



## **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 seventh report to the Board of the Utilities Regulation and Competition Authority (“the Authority” or “URCA”) for the year ended 31 December 2016 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, Mrs. Clara Taylor-Bell, who is also General Counsel and Secretary to the Board. Mr. Vincent Wallace-Whitfield, as General Counsel and Board Secretary, served as Secretary to the Committee until 2 August 2016; Mr. Donavon Dorsett acted in this capacity from 2 August 2016 to 14 March 2017. 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 (CEO) and Director of Electronic Communications (DEC) (formerly titled 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 eight (8) meetings over eight (8) days and had several online exchanges.

The Committee notes that Mrs. Kathleen Riviere-Smith resigned as CEO, effective 31 August 2016, and Mr. Stephen Breaux was appointed Acting CEO, effective 1 September 2016, in addition to his duties as DEC. Mr. Breaux was subsequently appointed as CEO on 1 March 2017, following a competitive selection process.

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 re-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 2018.

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 2016, 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 no significant weaknesses with respect to management information systems, accounting procedures and systems of internal control were identified during the 2016 audit.

Discussions related to financial reporting included, but was not limited to, the Committee's review and concurrence with the following:

- Management developed a policy 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 2016, the Authority identified \$2,509,545 as funds which were immediately required (2015: \$1,659,000).

- The statement of financial position reflects an amount of \$234,669 recoverable from the Energy Sector as at 31 December 2016 representing accumulated expenditure for that Sector (2015: \$27,476); these amounts were not assessed to the Sector until 2017.
- During the year ended 31 December 2016, the Electronic Communications Fund recovered \$487,537 from the Consolidated Fund for expenses incurred since 2015 by the Authority in managing the cellular mobile liberation process. This amount is reflected as a receipt by the Fund in the statement of changes in equity.

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 2016 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 2016 Annual Report and 2016 Annual Plan provide a review of the projects planned and completed, and identifies projects scheduled for completion in 2016 that were postponed to 2017. The Audit Committee assesses progress on the specific projects and deviations from the proposed plan.

In its 2016 Annual Plan, URCA identified twenty (20) projects that it planned for, and targeted to be completed in, 2016; four (4) of these projects were continued from 2014 and nine (9) from 2015. Eight (8) of these projects were completed in 2016.

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	4
Projects brought forward from 2015	9
New 2016 projects	7
<b>Total projects planned and targeted for completion in 2016 per the Annual Plan</b>	<b>20</b>
Projects <u>not</u> completed in 2016	12
<b>Projects completed in 2016</b>	<b>8</b>

<b>Projects not completed in 2016</b> (from above)	<b>12</b>
Project cancelled	1
Projects rescheduled for completion in 2017	<b>11</b>

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

Details of the 2016 projects planned, completed and postponed (to 2017) can be obtained from URCA's 2016 Annual Report and 2017 Annual Plan.

Achievement of targets was affected by the Authority prioritising resources to further the introduction of cellular mobile competition. Commenced in 2014 and continuing as a priority through 2016, as directed by the Board of Directors, this became a reality on 1 October 2016. This initiative consumed a significant portion of URCA's resources during 2016. Another priority, which consumed substantial resources and attention, was the establishment of the Utilities and Energy Department to lead the regulation of the Electricity Sector pursuant to the Electricity Act 2015 which came into force on 28 January 2016.

#### **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 to further its administrative, regulatory and advisory activities. The key activities included (but not limited to):

**Electronic Communications Sector**

- Furthering the introduction of cellular mobile competition;
- Completion of regulatory measures related to cellular liberalisation;
- Implementation and compliance of Consumer Protection Regulations; and
- Issued Quality of Service Regulations.

**Electricity Sector**

- Establishment of the Utilities and Energy Department;
- Establishing a regulatory fee structure; and
- Review of BPL’s Consumer Protection and Renewable Energy Plans.

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 2016 Annual Report:

Description of Assessment	Assessment
Publication of Annual Plan and Annual Report	URCA met <b>one of three</b> dates specified by Section 41(1) of the URCA Act for publication of its Annual Plan and Annual Report (however <b>the other two dates</b> were achieved within three days of the specified date).
Publication of Final Determinations	URCA met the date specified in section 100(5) of the Communications Act for the issue of a final determination

Description of Assessment	Assessment
	in <b>eleven (11) of the twelve (12)</b> determinations issued in 2016.
Processing of new licence applications	URCA met <b>all</b> 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. Targets and benchmarks are being developed and implemented for 2017.
Budget versus actual revenues and expenditures for 2016	<p>Key observations:</p> <ul style="list-style-type: none"> <li>• Fee revenue was 7% under budget</li> <li>• Total operating expenses was 19% under budget.</li> <li>• Capital expenditure was 186% over budget (resulted mainly from unbudgeted expenditure on "work-in-progress" relating to purchase of office building).</li> </ul>
Key Regulatory Objectives - ECS	<p>URCA met its key objective for the year through the commencement of cellular mobile competition in October 2016, meeting the schedule set by the Government in its notification to URCA of 5 April 2016. Further, during 2016 URCA delivered all regulatory measures necessary for cellular liberalisation, including:</p> <ul style="list-style-type: none"> <li>• Review of the BTC RAIO to accommodate mobile competition</li> <li>• National Roaming</li> </ul> <p>As at the end of 2016, URCA was also on target for meeting the other regulatory measure related to cellular mobile competition, namely mobile number portability, during the first trimester of 2017.</p>
Key Regulatory Objectives - ES	<p>URCA achieved its key objectives for the newly regulated Electricity Sector during 2016, as follows:</p> <ul style="list-style-type: none"> <li>• Licensing of BPL</li> <li>• Review of BPL Renewable Energy Plan</li> <li>• Renewable Energy – Development of the Small Scale Renewable Generation Programme</li> </ul> <p>URCA did not achieve the following objectives related to the Electricity Sector:</p> <ul style="list-style-type: none"> <li>• Objective to establish the Utilities and Energy Department was not achieved as the Director of Utilities and Energy and other key team members had not been recruited as at the end of 2016</li> </ul>

Description of Assessment	Assessment
	<ul style="list-style-type: none"> <li>Review of BPL's Consumer Protection Plan was not achieved during 2016</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, including management's plans to remediate any control deficiencies. The Committee has identified the following key areas where there is scope for improvement in controls that could significantly affect URCA's delivery of value for money:

- Completion of a disaster and recovery plan
- Full execution of a risk management policy

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

Respectfully submitted,



Philip B. Stubbs  
 Audit Committee Chairperson  
 16 August 2017