatory framework for a competitive cellular mobile market.

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

The Committee conducted a review to determine the extent to which URCA's deployment of its resources delivered value for money (VFM Review). The primary objectives of the VFM Review are to:

- provide URCA's Board with independent information and advice about how economically, efficiently and effectively URCA has used its resources;
- encourage URCA's management to improve their performance in achieving value for money and implementing policy; and
- identify good practice and suggest ways in which URCA's provision of services to its stakeholders and the public could be improved.

The Audit Committee seeks to promote better value for money by highlighting and demonstrating to management ways in which they could make improvements to realise financial savings or reduce costs; guard against the risk of fraud, irregularity and impropriety; provide a better quality of service; strengthen and enhance their management, administrative and organisational processes; and achieve their aims and objectives more cost-effectively.

The VFM Review is based on an assessment of relevant statistics on the activities at URCA that are intended to measure how economically, efficiently and effectively URCA has utilized its financial resources. By collecting 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 objectives. Some KPIs are specified by the legislation that governs URCA and they have also been used in this assessment.

Following is a summary of the results of the VFM Review using the KPIs published in the 2014 Annual Report:

Description of Assessment	Assessment
Publication of Final Determinations	URCA met the dates specified in the Communications Act for the issue of a final determination in <b>5 of the 8</b> determinations issued in 2014.
Achievement of Consultation start-dates	URCA met <b>5 of the 11</b> targeted start-dates (KPIs) for consultations specified in the 2014 Annual Plan.
Processing of new licence applications	Except for one new licence application, URCA met all of the statutory deadlines for processing new licence applications.
KPIs for Finance, Human Resources & Information Technology	No 'value for money' assessment was done as there are no targets or benchmarks for these KPIs *
Budget versus actual revenues and expenditures for 2014	<ul style="list-style-type: none"> <li>• Total income was 103% of budget</li> <li>• Total operating expenses was 88% of budget</li> <li>• Staff costs were 81% of budget</li> <li>• Advertising, consumer and public relations was 57% of budget</li> <li>• Generally, no significant budget overages on individual expenses.</li> <li>• Capital expenditure was 169% of budget (budget variance resulted from acquisition of IT equipment).</li> </ul>

\* Note: URCA is in the process of reviewing KPIs to improve their efficacy in assessing its performance and delivery of 'value for money'. The review will include establishing benchmarks for Finance, Human Resources & Information Technology KPIs. The Audit Committee is assisting in this review.

Delivery of 'value for money' is impacted by the system of internal controls within an organisation that help to ensure that resources are effectively and efficiently deployed. The Audit Committee monitors the results of regular internal audit reviews and has identified the following areas where there is scope for improvement in controls that could affect URCA's delivery of value for money:

- Criteria for inclusion of vendors in an approved vendor list
- Procedures for verifying budget availability
- Policies and procedures for the disposal of fixed assets

- Controls over the calculation of KPIs for New Licences, Finance & Human Resources.
- Tracking of consumer complaints and generation of relevant KPIs
- Tracking of decisions, determinations, consultations and other regulatory measures.

It is the Committee's opinion that the 2014 URCA Annual Report and 2015 Annual Plan presents fairly the results of the performance and deployment of resources for 2014.

Respectfully submitted,



**Philip B. Stubbs**  
Audit Committee Chairperson  
18<sup>th</sup> August 2015