



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 eighth report to the Board of the Utilities Regulation and Competition Authority (“the Authority” or “URCA”) for the year ended 31 December 2017 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. Neville Wilchcombe, Mr. J. Paul Morgan, Mr. Kendal Culmer and Mr. Serfent Rolle, and the Secretary to the Committee, Mrs. Clara Taylor-Bell, who is also General Counsel and Secretary to the Board. Mr. Randol Dorsett and Mrs. Cherise Cox-Nottage, as Non-Executive Members of the Board, served as Members of the Committee until 16 November 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) 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 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 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 2017, 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 2017 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 2017, the Authority identified \$1,855,755 as funds which were immediately required (2016: \$2,509,545).
- Accumulated expenditure of \$234,669 during 2016 on behalf of the Energy Sector were recorded as a receivable as at 31 December 2016 as no fees were assessed in respect of that Sector for 2016. This amount was recovered in 2017 as part of the fees assessed in 2017.
- During 2017, the Authority on behalf of The Bahamas Government hosted the International Telecommunications Union Global Symposium for Regulators and Caribbean Telecommunications Union ICT Week. The costs associated with the sponsorship ancillary activities amounted to \$1,364,592 (approved budget - \$1,430,464).

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 2017 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, through a competitive selection process in May 2011, 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. The term of Mr. Jones' appointment ends on 31 March 2019.

3. Performance against Annual Plan

The URCA 2017 Annual Report and 2017 Annual Plan provide a review of the projects planned and completed, and identifies projects scheduled for completion in 2017 that were postponed to 2018. The Audit Committee assesses progress on the specific projects and deviations from the proposed plan.

In its 2017 Annual Plan, URCA identified twenty (20) projects that it planned for, and targeted to be completed in, 2017; nine (9) of these projects were completed in 2017 and eleven (11) were rescheduled to 2018.

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	1
Projects brought forward from 2015	4
Projects brought forward from 2016	8
New 2017 projects	7
	20
Total projects planned and targeted for completion in 2017 per the Annual Plan	20
Projects <u>not</u> completed in 2017	11
Projects completed in 2017	9

Of the nine projects that were completed during the year, six (6) were completed by the targeted completion date specified in the Annual Plan.

Details of the 2017 projects planned, completed and postponed (to 2018) can be obtained from URCA's 2017 Annual Report and 2018 Annual Plan.

Achievement of targets for 2017 was affected by the following factors:

- Significant resource shortage from 2016 attrition;
- Hosting of international events on behalf of the Government that were not included in the scheduled projects and which required more significant human resource allocation than anticipated; and
- Significant volume of work based on complaints, legal proceedings and stakeholder interventions.

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 2017 Annual Report:

Description of Assessment	Assessment
Publication of Annual Plan and Annual Report	URCA met all of the three dates specified by Section 41(1) of the URCA Act for publication of its Annual Plan and Annual Report.
Publication of Final Determinations	URCA did not meet the date specified in section 100(5) of the Communications Act (within one month of final comments) for any of the six Final Determinations issued in 2017.
Publication of decisions, results and other regulatory measures	URCA did not meet the KPI (within 30 days of close of consultation) for any of the eight decisions, results and other regulatory measures in 2017.
Processing of new licence applications	URCA met all of the statutory deadlines for processing of 114 new licence applications in 2017.
KPIs for Finance, Human Resources, Information & Communications Technology and Corporate & Consumer Relations	<p>KPIs for 2017 were compared with those of the past five years (except for new KPIs) and showed no unusual variances, except as noted:</p> <ul style="list-style-type: none"> • the time for completion of period-end financial reporting in 2017 was 22 working days compared to an average of 10 days for the past five years; this was attributed to the Finance Officer spending substantial time on jury duty.

Description of Assessment	Assessment
Budget versus actual revenues and expenditures for 2017	<p>Key observations:</p> <ul style="list-style-type: none"> • Total revenue was 7% (\$520,635) over budget (mostly as a result of receipt of NewCo performance bond settlement) • Total operating expenses were 16% (\$1,277,723) under budget. • Capital expenditure was 27% (\$1,393,804) under budget (expenditure on the Frederick House office building purchase was less than budgeted).
Key Regulatory Objectives – Electronic Communications Sector (ECS)	<p>URCA’s objectives for the ECS sector during 2017 mainly related to the oversight of the liberalised cellular mobile market. These accomplishments included:</p> <ul style="list-style-type: none"> • Regulatory intervention between the two licensees to ensure competition that was fair, non-discriminatory and on a level playing field. • Implementation of Mobile Number Portability. • Benefits accruing to consumers from competition resulting in better quality, prices and availability of services. • Continued monitoring of the service delivered by ECS operators to ensure compliance with its Consumer Protection Regulations and Quality of Service for Electronic Communications Networks and Services in The Bahamas Regulations. • Publication of The Statement of Results and Final Decision to facilitate collection of comprehensive sector data and publication of relevant and timely reports. • Publication of New Consultation Procedures. • Publication of its Revised Licensing Guidelines.

Description of Assessment	Assessment
	<ul style="list-style-type: none"> • Commencement of the consultative process to develop a draft ECS Policy Document for consultation with the Government.
Key Regulatory Objectives – Electricity Sector (ES)	<p>During 2017 URCA completed its establishment of the Utilities and Energy Department (UE), which commenced in 2016, with:</p> <ul style="list-style-type: none"> • the appointment of its first Director of Utilities and Energy; • development of the regulatory framework for ES; and • building of capacity in the UE department. <p>Other objectives met were:</p> <ul style="list-style-type: none"> • Completion of the licensing framework for the sector. • Completion of the consultative phase for the development of a Consumer Protection Plan for Bahamas Power and Light (BPL). • Facilitated integration of small-scale renewable energy self-generation facilities into BPL’s electricity grid. <p>Also, commenced work on the following:</p> <ul style="list-style-type: none"> • Utility Scale Renewable Generation. • Efficiency Study of BPL.

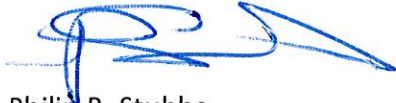
* Note: URCA reviewed KPIs to improve their efficacy in assessing its performance and delivery of ‘value for money’; some new KPIs were added while reporting on others was discontinued. A project was commenced to develop organisational performance indices to more fully assess performance against targets; this project is expected to be completed in 2019.

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; and
- Development and implementation of procedures to manage significant contracts.

It is the Committee's opinion that the 2017 URCA Annual Report and 2017 Annual Plan presents fairly the results of the performance and deployment of resources for 2017.

Respectfully submitted,



Philip B. Stubbs
Audit Committee Chairperson
September 10, 2018