



## 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 ninth report to the Board of the Utilities Regulation and Competition Authority (“the Authority” or “URCA”) for the year ended 31 December 2018 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;

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- (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. 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 eleven (11) meetings 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, for the annual audits for each of the three years ended 31 December 2018. The Committee has commenced a competitive selection process in 2019 to appoint a new independent auditing firm for each of the three years ending 31 December 2021.



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 2018, 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 2018 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 2018, the Authority identified \$1,850,900 as funds which were immediately required (2017: \$1,855,795).

- Effective January 1, 2018, The Authority adopted IFRS 9 – Financial Instruments (“IFRS 9”), which supersedes IAS 39 – Financial Instruments (“IAS 39”), and IFRS 15 – Revenue from Contracts with Customers (“IFRS 15”), which supersedes IAS 18 – Revenue (“IAS 18”).
  - Under IFRS 9, the new “expected credit loss” impairment model which was adopted replaced the “incurred credit loss model” of IAS 39. This adoption did not have a significant impact on the carrying amount of the Authority’s financial assets on the transition date, given that the Authority has not recognized revenue that did not fully meet the definition of revenue under both IAS 18 and IFRS 15.
  - IFRS 15 requires entities to recognize revenue when the criteria for revenue recognition has been met, taking into consideration whether there is an enforceable contract and the collectability associated with the goods and services transferred to the customer. Under IFRS 15, a five step model framework for determining the nature, amount, timing and uncertainty of revenue and cash flow emanating from contracts with customers, excluding contracts falling within the scope of the standards on leases and financial instruments, was established. The Authority has adopted the standard using the full retrospective approach applying practical expedients. The adoption of this standard did not have a significant impact on revenue recognition.

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 2018 and a copy provided to the Minister responsible for relations with URCA.

Deloitte & Touche, an independent firm of professional accountants and advisors, has been engaged effective 1 June 2019 by the Committee, through a competitive selection process, to provide internal audit services and to function as Internal Auditor, reporting to the Committee. The firm succeeds Mr. Royston Jones, an independent registered public accountant and consultant, whose appointment as Internal Auditor ended on 31 March 2019. The internal audit work plan is reviewed and approved by the Committee. It is the practice of the Committee to meet 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 2018 Annual Report and 2018 Annual Plan provide a review of the projects planned and completed, and identifies projects scheduled for completion in 2018 that



were postponed to 2019. The Audit Committee assesses progress on the specific projects and deviations from the proposed plan.

In its 2018 Annual Plan, URCA identified twenty-one (21) projects that it planned for, and targeted to be completed in, 2018; nine (9) of these projects were completed in 2018 and eleven (11) were rescheduled to 2019; one project (1) is ongoing.

Beginning in 2018, URCA prioritised projects into three tiers as follows:

- Tier I - projects of greatest importance and urgency; resources were directed to achieve completion during 2018.
- Tier II - also projects of significant importance to be completed in the shortest possible timeframe, though with lower priority than Tier I projects.
- Tier III - projects addressing emerging regulatory or management issues, to be completed as resource availability dictates; also which are of lower priority than Tier I and II projects.

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

Description of Project (Tier I and Tier II)	# of Projects
Projects brought forward from 2014	1
Projects brought forward from 2015	1
Projects brought forward from 2016	6
Projects brought forward from 2017	4
<i>Add:</i> New Projects started in 2018	9
<b>Total Projects Planned and Targeted for Completion in 2018</b>	<b>21</b>
<i>Less:</i> Projects <u>not</u> Completed in 2018	12
<b>Total Projects Completed in 2018</b>	<b>9</b>

The above table shows projects that were planned for completion by URCA going back a few years. URCA’s planning process did not allow for prioritisation of projects according to need and availability of resources until 2018. As a result, proposed projects that were of low priority were rescheduled each year with the approval of URCA’s Board.

Details of the 2018 projects planned, completed and postponed (to 2019) can be obtained from URCA’s 2018 Annual Report and 2019 Annual Plan.

#### **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. During 2018 URCA's key value-delivering activities included (but was not limited to):

##### **Electronic Communications Sector**

- Further development of regulatory measures related to cellular liberalisation;
- Monitoring the roll out of competitive cellular mobile service;
- Furthering the objectives of the ECSP by preparing The Bahamas for new digital services via Digital Switchover Frameworks;
- Consultation with relevant groups for greater effectiveness of ICTs for Disaster Preparedness & Management regulations;
- Key recruitment activities, including the appointment of Director of Electronic Communications; and
- The Bahamas' election to the Council of the ITU (2018 to 2022) and the Executive Council of CITELE.

##### **Electricity Sector**

- Engender understanding of and appreciation for the need to regulate the sector;
- Development of licensing guidelines including URCA's approach to assessing applications for licenses;
- Completion of review of BPL's Consumer Protection Plan; and
- Planning of a comprehensive audit assessment of BPL's efficiency in meeting statutory mandates.

## General Projects

- Review of consumer protection regulations; and
- Initiation of market and consumer satisfaction surveys.

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. Management currently utilises 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 been used in this assessment.

Following is a summary of the results of the assessment using the KPIs published in the 2018 Annual Report:

Description of Assessment	Assessment
<b>Publication of Annual Plan and Annual Report</b>	URCA met the statutory deadlines specified by Section 41 (1) of the URCA Act for publication of its Annual Plan and Annual Report.
<b>Publication of Decisions, Results and Other Regulatory Measures, after Close of Consultation</b>	URCA did not meet the KPI (within 30 days of close of consultation) for any of the 10 decisions, results and other regulatory measures in 2018.
<b>Budget versus Actual Revenues and Expenditures for 2018</b>	Key observations: <ul style="list-style-type: none"><li>• <b>For ECS:</b> Revenue was 18% below budget due to lower revenue from licensing fees; expenses were 24% below budget, mainly due to lower expenditure on professional services than budgeted.</li><li>• <b>For ES:</b> Revenue was 23% below budget due to lower revenue from licensing fees; expenses were 18% below budget due to lower expenditure on professional services than budgeted.</li></ul>
<b>Statutory &amp; Regulatory</b>	<ul style="list-style-type: none"><li>• URCA did not meet the specified date (within one month of final comments) for any of the 7 Final Determinations issued during 2018.</li></ul>



<b>Description of Assessment</b>	<b>Assessment</b>
	<ul style="list-style-type: none"> <li>• URCA did not meet the KPI (within 30 days of close of consultation) for any of the 10 decisions, results, and other regulatory measures in 2018.</li> <li>• URCA met the statutory deadlines for processing the 96 new license applications in 2018.</li> </ul>
<b>Information Technology</b>	<ul style="list-style-type: none"> <li>• 2018 had lower organizational IT spend than the previous year which was mainly attributed to the fact that investment in IT was made in prior years which resulted in greater efficiency in 2018. Additionally, because the workforce increased over the prior 2 years, this allowed for a greater spread and therefore lower cost per user.</li> </ul>
<b>Human Resources</b>	<ul style="list-style-type: none"> <li>• Increase in learning and development spending in 2018 due to the increased number of staff in 2018 coupled with the fact that Executive Training was also done in 2018.</li> <li>• URCA continued to recruit to retain its capacity after high turnover in 2016.</li> </ul>
<b>Consumer Relations</b>	<ul style="list-style-type: none"> <li>• There were less than half the number of complaints in 2018 vs 2017 along with a 30% increase in complaints resolved in 2018 vs 2017. This was as a result of the introduction of the Help Desk system.</li> </ul>
<b>Finance</b>	<ul style="list-style-type: none"> <li>• Operational expenditure was lower than in the prior year, mainly due to recovery of conference hosting costs. However absolute finance costs remained fairly steady.</li> <li>• From 2017 to 2018, total revenue decreased by 22%, whereas expenses decreased by 17%. Decrease in expenses was mainly due to the decrease in conference costs.</li> <li>• Actual revenue was 18% below budgeted for the Electronic Communication Sector (ECS), and 23% below budgeted for the Electricity Sector (ES), due to lower revenues from licensing fees in both sectors.</li> <li>• For ECS, actual expenses were 24% below budgeted, and 18% below budgeted for ES, which was mainly</li> </ul>



Description of Assessment	Assessment
	due to considerably lower expenditure on professional services than budgeted.

As a result of a recent strategic planning process, URCA has recognised the need for more relevant and meaningful methods to measure its performance. It is developing a revised series of KPIs in the form of indices which will be used to track URCA’s performance, combining considerations such as market growth, and performance, fiscal responsibility, consumer satisfaction and licensee performance. This process commenced in 2018 as a Tier II project with expected completion as a Tier I project 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 not identified any key areas where there is scope for improvement in controls that could significantly affect URCA’s delivery of value for money.

It is the Committee’s opinion that the 2018 URCA Annual Report and 2018 Annual Plan present fairly the results of the performance and deployment of resources for 2018.

Respectfully submitted,



Philip B. Stubbs  
 Audit Committee Chairperson  
 August 27, 2019