

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 tenth report to the Board of the Utilities Regulation and Competition Authority (“the Authority” or “URCA”) for the year ended 31 December 2019 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 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. Kendal Culmer, Mr. Serfent Rolle and Mrs. Deborah Kelly (appointed to the Board 21 April 2020) and the Secretary to the Committee, Mrs. Clara Taylor-Bell, who is also General Counsel and Secretary to the Board. Mr. J. Paul Morgan, a long-serving Non-Executive Member of the Board, served as a member of the Committee from its inception until his untimely death, 19 January 2020. The Committee is appreciative of Mr. Morgan's invaluable contribution to the Committee and its activities over these many years.

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 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.

PricewaterhouseCoopers 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 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 2019, 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 deficiencies with respect to management information systems, accounting procedures and systems of internal control were identified during the 2019 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 2019, the Authority identified \$1,984,510 as funds which were immediately required (2018: \$1,850,900).
- The Authority adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB that were relevant to its operations and effective for the year ended 31 December, 2019. The adoption of these standards and interpretations has not led to any changes in the Authority's accounting policies, and has not had any material impact on the disclosure or on the amounts reported in the financial statements.

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 2019 and a copy provided to the Minister responsible for relations with URCA.

Deloitte & Touche, an independent firm of professional accountants and advisors, was 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 succeeded 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 2019 Annual Report and 2019 Annual Plan provide a review of the projects planned and completed, and identifies projects scheduled for completion in 2019 that were postponed to 2020. The Audit Committee assesses progress on the specific projects and deviations from the proposed plan.

In its 2019 Annual Plan, URCA identified twenty-three (23) projects that it planned for, and targeted to be completed in, 2019; four (4) of these projects were completed in 2019 and nineteen (19) were rescheduled to 2020; two projects (2) are ongoing.

URCA prioritised its projects into three tiers as follows:

- Tier I - projects of significant importance and urgency to the regulated sectors; resources were directed to achieve completion during 2019.
- Tier II - also projects of significant importance to the organisation or the regulated sectors; 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	# of Projects
Projects brought forward from 2017*	3
Projects brought forward from 2018*	8
Add: New Projects started in 2019**	12
Total Projects Planned and Targeted for Completion in 2019	23
Less: Projects <u>not</u> Completed in 2019***	19
Total Projects Completed in 2019	4

* Only includes projects with anticipated completion in 2019

** Not including ongoing projects (with no set completion date) started in 2019

*** Includes projects with anticipated completion after 2019

The above table shows projects that were planned for completion by URCA going back a couple of years. URCA's planning process allows for prioritisation of projects according to need and availability of resources. As a result, proposed projects that are of low priority are rescheduled each year with the approval of URCA's Board.

Achievement of targets for 2019 was affected by the following factors:

- Extension of consultation periods by stakeholders and late responses to requests for information;
- The need for comprehensive research, analysis, and assessment during the development and completion phases of projects; and
- Attention to regulatory matters that arose and were not scheduled.

Details of the 2019 projects planned, completed, and postponed (to 2020) can be obtained from URCA's 2019 Annual Report and 2020 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 2019 URCA's key value-delivering activities included (but was not limited to):

Electronic Communications Sector (ECS)

- Publication of its final decision on the Digital Switchover Framework.
- Continued development of regulatory measures related to cellular liberalisation, namely:
 - Published final determination on interconnection rates for fixed and mobile termination rates.
 - Commenced market review of mobile services by examining wholesale market for call origination and termination, and reviewing operators for significant market power.
- Consultation with relevant groups for strengthening and resilience of Information and Communications Technology (ICT) infrastructure and recovery methods for natural disasters; to result in Disaster Management Regulations.
- Commencement of the process to develop regulations to ensure the inclusion of Persons with Disabilities (PwDs) in, and access to, ICTs.

Electricity Sector (ES)

- Continued development of licensing guidelines including URCA's approach to assessing applications for licenses;
- Commencement of the process to develop a regulatory framework for the competitive procurement of power generation resources by public electricity suppliers.
- Consultation to establish alternative Dispute Resolution Schemes (ADRs) for the sector.
- Made progress on development of Renewable Energy Self Generation Guidelines (RESG).

General

- Commencement of a three-year project to develop Organisational Performance Indicators (OPI), to result in a framework to measure URCA's performance in relation to its stakeholders, and the management of its projects.

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 2019 Annual Report:

Description of Assessment	Assessment
Publication of Annual Plan and Annual Report	URCA met the statutory deadlines specified by Section 41 (1) of the URCA Act for publication of its Annual Plan and Annual Report.
Publication of Decisions, Results and Other Regulatory Measures, after Close of Consultation	URCA did not meet the KPI (within 30 days of close of consultation) for any of the 31 decisions, results and other regulatory measures in 2019.
Budget versus Actual Revenues and Expenditures for 2019	Key observations: <ul style="list-style-type: none"> • For ECS: Revenue was 9% below budget due to lower revenue from licensing fees; expenses were 12% below budget, mainly due to lower staff costs and depreciation compared to budget. • For ES: Revenue was 17% below budget; expenses were 1% below budget.
Statutory & Regulatory	<ul style="list-style-type: none"> • URCA did not meet the specified date (within one month of final comments) for any of the 6 Final Determinations issued during 2019. • URCA met the statutory deadlines for processing the 121 new license applications in 2019.
Information Technology	<ul style="list-style-type: none"> • 2018 had lower organizational IT spend than the previous years. This investment in IT infrastructure and hardware was \$258 per user in 2019 compared to \$1,532 per user in 2018. This significant decrease in IT spending and deficiencies highlighted in a 2019 internal audit suggests that more investment is required.
Human Resources	<ul style="list-style-type: none"> • The staff turnover rate doubled in 2019 compared to 2018 (7% to 14%).

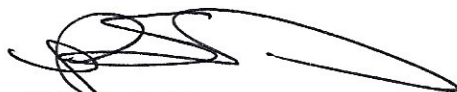
Description of Assessment	Assessment
Consumer Relations	<ul style="list-style-type: none"> • The number of complaints received in 2019 almost doubled the complaints received in 2018, while the percentage of complaints resolved reduced by 48%.
Finance	<p>The only items to note:</p> <ul style="list-style-type: none"> • Debtor days increased from 39 in 2018 to 100 in 2019 due to - <ul style="list-style-type: none"> ○ A major licensee taking more time than usual to settle its outstanding account, and ○ The passage of Hurricane Dorian, affecting several licensees. • A slight increase in the cost of licensee invoicing – arising from salary increases.

Having completed the design of its new Organisational Performance Indicators (OPI) in 2019, URCA will begin implementation of the OPIs in its reporting framework over a two-year period, culminating in the publication of URCA's 2022 OPI results in early 2023. The OPIs will provide a simple, high-level, and easy way of measuring the effectiveness of URCA's activities as an organization, and the reputation of URCA to its external and internal stakeholders. The OPIs will also help with the implementation of prioritization processes and post-project evaluation reviews, along with measuring the practicability of work being done.

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 reviews monthly updates by management regarding remediation of significant findings, and these are periodically validated by the Internal Auditors.

It is the Committee's opinion that the 2019 URCA Annual Report and 2019 Annual Plan present fairly the results of the performance and deployment of resources for 2019.

Respectfully submitted,



Philip B. Stubbs
Audit Committee Chairperson
August 14, 2020