

# 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 2022 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.

## **REPORT OF THE AUDIT COMMITTEE - continued**

The Committee is comprised of Ms. Jacqueline Hunt as Chairperson, being an independent registered public accountant appointed by the Board, pursuant to section 33(1) of the URCA Act, the Non-Executive Members of the Board, namely Mr. Randol Dorsett (Board Chairman), Miss. Paula Adderley and Mr. Brian Seymour (appointed to the Board 30 November, 2021) 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 six (6) 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.

HLB Bahamas 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, commencing for year-end 31 December 2022.

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

## REPORT OF THE AUDIT COMMITTEE - continued

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 2022, 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 2022 audit.

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 2022 and a copy provided to the Minister responsible for relations with URCA.

Deloitte, an independent firm of professional accountants and advisors, was engaged effective 1 June 2022 by URCA, for a one-year period. It is noted that this current internal audit contract would be completed by July of 2023. The internal audit work plan for 2022 was 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 2022 Annual Report and 2022 Annual Plan provide a review of the projects planned and completed, and identifies projects scheduled for completion in 2022 that were postponed to 2023. The Audit Committee assesses progress on the specific projects and deviations from the proposed plan. In its 2022 Annual Plan, URCA identified sixteen (16) projects that it planned for and targeted to be completed in 2022; one (1) of these projects were completed in 2022 and eleven (11) were rescheduled to 2023. Also, two (2) projects unplanned were completed in year 2022 and one planned project reclassified to a supplemental activity.

URCA prioritized its projects into three tiers as follows:

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| <b>Tier I</b> | - projects of significant importance and urgency to the regulated sectors; resources were directed to achieve completion during 2022. |
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| <b>Tier II</b> | - 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. |
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| <b>Tier III</b> | - 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. |
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## REPORT OF THE AUDIT COMMITTEE - continued

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

Description of Project	T1	T2	# of Projects
Projects brought forward from 2018*	1	1	2
Projects brought forward from 2019*	2	1	3
Projects brought forward from 2020*	3		3
Projects brought forward from 2021	4		4
Add: New Projects started in 2022**	4		4
<b>Total Projects Planned and Targeted for Completion in 2022</b>	<b>14</b>	<b>2</b>	<b>16</b>
Less: Projects removed and/or reclassified			(4)
Less: Projects not Completed in 2022***			(11)
<b>All Planned Projects Completed in Current Year</b>			<b>1</b>

\* Only includes projects with anticipated completion in 2022

\*\* Not including ongoing projects (with no set completion date) started in 2022

\*\*\* Includes projects with anticipated completion after 2022

The above table shows projects that were planned for completion by URCA going back a couple of years. URCA's planning process allows for prioritization 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 2022 was affected by the following factors:

- In 2021 and 2022, unexpected team member turnover led to shortfalls in the project teams that adversely impacted the advancement of some projects.
- Two of the projects to be carried over (i.e., Review of the Universal Service Framework and Review of Public Service Broadcasting Framework) require input from the Government and/or the finalization of the 2023 – 2026 ECS policy.
- The 2021 Bahamas General Election led to a change in Government and, subsequently, new government policy objectives that required adding several high-priority ad hoc projects to URCA's 2022 workplan. Reallocating financial and human resources to priority ad hoc projects created constraints in completing some of the projects named in the 2022 Annual Plan.

Details of the 2022 projects planned, completed, and postponed (to 2023) can be obtained from URCA's 2022 Annual Report and 2022 Annual Plan.

## REPORT OF THE AUDIT COMMITTEE - continued

### 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 2022 URCA's key value-delivering activities included (but was not limited to):

#### Electronic Communications Sector (ECS)

- Drafted regulation for *National Alert System* to enable prompt public alerts.
- Completion of the Retail Cellular Mobile Market Review and Assessment.
- Investigation into Cable Bahamas Limited's Pay Television Quality of Service.

#### Electricity Sector (ES)

- Draft regulation completed for the following areas: (i) Licensee annual plant and operations inspections, (ii) Technical Standards, (iii) Large-scale self-supply energy generation systems, (iv) Accounting separation guidelines for Public Electricity Suppliers and (v) The regulatory framework for the Utility Scale Renewable Energy Generation.

#### General

- Implementation of Freshdesk, a cloud-based consumer relations application with complaint tracking capabilities, for centralized complaints management.
- Completion of Guidance on the Assessment of Fines for Breaches.
- Consumer awareness visit to Eleuthera to assess the current landscape of electricity and electronic communications on the island.
- Girls ICT Day – in conjunction with major licensee's URCA hosted the first in person girls in ICT Day since the onset of the COVID-19 pandemic.
- Developed a Learning and Development Framework, introduced an internal online training platform, introduced the execution of performance gap analysis, and began the build out of a succession plan that includes talent management.

## REPORT OF THE AUDIT COMMITTEE - continued

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 utilizes 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 2022 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>Operational KPI's</b>	URCA' operational KPI performance improved from the prior year.
<b>Financial Performance: Budget versus Actual Revenues and Expenditures for 2022</b>	<p>Overall URCA's expenses increased at a rate faster than its revenue from 2021 to 2022. Expenses increased due to increase in staff costs, conference training, travel, general administration expenses and premises and utility costs.</p> <p>Both expenses and revenue actuals were significantly under budget. Budgeted revenue impacted by ongoing litigation with a Freeport licensee and expenses over projection of general and administration costs.</p>
<b>Statutory &amp; Regulatory</b>	URCA met the statutory deadlines for processing the 51 new license applications in 2022.
<b>Information Technology</b>	In 2020 when the COVID-19 Pandemic led to a nationwide shutdown, requiring organizations to employ a Remote Working approach, URCA had to invest in additional IT resources in 2021. This increase in investment has continued into 2022 with there being a slight decrease of \$160.49 spent per user. The overall investment in IT represents .26% of overall costs for 2022.
<b>Human Resources</b>	The staff turnover rate was relatively low with an increase of 2.54% experienced in 2022 compared to 2021 (8.7% to 11.24%).
<b>Consumer Relations</b>	There has been a decrease of 72% in total consumer complaints received over the previous year. For the complaints received which numbered 20, 13 were resolved, with the balance not yet resolved. The average time taken for resolve complaints was 17 days, for complaints resolved.
<b>Finance</b>	Debtor days increased slightly from 16.9 in 2021 to 21.9 in 2022. As well longstanding debt decreased by 22.95% due to the repayment of a loan for the entity's premises.

## **REPORT OF THE AUDIT COMMITTEE - continued**

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 2022 URCA Annual Report and 2022 Annual Plan present fairly the results of the performance and deployment of resources for 2022.

Respectfully submitted,



**Audit Committee Chairperson**

**August 21, 2023**