



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 sixth report to the Board of the Utilities Regulation and Competition Authority (“the Authority” or “URCA”) for the year ended 31 December 2015 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

- (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 Mrs. Cherise Cox-Nottage, 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 and Director of Policy and Regulation were 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 and had several online exchanges.

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 was 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 2015, 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 noted that there were no deficiencies identified during the 2015 audit.

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 that are required in respect of existing contracts, planned projects and other commitments which are anticipated to arise and become payable during the first quarter of the following year. Such amounts will be designated as "funds immediately required" by the Authority. As at 31 December 2015, the Authority identified \$1,659,000 as funds which were immediately required (2014: \$425,000).

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 2015 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 2015 Annual Report and 2015 Annual Plan provides a review of the projects planned and completed, and identifies projects scheduled for completion in 2015 that were postponed to 2016. The Audit Committee assesses progress on the specific projects and deviations from the proposed plan.

In its 2015 Annual Plan, URCA identified nineteen (19) projects that it planned for, and targeted to be completed in, 2015; eleven (11) of these projects were continued from 2014. Seven (7) of these projects were completed in 2015.

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 2014	11
New 2015 projects	8
Total projects planned and targeted for completion in 2015 per the Annual Plan	19
Projects <u>not</u> completed in 2015	12
Projects completed in 2015	7
Projects not completed in 2015 (from above)	12
Projects completed in 1 st Quarter of 2016	4
Projects rescheduled for completion in 2016	8

Of the seven projects that were completed during the year, four (4) were completed by the targeted completion date specified in the Annual Plan.

Twelve (12) projects scheduled for completion in 2015 were not completed. However, work commenced on four (4) of these projects in 2014 and the remaining three (3) projects commenced in 2015.

Details of the 2015 projects planned, completed and postponed (to 2016) can be obtained from URCA's 2015 Annual Report and 2016 Annual Plan.

Achievement of targets was affected by the Authority prioritising resources to the liberalisation of the cellular mobile sector, including an investigation in 2015 triggered by that process. Commenced in 2014 and continuing as a priority in 2015 as directed by the Board of Directors, URCA's involvement includes participation in the selection process and optimization of the regulatory framework for a competitive cellular mobile market. This initiative, which is a key objective of the ECS policy, consumed a significant portion of URCA's resources during 2015.

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 reviewed the resources available and deployed by URCA, and considered the extent to which URCA met the needs of the stakeholders that require its services. Stakeholders include the public, licensees, the Government of The Bahamas, and internal stakeholders. URCA delivered "value for money" through the deployment of its available resources through its administrative, regulatory and advisory activities. The key activities included (but not limited to):

- Completion of the cellular liberalisation objectives;
- Advice on ECS sector policy;
- Review and completion of merger applications;
- Handling of consumer complaints;
- Review and completion of pricing applications
- Regulatory training and development; and
- Communications and promotional relations with consumers.

The VFM Review includes 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 assessment using the KPIs published in the 2015 Annual Report:

Description of Assessment	Assessment
Publication of Annual Plan and Annual Report	URCA met the dates specified by Section 41(1) of the URCA Act for publication of its Annual Plan and Annual Report (three of three dates achieved).
Publication of Final Determinations	URCA met the date specified in section 100(5) of the Communications Act for the issue of a final determination in two (2) of the eight (8) determinations issued in 2015.
Achievement of Consultation Start-dates	URCA met two (2) of the seven (7) targeted start-dates for consultations specified in the 2015 Action Plan.
Processing of new licence applications	URCA met all of the statutory deadlines for processing new licence applications.
KPIs for Finance, Human Resources and Information & Communications Technology	URCA's achievement in evaluating performance against KPIs is not assessed as no targets or benchmarks were set for these KPIs.
Budget versus actual revenues and expenditures for 2015	<p>Key observations:</p> <ul style="list-style-type: none"> • Fee revenue was 4% over budget • Other income of \$1.6 million mainly consisted of a fine to a major licensee, of which \$1.1 million was donated to assist NEMA with hurricane relief. • Total operating expenses was 10% under budget. • Consumer education and public relations was 73% under budget, as many planned initiatives did not materialise in 2015. • Conference, training and travel was 26% under budget also due to some planned training not materialising in 2015. • Capital expenditure was 55% over budget.

* 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:

- Establishing and documenting criteria for including vendors on an approved vendor list
- Enhancement of policies and procedures for Corporate and Consumer Relations
- Establishment of a Consumer Advisory Council

It is the Committee's opinion that the 2015 URCA Annual Report and 2016 Annual Plan presents fairly the results of the performance and deployment of resources for 2015.

Respectfully submitted,



Philip B. Stubbs
Audit Committee Chairperson
25 August 2016