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NIGERIAN ELECTRICITY REGULATORY COMMISSION

**ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

NIGERIAN ELECTRICITY REGULATORY COMMISSION
Annual Report and Financial Statements - 31 DECEMBER 2018

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CORPORATE INFORMATION

Corporate Headquarters,

Plot No. 1387, Cadastral Zone, A00,
Central Business District,
Abuja.

Members of the board of the Commission

Professor James Momoh	-	Chairman/Chief Executive OfficerAppointed 25th April 2018
Sanusi Garba	-	Vice Chairman/Commissioner (Market Competition and Rates)
Moses Arigu	-	Commissioner (Consumer Affairs)
Dafe Akpeneye	-	Commissioner (Legal, Licensing and Compliance)
Nathan Rogers Shatti	-	Commissioner (Finance and Management Services)
Frank Okafor	-	Commissioner (Engineering, Performance and Monitoring)
Musiliu Oseni	-	Commissioner (Planning, Research and strategy)

Auditors

Deloitte & Touche
Chartered Accountants
4th Floor, Bank of Industry Building
Plot 256, Zone A0 Cadastral, Off Herbert Macaulay Way
Central Business District, Abuja

Bankers

Central Bank of Nigeria

Mortgage Fund Administrators

Aso Savings and Loans Plc

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RESULTS AT A GLANCE

	2018	2017	%
	N'000	N'000	change
Income generated from operations	5,535,581	5,337,834	4
Total expenditure	(6,826,386)	(5,061,731)	35
(Deficit)/surplus for the year	(541,047)	1,716,651	(132)
Total comprehensive (loss)/income for the year	(312,198)	1,450,354	(122)
Retained earnings	1,247,672	2,098,678	(42)
Total reserves	15,702,115	16,014,313	(2)
	Number	Number	
Number of employees (number)	172	172	-

REPORT OF THE COMMISSIONERS FOR THE YEAR ENDED 31 DECEMBER 2018

The Commission hereby submit its report together with the audited financial statements of Nigerian Electricity Regulatory Commission (NERC) for the year ended 31 December 2018

The Commission is to ensure that proper accounts and other records relating to its financial statement are kept in respect of all the Commission's activities, funds and property including such particular accounts and records as the Minister may require in line with Section 55(1), Electric Power Sector Reform Act, 2005.

STATEMENT OF COMMISSIONERS' RESPONSIBILITIES

The Commission is to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- Ensure proper accounts and other records relating to such accounts are kept in respect of all Commission's activities, funds and property, including such particular accounts and records as the Minister may require.
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Commission will continue in operation.

The Commissioners confirm that they have complied with the above requirements in preparing the financial statements of the Commission.

The Commissioners are responsible for keeping proper books of account which disclose with reasonable accuracy at any time the financial position of the Commission and to ensure that the financial statement are prepared in accordance with the International Financial Accounting Standards (IFRS) and the provisions of the Electric Power Sector Reform Act 2005. The Commissioners are also responsible for safeguarding fraud and other irregularities.

REVIEW OF ACTIVITIES AND FUTURE DEVELOPMENTS.

The level of activities during the year and the financial position as at 31 December 2018 were satisfactory. The Commission expects that the present level of activities will be sustained for the foreseeable future.

RESULTS.

The statement of income and expenditure and other comprehensive income, statement of financial position, statement of changes in accumulated funds and statement of cash flows for the year ended 31 December 2018 are as set out on pages 10 to 13.

EQUAL EMPLOYMENT OPPORTUNITY.

The Commission pursues an equal employment opportunity policy. It does not discriminate against any person on the ground of race, religion, colour, or physical disability.

EMPLOYMENT OF PHYSICAL DISABLED PERSONS.

The Commission maintains a policy of giving fair consideration to applications from physically disabled persons, bearing in mind their respective aptitudes and abilities. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Commission continues and that the appropriate training is arranged.

INDUSTRIAL /EMPLOYEES RELATIONS.

The Commission places considerable value on the involvement of its employees and keeps them informed on matters affecting them as employees and the various factors affecting the performance of the Commission. This is achieved through Management's open door policy and improved communication channels. These channels include, email and an intranet, the revised in-house magazine, the entrenchment of regular Divisional and Executive Management Meetings, interaction with the Joint Consultative Committee (JCC) and Power Consumers Assemblies. The relationship between management and other stakeholders, power consumer assemblies in various States and Local Governments, National Assembly, Industry groups, media, etc remains very cordial. Regular dialogue with the various stakeholders takes place at informal and formal levels.

TRAINING AND DEVELOPMENT.

The Commission places great emphasis on the training and development of its staff and other stakeholders and believes that its employees are its greatest assets. Training courses are geared towards the development needs of staff and the improvement in their skill sets to face the increasing challenges in the industry. The commission will continue to invest in its human capital to ensure that employees are well motivated and positioned to compete in the industry.

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COMMISSIONERS.

In the year ended 31 December 2018, the chairman of the commission was appointed on 25th April 2018 and resumed on May 11, 2018.

CURRENT COMMISSIONERS.

The following Commissioners were appointed by the Federal Government of Nigeria and were in office when this financial statement were presented, approved and signed:

James Momoh	- Chairman/Chief Executive Officer (Appointed on 25th April 2018)
Sanusi Garba	- Vice Chairman/Comm. (Market Competition and Rates)
Moses Arigu	- Commissioner (Consumer Affairs)
Dafe Akpeneye	- Commissioner (Legal, Licensing and Compliance)
Nathan Rogers Shatti	- Commissioner (Finance and Management Services)
Frank Okafor	- Commissioner (Engineering, Performance and Monitoring)
Musiliu Oseni	- Commissioner (Planning, Research & Strategy)

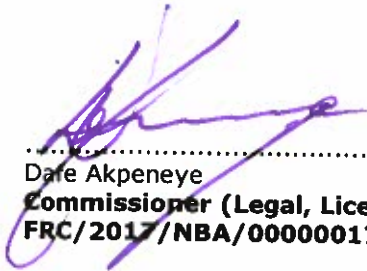
TRANSACTIONS INVOLVING COMMISSIONERS.

There were no contracts in relation to the business of the Commission in which the Commissioners had any interest at any time during the year ended 31 December 2018.

EXTERNAL AUDITORS.

The Auditors, Messrs. Deloitte & Touche (Chartered Accountants) have indicated their willingness to continue in office. A resolution will be proposed authorising the Commissioners to determine their remuneration.

By Order of the Commission.


.....
Dafe Akpeneye
Commissioner (Legal, Licencing & Compliance)
FRC/2017/NBA/00000017445

Statement of Commissioners' Responsibilities for the preparation and approval of the Financial Statements

The Commissioners of **Nigerian Electricity Regulatory Commission** are responsible for the preparation of the financial statements that give a true and fair view of the financial position of the Commission as at 31 December 2018 and the results of its operations, cash flows and changes in accumulated funds for the year then ended, in compliance with the applicable financial reporting framework and in the manner required by the Companies and Allied Matters Act of Nigeria and the Financial Reporting Council of Nigeria Act, 2011.

In preparing the financial statements, the Commissioners are responsible for:

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the commission's financial position and financial performance; and
- making an assessment of the commission's ability to continue as a going concern.

The Commissioners are responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls throughout the commission;
 - maintaining adequate accounting records that are sufficient to show and explain the commission's transactions and disclose with reasonable accuracy at any time the financial position of the commission and which enable them to ensure that the financial statements of the commission comply with International Financial Reporting Standards;
 - maintaining statutory accounting records in compliance with the legislation of Nigeria and International Financial Reporting Standards;
 - taking such steps as are reasonably available to them to safeguard the assets of commission; and
 - preventing and detecting fraud and other irregularities.
- Ensure proper accounts and other records relating to such accounts are kept in respect of all Commission's activities, funds and property, including such particular accounts and records as the Minister may require.


Going concern:

The Commissioners have made an assessment of the Commission's ability to continue as a going concern and have no reason to believe the Commission will not remain a going concern in the year ahead.

The financial statements of the Commission for the year ended 31 December 2018 were approved by the Commissioners on 23RD DAY, 2019.

Signed on behalf of the Commission


Saule Garba
Vice Chairman
FRC/2017/COREN/00000017444


Dare Akpenyeye
Commissioner (Legal, Licencing & Compliance)
FRC/2017/NBA/00000017445


Nathan Rogers Shatti
Commissioner (Finance and Management services)
FRC/2015/ICAN/00000013331

INDEPENDENT AUDITOR'S REPORT

TO THE COMMISSIONERS OF NIGERIAN ELECTRICITY REGULATORY COMMISSION

Opinion

We have audited the accompanying financial statements of **Nigerian Electricity Regulatory Commission** which comprise the statement of financial position as at 31 December 2018, the statement of income and expenditure and other comprehensive income, statement of changes in accumulated funds, statement of cash flows for the year then ended, and the notes to the financial statements including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of **Nigerian Electricity Regulatory Commission** as at 31 December 2018 and the financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards, the Companies and Allied Matters Act, Cap C20, LFN 2004 and the Financial Reporting Council of Nigeria Act, 2011.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Commission in accordance with the requirements of the Institute of Chartered Accountants of Nigeria Professional Code of Conduct and Guide for Accountants (ICAN Code) and other independence requirements applicable to performing audits of financial statements in Nigeria. We have fulfilled our other ethical responsibilities in accordance with the ICAN Code and in accordance with other ethical requirements applicable to performing audits in Nigeria. The ICAN Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be the key audit matters to be communicated in our report. The key audit matters below relate to the audit of the financial statements.

Key Audit Matter	How the matter was addressed in the audit
Revenue recognition Operating fees on electricity relates to income accruing to the Commission in line with the Electric Power Sector Reform Act. The Commission is entitled to 1.5% of tariff charge/kWh from the generation companies and 1.5% of licensee's charges/kWh net of the cost of generation and transmission on energy wheeled on a monthly basis. The income is recognised based on monthly market credit advice received from the Operator of the Nigerian Electricity Market (ONEM) at the end of each month. This income is recognised regardless of the past trend on the partial recoverability of the invoice amount.	To determine the appropriateness of the income recognition criteria, we considered the provision of the Electric Power Sector Reform Act and checked its compliance with the revenue recognition criteria as per IFRS 15.

Key Audit Matter

Revenue recognition

Accordingly, we focused on this area due to the size of the income (N10.35 billion 2017: N8.661 billion) and the fact that a significant portion of the income may be unrealisable.

Also, management's assessment of impairment involves judgement about the recoverable value of the associated receivable arising from the income recognised.

How the matter was addressed in the audit

Also a review was performed on management's assessment of collectability of the receivable arising from the income recognised.

Our procedures included the following:

- Review of the income recognition criteria used by the entity and challenging its appropriateness and compliance with the revenue recognition criteria as per IFRS 15.
- Review of supporting documentation, including market advice from ONEM, breakdown of energy wheeled per location and remittance advice.
- Evaluating the reasonableness of the methods and assumptions management used to estimate the impairment for receivables due from Operator of the Nigeria Electricity Market (ONEM) and whether the methods for calculating such allowances are in line with IFRS 9.
- Performing a trend analysis for relevant years using the revenue recognised vis-a-vis the related receipts for each period.
- Using the Expected Credit Loss model, assess the loss rate and determine whether current receivable balance is recoverable.

We conclude that the income recognition criteria used by the entity is appropriate. However, given the trend analysis and history of recovery of the receivable portion of the revenue at the year end, revenue was reduced by the uncollectible portion of N5.12 billion (2017: N3.862 billion) to determine net revenue recognised in the financial statements.

Other Information

The Commissioners are responsible for the other information. The other information comprises the Commissioners' Report which we obtained prior to the date of this Auditor's report. The other information does not include the financial statements and our Auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Based on the work we have performed on the other information that we obtained prior to the date of this Auditor's report, if we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



Responsibilities of the Commissioners for the Financial Statements

The Commissioners are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Companies and Allied Matters Act, CAP C20, LFN 2004, Financial Reporting Council Act, 2011 and for such internal control as the Commissioners determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Commissioners are responsible for assessing the Commission's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Commissioners either intend to liquidate the Commission or to cease operations, or have no realistic alternative but to do so, ensuring proper accounts and other records relating to such accounts are kept in respect of all Commission's activities, funds and property, including such particular accounts and records as the Minister may require.

Auditor's Responsibilities for the Audit of Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Commissioners.
- Conclude on the appropriateness of the Commissioners' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the Commission's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the company's financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Commissioners regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Commissioners with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Commissioners, we determine those matters that were of most significance in the audit of the financial statements of the current year and are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

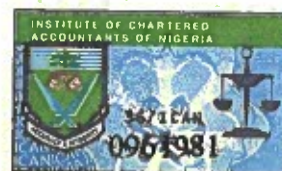
Report on Other Legal and Regulatory Requirements

In accordance with the Sixth Schedule of Companies and Allied Matters Act, CAP C20, LFN 2004 we expressly state that:

- i) We have obtained all the information and explanation which to the best of our knowledge and belief were necessary for the purpose of our audit.
- ii) The Commission has kept proper books of account, so far as appears from our examination of those books.
- iii) The Commission's financial position and its statement of income and expenditure and other comprehensive income are in agreement with the books of account and returns.
- iv) No evidence of non-compliance with laws and regulations (NOCLAR) was brought to our notice during the year.


Folorunso Hunga, FCA
FRC/2013/ICAN/00000001709
For: **Deloitte & Touche**
Chartered Accountants
Abuja, Nigeria

31 May 2019



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STATEMENT OF INCOME AND EXPENDITURE AND OTHER COMPREHENSIVE INCOME

	Notes	31-Dec-18 N'000	31-Dec-17 N'000
INCOME			
Income generated from operations	5	5,535,581	5,337,834
Other income	6	458,951	960,617
Total income		5,994,532	6,298,451
EXPENDITURE			
Regulatory expenses	8	(1,049,269)	(706,351)
Employee benefits expense	9	(4,938,117)	(3,930,913)
Administrative expenses	10	(413,777)	(355,126)
Depreciation	13	(419,907)	(69,341)
Amortization	13	(5,316)	-
Total expenditure		(6,826,386)	(5,061,731)
Other gains and losses	11	290,807	479,931
(Deficit)/surplus for the year		(541,047)	1,716,651
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of defined benefit obligation	18	228,849	(266,297)
Other comprehensive income		228,849	(266,297)
Total comprehensive (loss)/income for the year		(312,198)	1,450,354

The accompanying notes on pages 14 to 49 and other national disclosures on pages 51 and 52 form an integral part of these financial statements.

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STATEMENT OF FINANCIAL POSITION

	Notes	31-Dec-18 N'000	31-Dec-17 N'000
Assets			
Non-current assets			
Property, plant and equipment	13	13,115,323	12,921,569
Intangible asset	13.4	15,945	1
Retirement benefit	20	-	-
Total non-current assets		13,131,268	12,921,570
Current assets			
Receivables	14	866,839	864,325
Other assets	15	2,673,498	2,822,062
Cash and bank balances	16	948,007	1,509,285
Total current assets		4,488,344	5,195,672
Total assets		17,619,612	18,117,242
Accumulated funds and liabilities			
Reserves			
Grant allocation	17	10,684,744	10,329,035
Other reserves	18	3,769,699	3,540,850
Retained earnings	19	1,247,672	2,144,428
Total reserves		15,702,115	16,014,313
Non-current liabilities			
Retirement benefit obligation	20	264,579	33,727
Total non-current liabilities		264,579	33,727
Current liabilities			
Trade and other payables	21	1,652,918	2,069,202
Total current liabilities		1,652,918	2,069,202
Total liabilities		1,917,497	2,102,929
Total accumulated funds and liabilities		17,619,612	18,117,242

The financial statements were approved by the board of Commissioners and authorised for issue on 23RD MAY, 2019 and signed on its behalf by:


Sander Garba
Vice Chairman
FRC/2017/COREN/00000017444


Dafe Akpeneye
Commissioner (Legal, Licensing and Compliance)
FRC/2017/NBA/00000017445


Nathan Rogers Shatti
Commissioner (Finance and Management services)
FRC/2015/ICAN/00000013331

The accompanying notes on pages 14 to 49 and other national disclosures on pages 51 and 52 form an integral part of these financial statements.

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STATEMENT OF CHANGES IN ACCUMULATED FUNDS

	Federal Government capital grant allocations N'000	World bank grant allocation N'000	Internally generated revenue capital fund N'000	Employee benefit reserve N'000	Retained earnings N'000	Total N'000
Balance at 1 January 2017	9,400,511	28,524	3,597,428	179,995	1,357,501	14,563,959
Surplus for the financial year	-	-	-	-	1,716,651	1,716,651
Net amount appropriated in/(out) of reserves. (See note 19)	900,000	-	29,724	-	(929,742)	-
Other comprehensive income	-	-	-	(266,297)	-	(266,297)
Balance at 31 December 2017	10,300,511	28,524	3,627,152	(86,302)	2,098,678	16,014,313
Surplus for the financial year	-	-	-	-	(541,047)	(541,047)
Net amount appropriated in/(out) of reserves. (See note 19).	355,709	-	-	-	(355,709)	-
Other comprehensive loss	-	-	-	228,849	-	228,849
Balance at 31 December 2018	10,656,220	28,524	3,627,152	142,547	1,247,672	15,702,115

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STATEMENT OF CASH FLOWS

	Notes	31-Dec-18 N'000	31-Dec-17 N'000
Cash flows from operating activities			
Receipts from customers		12,190,193	9,732,389
Payment to suppliers and employees		<u>(12,116,550)</u>	<u>(8,641,009)</u>
Net cash generated from operating activities	12	<u>73,643</u>	<u>1,091,380</u>
Cash flow from investing activities			
Purchase of intangible assets	13.4	(21,260)	-
Payments for purchase of property plant and equipment	13	<u>(613,661)</u>	<u>(29,724)</u>
Net cash (used in) investing activities		<u>(634,921)</u>	<u>(29,724)</u>
Net increase in cash and cash equivalents		(561,278)	1,061,656
Cash and cash equivalents at beginning of the year		<u>1,509,285</u>	<u>447,629</u>
Cash and cash equivalents at the end of the year	16	<u>948,007</u>	<u>1,509,285</u>

The accompanying notes on pages 14 to 49 and other national disclosures on pages 51 and 52 form an integral part of these financial statements.