

TS2B: Collect and validate operators' financial and operational data

REGULATORY FUNCTION: TARIFF SETTING		TS2B
OBJECTIVE TS2 Compliance with approved tariffs and performance is monitored through financial and operational information received from operators	ACTION CARD TS2B <h1>COLLECT AND VALIDATE OPERATORS' FINANCIAL AND OPERATIONAL DATA</h1>	
COST: Medium FREQUENCY: Regular TARGET GROUPS: Regulators, service operators, consumer associations		
DESCRIPTION Collected financial information and operator accounts are systematically verified by regulators. They assess financial and operational performance of operators in two stages to obtain additional necessary data, first in the office and a second stage through local audits. The objective of the validation process is to ensure the accuracy of the information provided, and which can be then used for future tariff adjustments. Unless operators' accounts are validated, these risks putting operations on hold. Regulators must however, conduct this procedure transparently to ensure impartial and rigorous audits.		
EXPECTED OUTCOMES <ul style="list-style-type: none"> • Accurate financial and operational performance information is available at all times for regulatory purposes. • Consumers are informed about operators' performance on their request. • Only validated operators' accounts can be further operationally managed. 		
EXAMPLE 1: LESOTHO In Lesotho , the Electricity and Water Authority (LEWA) presents relevant financial information collected from the operator WASCO. In March 2016, for example, they presented the following information. <ul style="list-style-type: none"> • According to audited financial statements, WASCO reported an annual operating profit of M2,337,000 for the period, from total generated revenue of M218,609,000. The main components of revenue were water and sewerage billing at M199,305,000 (91.17 percent) and new service connections at M15,012,000 (6.87 percent). • Expenditure for the period was M216,772,000. The main contributors to expenditure were labour costs (40.81 percent), power demands (9.15 percent), reticulation and plant maintenance (6.21 percent), and chemical usage (3.81 percent). • The profit realized during the 2015-16 financial year came against a backdrop of losses for the previous five years. In 2014-15, a loss of M3,160 million was recorded, higher than the previous year (M1,781 million). This was largely attributed to a substantial increase in expenditure. The company experienced its highest loss (M10,595 million) during the 2011-12 financial year. The improvement is due largely as a result of a substantial and steady growth of water and sewerage billing since 2010-11, coupled with improved cost management. 		
EXAMPLE 2: ARGENTINA In Argentina, the operation of the service provided by AySA is governed by Law No. 24.156 on 'National Public Sector Financial and Supervisory System Administration.' Under this framework, the public service provider is controlled by a government accounting system that processes and produces financial information for decision-making by public finance managers and related third parties. The provider is subject to an internal supervisory and audit system run by the General Accounting Office, which is the internal supervisory body of the National Executive Branch that performs initial and successive audits. The supervisory model applied and coordinated by the General Accounting Office must be comprehensive and integrated, encompassing budgetary, economic, financial, asset-related, regulatory and management aspects, as well as program, project and operational assessment, and must be based on the principles of affordability, efficiency and efficacy.		

EXAMPLE 3: CHILE

In Chile, the Organic Regulation of Metropolitan Sanitary Works Companies approved by Decree 230/85 stipulates that the institutional structure should include an Internal Audit Unit with functions related to assessing the robustness, sufficiency and application of financial accounting controls for the purposes of measuring efficacy, reliability and security of the information produced. The Company's financial activities should be governed by the rules that apply to State companies and by ministerial instructions issued, particularly with regard to the budgetary system, cost accounting, reporting, publication and auditing of balance sheets and financial statements.

LINKS

Lesotho: http://www.lewa.org.ls/home/WASCO_Application_2017_18.pdf

Argentina: National Public Sector Financial and Supervisory System Administration

<http://servicios.infoleg.gob.ar/infolegInternet/anexos/0-4999/554/texact.htm>

Chile: Organic Regulation of Metropolitan Sanitary Works Companies

<https://www.bcn.cl/leychile/navegar?idNorma=159722>

INTERNAL CAPACITIES NEEDED AND THE ROLE OF PARTNERS

Abilities required to conduct this action include financial, management, and administrative skills. Validation exercises as an internal regulatory process would benefit from learning from technical regional exchanges with other regulators. Other possible partners could include national economy and research institutions. Regulators' staff must be trained on different financial and accountant skills either by related sector actors or development partners.