

**Lightspeed Submission in response to the TRA Public Consultation  
On the  
(Draft Determination changing the audit standard for Batelco's regulatory accounts from  
"Properly prepared within the bounds of materiality" to "Fairly presents")**

**Issued on the  
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***Lightspeed submission on the Draft Determination changing the audit standard for Batelco's regulatory accounts from***

***"Properly prepared within the bounds of materiality" to "Fairly presents".***

**General Comments:**

Lightspeed welcomes the opportunity to submit its comments on the TRA public consultation regarding the Draft Determination changing the audit standard for Batelco's regulatory accounts hereinafter referred to as the ("Consultation Paper").

We believe that the main goal of the Consultation Paper is that Batelco's financial accounts should always assist the TRA in carrying out its duties and functions in this regard; mainly the development of competition for the benefits of consumers and promote economic efficiency and to ensure that accurate and reliable costing information from the regulated entity is available and analysed properly. A (Fairly presents) audit for such important information should provide market confidence and assurance to avoid cross-subsidization and provide a high level of transparency. This is important and essential to ensure that the dominance of Batelco is limited through such an auditing method.

We applaud the TRA's proposal detailed in the Consultation Paper to change the audit standard for Batelco's regulatory accounts from (Properly prepared within the boundaries of materiality) to (Fairly presents) and see that the objective is to ensure that charges are cost-based, transparent and non-discriminatory. This in turn promotes a competitive environment in a number of ways, assuring that:

- The publication of transparent accounts that allow other operators to understand how Batelco's revenues relate to costs;
- The financial statements data demonstrate that wholesale products and services are treated fairly and equitably, regardless of the buyer of those products and services; and
- Detailed cost statements are published, showing the average cost of products and services provided by Batelco. This will increase the confidence of competitors that there is no anti-competitive cross-subsidization.

By adopting the (Fairly presents) method, the TRA will be on the right path to enhancing the degree of confidence and provide the requisite assurance to intended stakeholders as to the accuracy, reliability and quality of information contained in the regulatory accounts. Further, to have a (Fairly presents) audit method will ensure that the main principle of causality is implemented. Each item of income, cost and capital employed and recorded in Batelco's accounts is attributed to the activities and network elements that make up the separate businesses defined under accounting separation and this will surely reflect the level of efficiency in the operations of Batelco. This is important hence

operators should not be burdened in any way by costs resulting from Batelco's inefficiency in operating its business.

Lightspeed stresses on the importance of an independent and certified auditor to perform the (Fairly presents) audit standard. Such an auditor should be approved by the TRA and should work closely with the TRA representatives to ensure regulatory compliance. Such an approach is essential hence and as stated in the Consultation Paper, the TRA has spent a lot of time and effort in reviewing and amending Batelco's previous APM reports and regulatory accounts. We do not see that this should be the role of the TRA hence its role is merely to supervise and review the compliance of such an audit.

We stress that the obligation should be imposed on Batelco and its auditors to ensure that its accounts are not only properly prepared but also **fairly present** the true nature of Batelco's regulatory accounts and that the APM is appropriately documented.

### **Specific Comments:**

Lightspeed would like to provide the following answers to specific questions raised in the Consultation Paper:

#### **Question 1**

Would you like to add anything to the descriptions of audit standards provided by the Authority? Please elaborate.

#### **Comment:**

Lightspeed supports the TRA in that the following represents key advantages to adopting the (Fairly presents) method:

- a. The auditor checks the reasonableness of the apportionment methodologies and the objectivity of the selection of those methodologies;
- b. The auditor checks the appropriateness of the framework documentation; and
- c. The auditor checks the appropriateness and robustness of the data

Further, we would like to highlight that with regards to the wholesale business that is based on current cost accounting and for the purpose of revaluating Batelco's current assets on its current value. The approved auditor should always verify the source of the information provided from different sources in terms of unit asset cost and unit asset life cycle. Further and with regards to the operational maintenance costs, the auditor should analyse the level of efficiency of Batelco's operations. This is important to ensure that operators are not punished by Batelco's operational inefficiency.

#### **Question 2**

Do you believe it is appropriate to change the audit standard to "fairly presents" in light with the issues identified by the Authority on Batelco's regulatory accounts? Please elaborate.

#### **Comment:**

Lightspeed agrees with the TRA's approach and sees that it is a market necessity to have an independent and certified auditor to perform the (Fairly presents) audit standard. Such an auditor should be approved by the TRA and should work closely with the TRA representatives to ensure regulatory compliance. Such an approach is essential hence and as stated in the Consultation Paper, the TRA has spent a lot of time and effort in reviewing and amending Batelco's previous APM reports and regulatory accounts. We do not see that this should be the role of the TRA hence its role is merely to supervise and review the compliance of such an audit.

We stress that the obligation should be imposed on Batelco and its auditors to ensure that its accounts are not only properly prepared but also **fairly present** the true nature of Batelco's regulatory accounts and that the APM is appropriately documented.

We believe that the audit should provide assurance on regulatory accounts which should be built on accuracy, reliability, quality, objectivity and credibility of the information presented. Stakeholder's confidence and understanding of the financial statements is significantly enhanced by the presence of an independent (approved by the TRA) audit. In the case of Batelco, the information provided to the TRA has never been totally accurate or reliable. Therefore, we do not see any alternative other than to implement the (Fairly presents) approach as soon as possible.

### **Question 3**

Do you agree with the Authority on the audit report? Do you agree with the Authority on the interim audit report? Please elaborate and formulate substantiated alternative proposals if necessary.

#### **Comment:**

We support the TRA's approach especially at the early stages (inception phase). Taken into consideration and as stated in our comments on Question1; the principles stated above should be completely fulfilled and a complete analysis of Batelco's efficiency should be conducted.

### **Question 4**

Do you agree with the Authority that the "fairly presents" audit requirement should apply at product/service level?

If you disagree, please indicate and justify at which level the audit requirement should apply and explain in details how it would be practically different from a requirement at the product/service level?

Please elaborate and formulate alternative proposal if necessary.

#### **Comment:**

Lightspeed supports that the audit requirement should apply at the product/service level. This will provide the TRA with the assurance that subsequent RO submissions are free from errors as the cost stacks of wholesale charges often require a greater level of cost allocation as is currently reported under the APM. Similarly, the application of the "fairly presents" standard will provide the necessary level of assurance regarding the accuracy, reliability and quality of information at the retail level.

This will enable the TRA and all stakeholders to ensure that no cross subsidization occurs and reflect on the market with great benefit. This will also contribute in lowering market entry barriers and increase the level of regulatory certainty in the market.

### **Question 5**

Do you agree with the Authority that the "fairly presents" audit requirement should apply solely to Batelco for present purposes?

Please elaborate

#### **Comment:**

Lightspeed supports the TRA's position and stresses that Batelco continues to dominate the Bahraini telecommunications market at both the retail and wholesale levels. Batelco, as the incumbent operator, is still in a unique position in respect of the significance of its regulatory accounts for the setting of wholesale and retail tariffs. We therefore emphasize that the "Fairly presents" audit

requirement should currently apply solely to Batelco and should in the future apply to any operator that fits the current criteria and or the level of dominance that Batelco has in the relevant market.