

# Telecommunication: Financial Analysis – checks and audits

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A control room with multiple computer monitors displaying data and charts. The room is dimly lit, with the primary light source being the screens. The monitors are arranged in a semi-circle, and each displays different types of data, including line graphs, bar charts, and tables. The overall atmosphere is professional and technical.

# Regulation

# The role of the Regulator

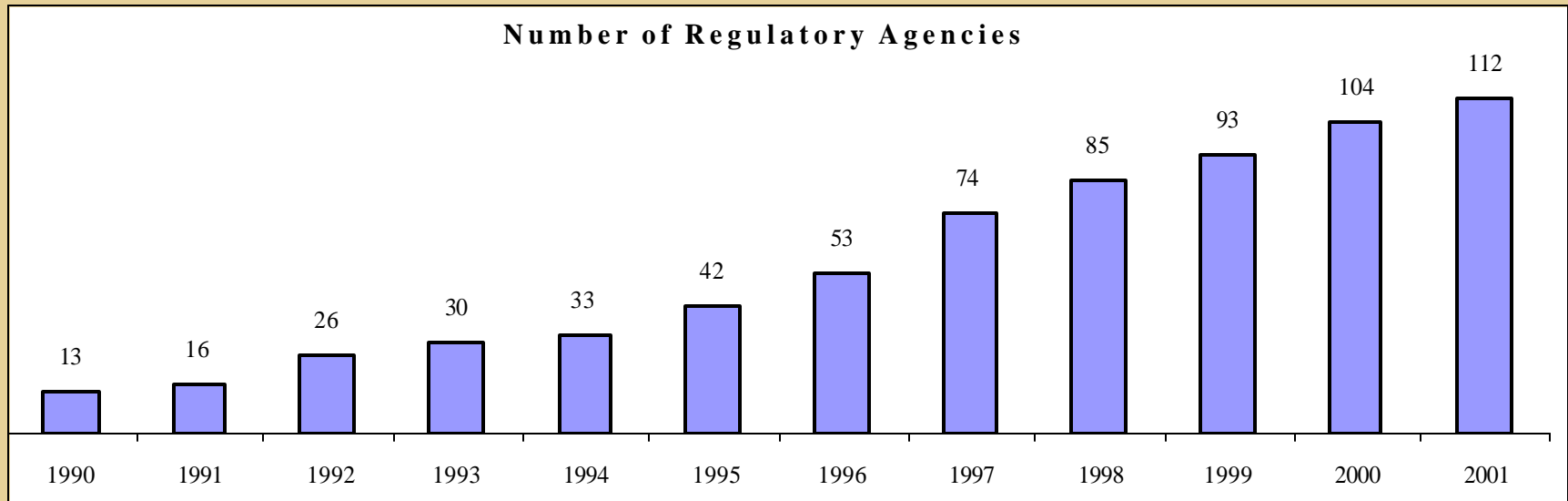


The effectiveness of telecommunication markets depends upon the establishment of an independent, competent and effective regulatory system.

Main responsibilities of regulation include:

- Regulation of market activity in the sector;
- Authorisation/licensing of new entrants;
- Removal of barriers to market entry to promote and sustain competition; and
- Oversight of the interconnection for new entrants with incumbent operators.

# The role of the Regulator



The regulatory environment has been in transitory mode for the last 20 years starting with the formal break-up of the North American Bell system in 1982. With the global introduction of competition over the last decade there has been a steady increase in the number of regulatory bodies.

# Level of Telecommunication Competition in the Caribbean

Country	Local Services	Domestic Long Distance	Int'l Long Distance	XDSL	Wireless local loop	Mobile Analog	Mobile Digital	Leased Lines	Data	VSAT	Paging	Mobile Sat	Fixed Sat	Cable TV	GMPCS	IMT 2000	ISP
Antigua and Barbuda	P	...	M	...	M	...	P	M	...	P	...	...	P	M	...	...	P
Bahamas	M	M	M	M	M	M	M	M	C	C	C	P	P	M	P	M	C
Barbados	M	...	M	M	M	M	M	M	M	...	C	...	...	C	...	...	C
Dominica	M	M	M	...	...	M	M	M	M	...	M	M	M	C	...	...	...
Dominican Republic	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C
Grenada	M	M	M	...	...	M	M	M	M	...	M	M	M	...	...	...	...
Guyana	M	M	M	...	...	...	C	M	D	...	C	...	...	...	...	...	...
Haiti	C	C	C	M	C	P	P	M	C	C	...	...	P	P	...	...	C
Jamaica	C	C	C	...	C	...	P	P	C	C	C	...	...	P	...	...	C
St. Lucia	M	M	M	...	...	M	M	M	M	...	C	M	M	C	M	...	M
St. Vincent and the Grenadines	M	M	M	C	C	C	C	M	C	C	M	...	...	M	...	...	C
Trinidad and Tobago	M	M	M	M	M	M	M	M	C	C	C	...	...	M	...	...	C



# Financial Analysis- checks and audits

Why is it needed for Regulation?

# The role of Financial Analysis-checks and audits



To be able to perform its functions the Regulator needs information.

The information is used to conduct detailed analysis of the operations and financial affairs of the Regulated operator.

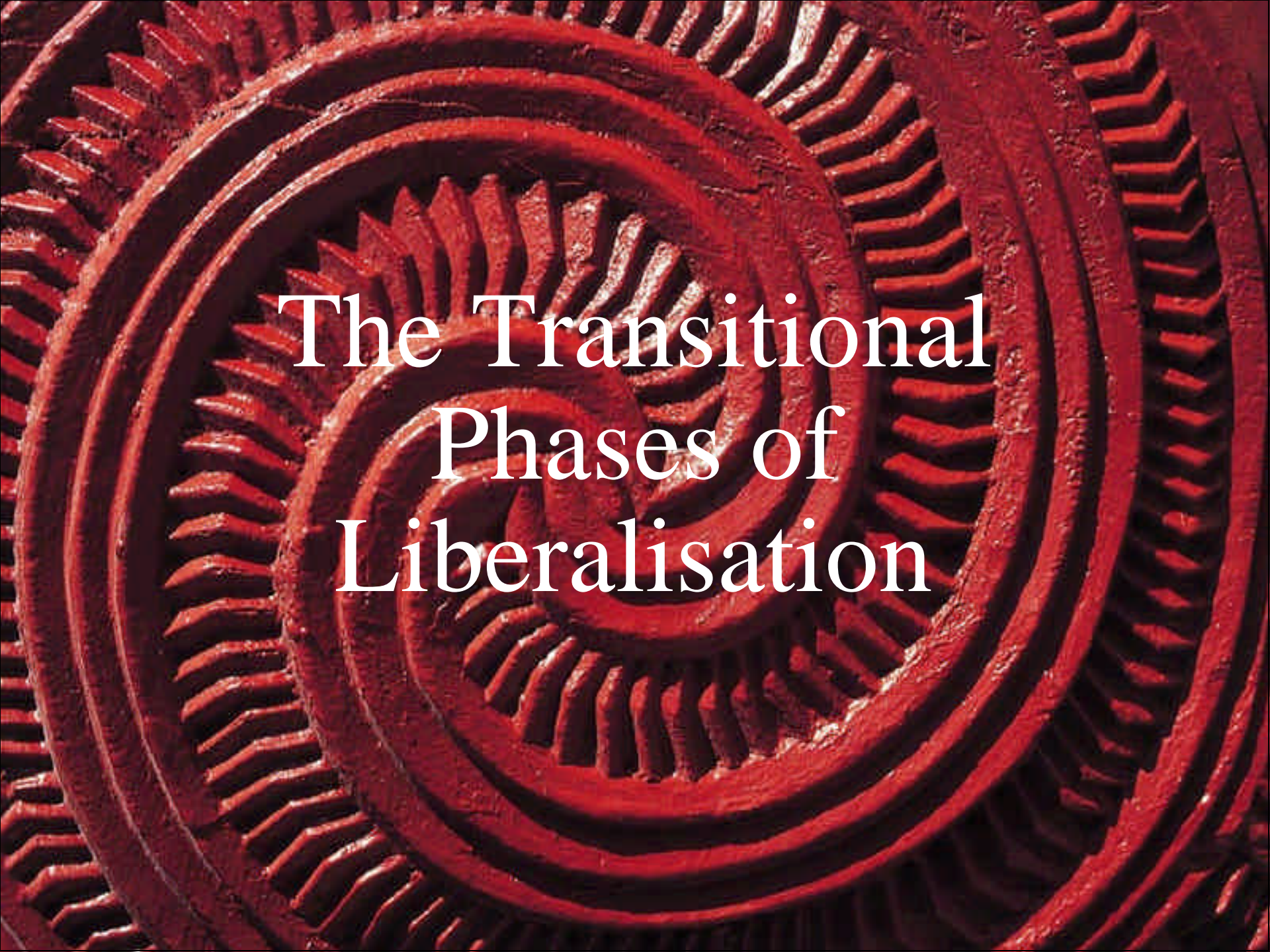
The information required for regulation, the type of analysis and the process of validating that information changes are dependant on where the telecommunications industry is in the process of liberalisation.

# The role of Financial Analysis-checks and audits



The regulatory body must ensure that the financial analysis, checks and audits in place to regulate the telecommunication operators do not discourage fair-trading, but rather, promote self-regulation. While providing fair distribution of welfare benefits amongst all relevant parties.





# The Transitional Phases of Liberalisation

# Responsibilities of the Regulatory Body – Current Monopolistic Environment

## Current Monopolistic Environment

- Ensure that the monopoly does not exploit its power and its prices are reasonable while providing that the incumbent is able to earn sufficient revenue to finance ongoing operations and future investments
- Price regulation is required and normally justified when telecommunications markets fail to produce competitive pricing
- Facilitate rate hearings
- Oversee interconnection

# Responsibilities of the Regulatory Body – Future Interim State

## **Future Interim State**

- Regulation of the telecommunications industry in accordance with Government telecommunications policy
- Administer pricing rules
- Monitor rates charged by providers to ensure compliance
- Agree and publish service standards where necessary and monitor compliance
- Receive and investigate customer complaints and facilitate settlement of disputes
- Oversee interconnection between operators
- Educate public about reform and other matters related to the telecommunications industry

# Responsibilities of the Regulatory Body – Future State

## **Future State**

- Regulate market activity of sector participants (competition regulation)
- Monitor rates and service standards and take action only where there is abuse of market dominance or where the service is not sufficiently competitive
- Receive and investigate customer complaints, facilitate settlement
- Make recommendations to Minister responsible for Telecommunications regarding granting of licences
- Educate public about industry

The background of the slide features a glowing yellow light reflecting on a circuit board with a grid pattern. The light is positioned in the lower center, creating a bright spot on the board's surface. The overall color scheme is dark with purple and blue tones, and the text is white.

# Phases of Telecommunication Liberalisation and Tools Utilised

# The 3 Phases of Liberalisation and Tools used for Regulation

State	Description	Tools used for Regulation
<b>Monopoly</b>	Regulators utilise an accounting approach to cost assessment, relying on embedded costs recorded	Rate of Return (ROR)
<b>Future Interim</b>	Limited competition, regulators will find their role changing from strict regulation to one of limited deregulation or self regulation in certain areas due to increased competition	Price Cap Regulation to emulate a competitive environment, where initial price is adjusted for inflation and productivity.
<b>Future (Competition)</b>	Due to the likelihood of cartels (oligopolies) there is a need for stiffer regulation as it pertains to pricing and consumer interests. More attention is also required for the quality of service to the consumers	Accounting separation is utilised as a competitive safeguard to separate the various business activities of each operator. Cost based pricing and accounting separation become of significance to prevent cross subsidies and predatory pricing

# Key Issues Surrounding the 3 Phases of Regulation

<b>State</b>	<b>Key Issues</b>	<b>Tools to Mitigate</b>
Monopoly	<p>Little incentive to the operators for cost minimisation</p> <p>Capital expenditure</p> <p>Asset Lives</p> <p>Revenue requirements</p> <p>Interconnection charges do not seek to reimburse any subsidies</p> <p>Tariffs and price rates are not cost based -International telecommunications prices are set high to subsidise domestic services</p> <p>Regulatory Lag – time lag between rate cases ultimately motivate the regulator to become more efficient</p>	<p>Detailed financial reports to arrive at acceptable rate base</p> <p>Detailed cost studies to establish interconnection costs</p> <p>Access to both capital and operating expenditures</p>
<b>Future Interim</b>	<p>Pricing Wars will ensue and competitive forces should keep prices in balance</p> <p>ROR regulation is no longer efficient or effective method of determining rates and tariffs</p>	Price Cap Regulation

# Key Issues Surrounding the 3 Phases of Regulation

State	Key Issues	Tools to Mitigate
<b>Future (Competition)</b>	Cartels and oligopolistic behaviour  Interconnection should be agreed between operators on a commercial basis, where arrangements should be non-discriminatory and provide equal access	Cost based pricing and Accounting Separation  Rates need to be transparent and cost based



# Conclusion

*As we move toward liberalisation the regulatory body must ensure that there are controls in place to guarantee fairness and transparency to all its stakeholders. As the environment changes so too must the role of the regulator. Regulators must clearly set out their information requirements and have legislative power to carry out its objectives in an effective, efficient manner.*

# Conclusion

*In the analysis of the regulated entity the regulator is concerned not only with the well being and financial stability of the operator and the securing of a reasonable rate of return for shareholders, but the interests of the consumers, ensuring fair and reasonable pricing relative to cost. The regulator needs to have an in-depth understanding of the transactions and items underlying the data, how the information was produced, its source,*

# Conclusion

*Its agreement to underlying statutory financial records, the key policies used in preparing them, their compliance with generally accepted practice and an understanding of areas where significant judgement is exercised to determine material items.*