

Kingdom of Saudi Arabia
General Auditing Bureau



Practical Case for

The role of Saudi Arabian
General Auditing Bureau
(GAB)

In the assessment of
Telecommunications Sector
privatization impacts

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Pre-Privatization Status:

During the nineties of the past century, telecommunications sector in the Kingdom of Saudi Arabia was challenged by enormous obstacles in up breasting with telecommunications sector giant developments at international level, which in turn lead to obvious retardation of this sector and negatively impacted other economical sectors and quality of services provided to citizens. The most obvious shortcomings of this sector are:

1. Weakness of development level in this sector in liaison with strategic planning and management including:
 - Degraded percentage of fixed telephone diffusion where lines to population ratio do not exceed 10%.
 - Inability of fulfilling more than 50% of new services applications.
 - Weakness of mobile telecommunication development and limitation of its covers.
 - Weakness of development level in data communication services where its contribution to revenues failed to exceed 1%.

2. Weakness in the financial performance of telecommunications sector throughout twenty years preceded privatization of the sector (1975-1995), as cumulative revenues within such period were less than the cumulative expenses.
 - Cumulative expenses were about SR 80 billion (US\$ 21.3).
 - Cumulative revenues were about SR 77 billion (US\$ 20.5).
 - Cumulative receivables were about SR 8 billion (US\$ 2.1).

Privatization Objectives:

The main objective of telecommunications sector privatization is to meet social and economic needs of the Kingdom and to boost contribution of this sector to accelerate comprehensive development wheel, provide investment opportunities, create new employment opportunities and transfer modern technologies. Telecommunications sector privatization process in the Kingdom of Saudi Arabia was non-preceded project in the area regarding size and quality.

The ministry of PTT (the government operator of telephone facilities) has determined privatization objectives as follows:

- Develop telecommunications sector through providing services quality and network coverage to meet social and economic needs of the Kingdom.
- Elevate economical efficiency of the sector in general and key operator of telecommunications in particular, which will result in promoting the comprehensive financial performance of the sector.
- Orientation of operational capabilities to provide telecommunications services to end users at suitable tariffs.
- Improve national cadres employment opportunities after privatization through expansion of telecommunications sector and its enormous impact on other aspects of national economy.
- Reduce the government role in telecommunications sector (in the field of financing, strategic planning and operation), which will be considered more suitable to private sector.
- Open field before investors and to contribute in expansion of capital local market.

However, the supreme economic council being the body responsible for privatization programs in Saudi Arabia has provided many privatization guidelines as follows:

- Setting a plan for privatization project.
- Carry out gap analysis to determine privatization obstacles and challenging the need to restructuring and setting out timetables and clear landmarks.
- Set up privatization plan supported by experienced consultants in the strategic fields. The following are among the aspects that shall be included in the privatization.

Privatization Process:

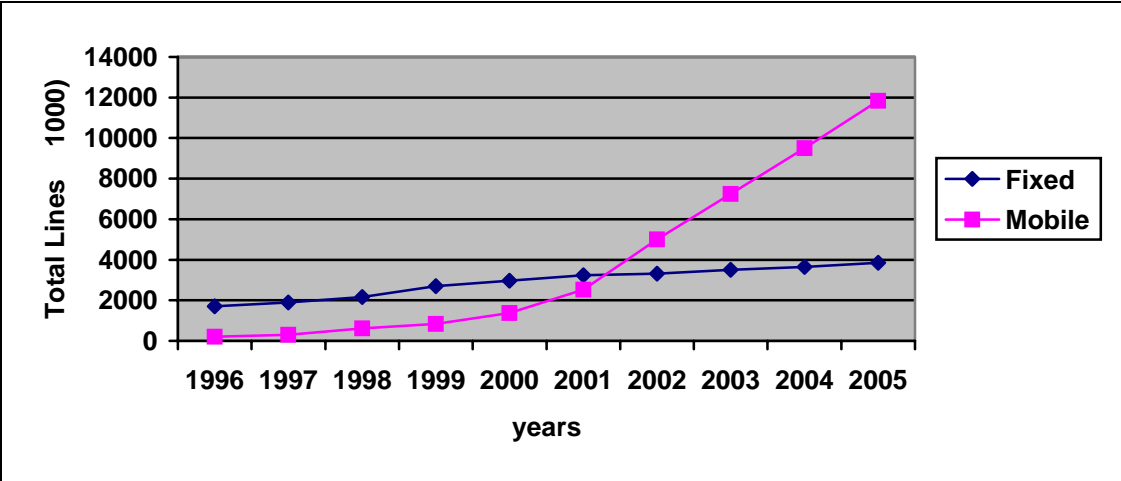
Transfer and restructuring programs have been made to implement the process of incorporation of STC and transferring fixed and mobile phone facilities to the company. From the beginning of the program, the company management has set up necessary strategies to prepare the configure for privatization in accordance with four dimensions as follows:

1. Customers (Improvement and development customers service).
2. Financial aspect (Increasing revenues and profitability).
3. Internal procedures (Facilitate and simplify procedures of internal work).
4. Education and Growth (Development and train human resources and elevate the company infrastructure).

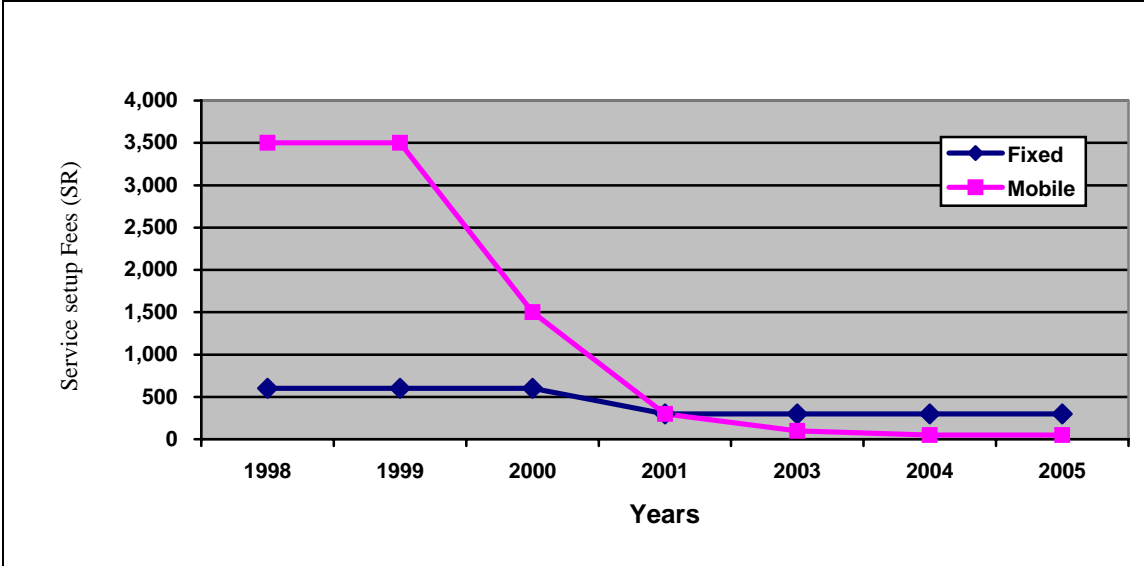
Privatization process was accompanied with an important participation by General Auditing Bureau being the highest financial auditing entity, which entity highlighted the issue of evaluating fixed assets of telecommunications facility and transferring it to the company. This experiment was previously presented to ANTOSAI work group and was used within the case studies prepared by the Group.

Post-Privatization (Results of Privatization Process):

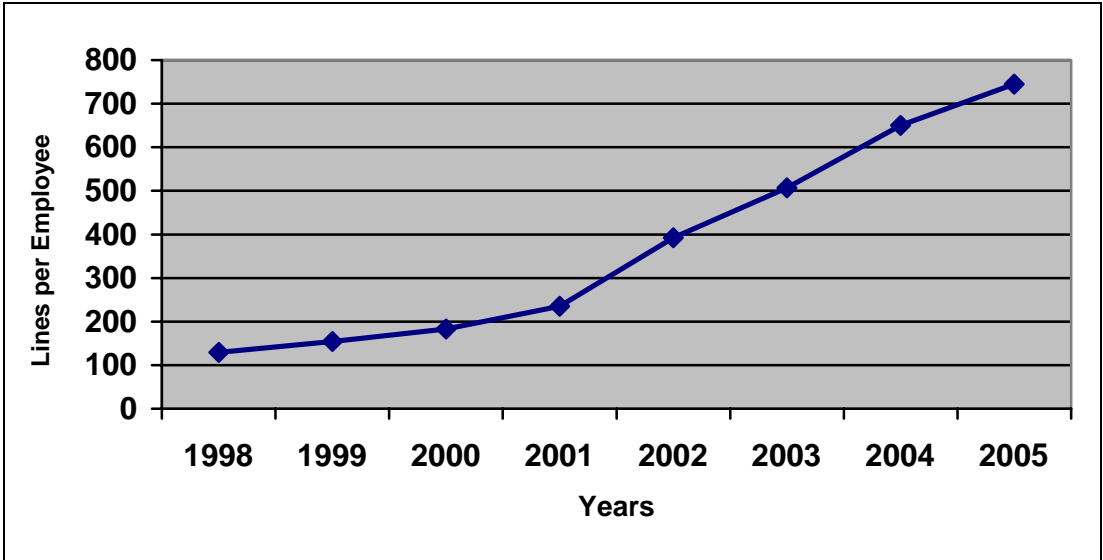
Since Telephone facility has been transferred to the company, the telecommunications has been witnessing incremental growth in the provided services and in the charges of such services. The following figure shows the development of fixed and mobile telephone lines from 1996 to 2005.



This is in the case of services provision level. However, on the services setup cost level this field also witnessed counteractive development as the charges decreased from one year to another. The following figure presents this trend.



In the field of performance efficiency, work efficiency was increased in telecommunications sector as the number of telephone lines per capita increased through out 1998 to 2005 as shown in the following figure:



The Role of the GAB in Privatization Process Audit:

First Phase: Objectives Achievement Audit:

The focus of the bureau during post-privatization was concentrated on the extent of privatization achieving objectives. As indicated above, the objective of privatization of telecommunications sector is to improve the service provided to citizens and business sector at reasonable cost. Therefore, the Bureau started auditing achieving such objectives by the company. This has been represented in audit of company's performance in liaison with customer's services related fields. The following are some of the indicated conclusions.

- A. Follow up implementation of the company plans regarding coverage of accumulating deficit in telephone lines, as the Bureau continued following up STC in implementing its plans to expand telecommunications network lines and coverage accumulated waiting lists from previous years. Some of the most important results of such follow up are as follows:
 - Reduction of fixed telephone installations below the planned objective.
 - Pending applications of fixed telephone lines for many customers for many years without providing them with the service.
 - The need to exert more efforts to meet accumulated waiting list applications since years.
 - Failure to meet fixed telephone lines targeted installations.

- Great contrast between number of installed mobile phone lines and targeted.
 - Increase in number of installation dates that were not fulfilled against the planned number.
- B. Follow up company's plans in pricing, which include subsequent discounts on services prices provided to end-users. The company included in its incorporation programs a plan for reducing charges of fixed and mobile phones similar to the charges applied in the neighboring countries of GCC. However, the company considered it its plan to avoid interfacing with service demand to be proportion with the company expansions.
- Reduction in dispensing unique numbers of mobile and fixed lines spite of the availability of line due to non-inclusion in the price reduction plans.
- C. Evaluate billing process performance and customer due payment promotion means. Telecommunication services customers used to suffer from some types of shortcomings such as non-receiving their bills in timely manner, which resulted in line disconnection by the company and the need for the customer to visit the company to collect the bill.

Some of the recommendations made by the Bureau in this respect were to implement quicker means of communication better than normal mail, such as phone, Internet and mobile phones SMS of and fixed phones voice messages.

- D. Special conclusions regarding Company's customers services development and achieving consumer satisfaction pursuant to the new regulations of telecommunications service which is based on profitability and competition. The following are some of the most important results:
- Unavailability of subscriber services office related practices and procedures.
 - Unavailability of sufficient information that help in assessing the company's performance in relation to faults and repairs.
 - Unsuitability of distribution of employees against productivity of customers services offices.
 - Non-attainment of training courses by most of customers services offices employees.
 - Non-observing accuracy in selecting sites of customers services offices and unavailability of clear standards that determine the required areas of customer's services offices, and unsuitability of some company's services offices.

- The company inaugurated and equipped new customers services offices in a way that is contradicting to the general plans of the company that aim to reduce reliance on offices while supporting remote-service procedure such as telephone service centers and Web network.
- Complete non-utilization of customer's services offices to introduce company provided services.
- Increase average of provided remote-services such as (bills and call features amendment) via customer's services offices, and the company's need to obtain alternatives to provide such services to customers such as Internet, voice mail, SMS, and fax.
- Decrease in employee's productivity at customer's services offices due to unsuitable qualification of some employees. However, many employees is working in light of hours based system since a long time, and some employees having high qualifications were not employed as well as default in implementing training programs of those employees who work in the field of customers services.
- Decrease in the level of performance made by Remote-Customers Care Centers and failure to satisfy the growing demand of services in spite of the general approach of the Telecommunications Sector to intensify remote-provided-services.

Second Phase: Privatization Impacts Audit:

During this phase, the Bureau shifted to measure other results of privatization. The interest was placed on the employment and the extent of privatization impacts on the status of employees transferred from the Ministry to the company, and whether privatization process jeopardized employees or abandons them. Although the results showed the contrary as number of company's employees increased, and no abdication was made to the previous employees, this evaluation has given some results that became useful and helpful to the company in the subsequent years. Some of these results are as follows:

- Qualifications of some employees are not matching their job titles, and difference in qualifications of those who are appointed to jobs of the same title and scale.
- The need of the Company to exert more efforts to fulfill its need of national employees to replace expatriates, in particular for leading and supervisory jobs, network technicians and employment departments.

Third Phase: Auditing Assets Protection After Privatization:

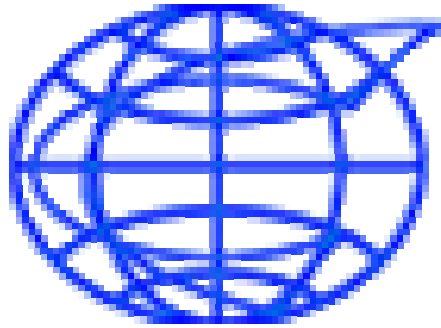
During this phase the Bureau assessed the impacts of privatization process on the business behaviors of the new company as it started to evaluate the fields of using company's resources within the term of transferring into high-resilience commercial system, and the extent of this impact on the efficiency of auditing on resources, as it started also to audit the company's performance in the field of vehicles, which showed that transferring to commercial system and achieving great profits by the company contributed to weakening audit on the process of securing and using some vehicles. The following are some of the important results:

- The company opted direct purchase and rental method for procuring its needs of vehicles. It was not surprising that the need for leased or procured vehicles was increased and exceeds the company-approved study.
- Weakness of vehicles utilization audit, which resulted in using vehicles in other purposes than work, administration vehicles are not carrying the company logo and unavailability of updated data of employees having such vehicles.

Conclusion:

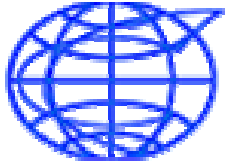
Based on the above, it is clear that General Auditing Bureau witnessed the biggest process of privatization in the Saudi Economy from its initiation until impact measurements. We may brief the Bureau experiment as being “good” that greatly benefited the Bureau and the government. In the past two years, the Bureau tended to concentrate on privatization programs.

The Bureau audit role was not completed to this end. After several sectors such as telecommunications, insurance, and airways sectors are no longer under the government operation umbrella and monopoly and shifted to competition, the Bureau will in the next phase tend to focus on Economical Regulators bodies in most various sectors targeted by privatization to verify their independence, enrich markets and encourage competition in the term of respecting social and human aspects. However, the Bureau will work in accordance with INTOSAI guidelines economical regulators audit.



Auditing Telecommunications Privatization impacts

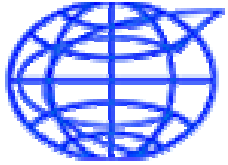
**General Auditing Bureau
Of the Kingdom of Saudi Arabia**



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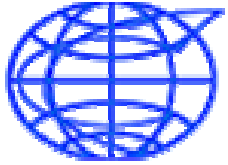
Situation before privatization



During the nineties of the past century, telecommunications sector in the Kingdom of Saudi Arabia was challenged by enormous obstacles, which in turn lead to obvious retardation of this sector at the international level

The following are the most prominent elements of sector shortcomings:

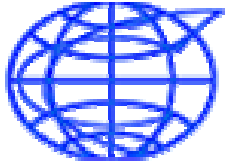
- Weakness of development level in this sector in connection with the strategic planning and management.**
- Weakness of telecommunications sector financial performance throughout twenty years pre-privatization of the sector.**



Privatization Objectives



- **Develop telecommunications sector through services provision.**
- **Elevate economic efficiency of the sector**
- **Provide telecommunications services to end-users at suitable tariffs.**
- **Improve employments opportunities post privatization**
- **Minimize government role in telecommunications sector.**
- **Participate in local market capital expansion.**

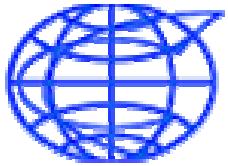


Privatization Process



Transfer and restructuring programs was set up to implement STC incorporation and transfer fixed and mobile telephone facilities to the company. From the initiation of the program, the company management set up necessary strategies to prepare the company for privatization in compliance with four dimensions as follows:

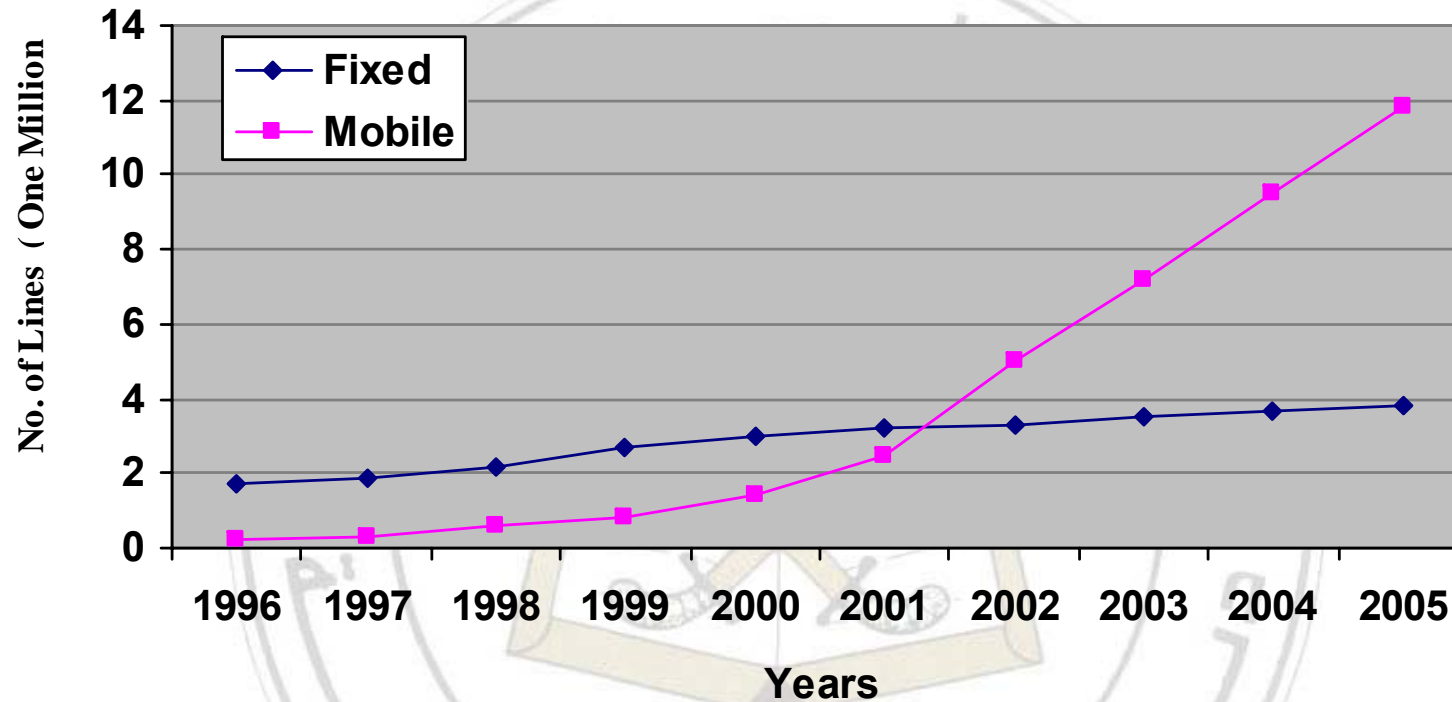
- Customers (Improve and develop customers service).**
- Financial aspect (Increase revenues and profitability).**
- Internal procedures (Facilitate and simplify procedures internal work).**
- Education and Growth (Develop and train human resources).**

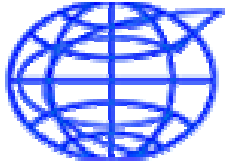


Privatization Impacts



Operating telecommunication lines development

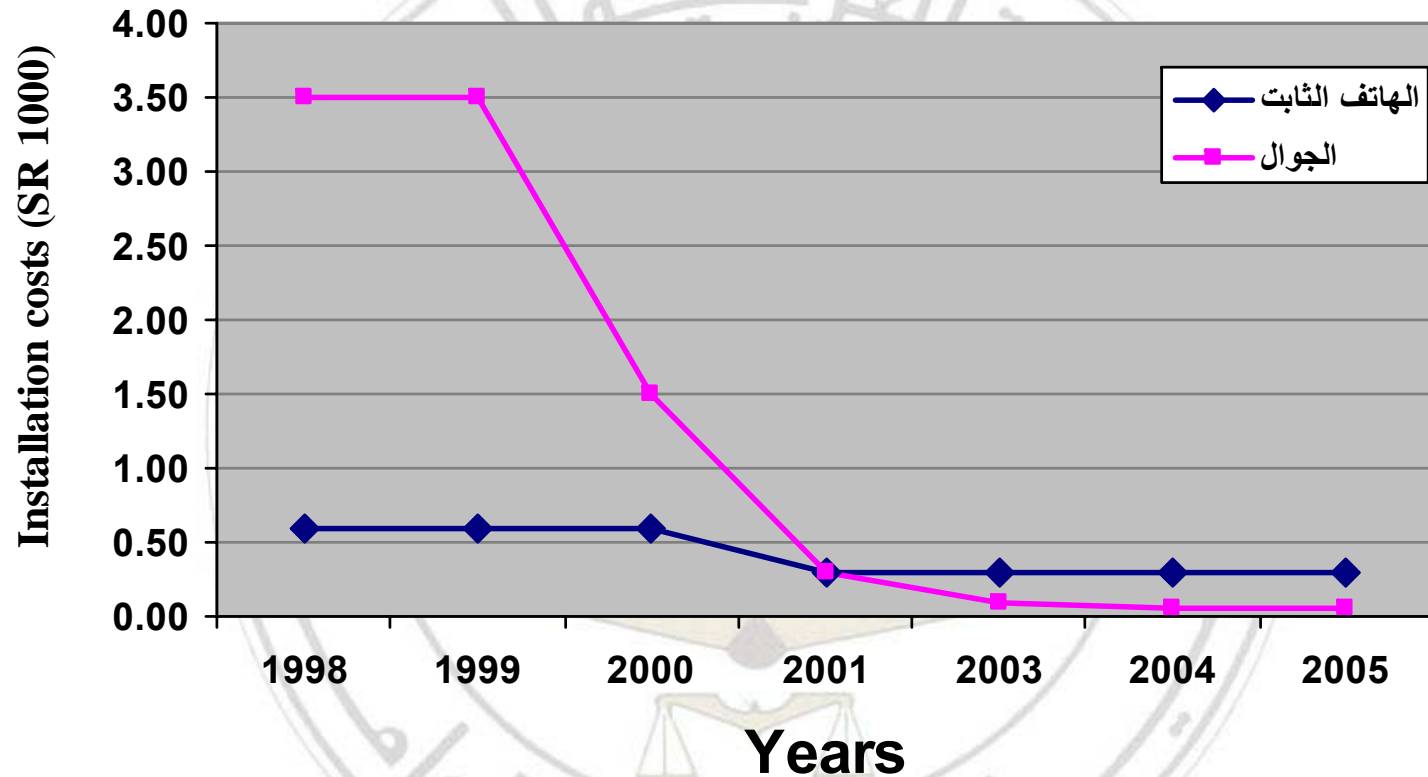


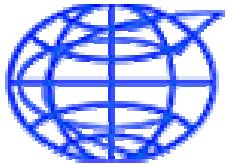


Privatization Impacts (Cont.)



Service Installation costs

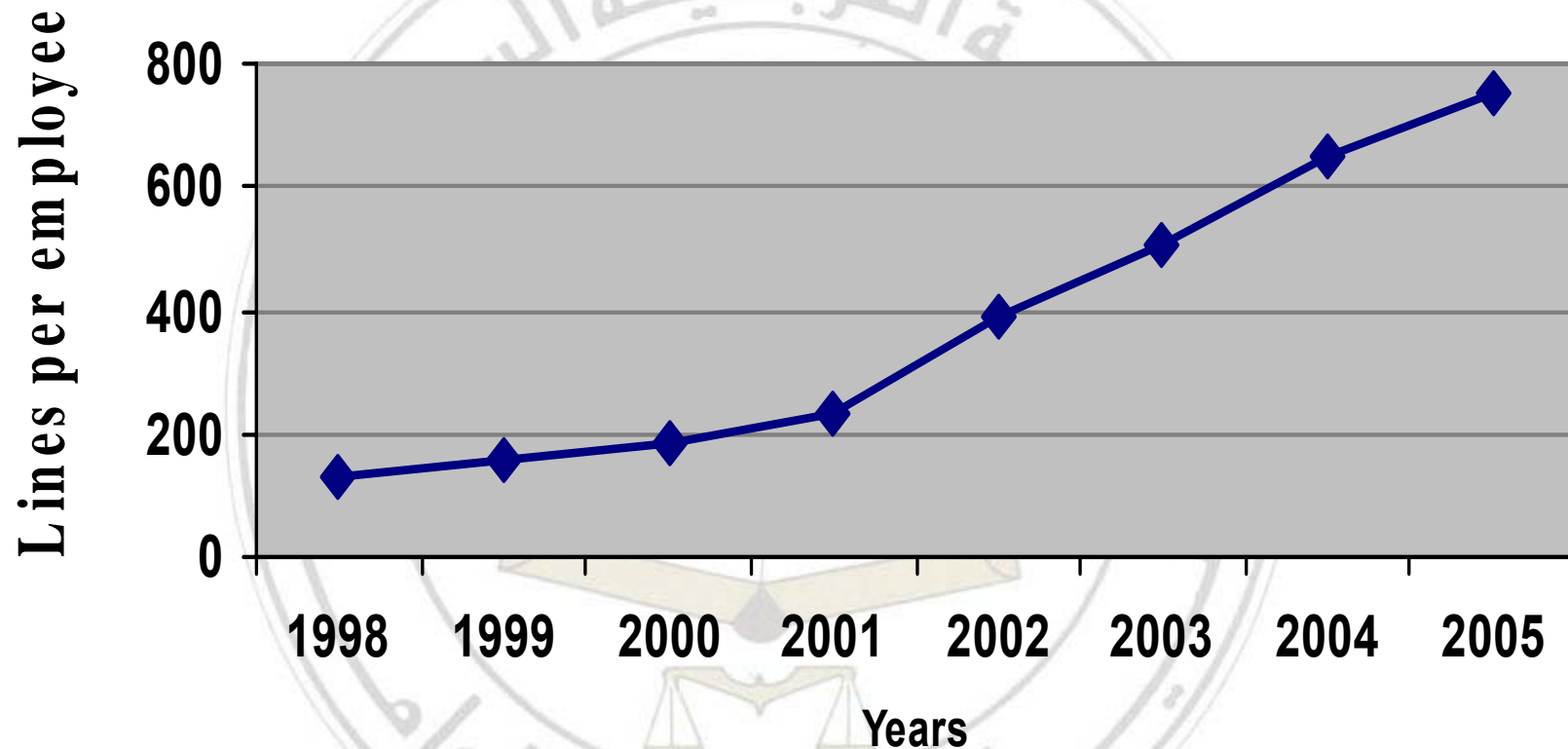


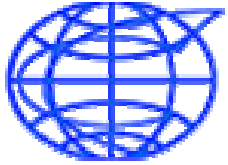


Privatization Impacts (Cont.)



Number of Telephone Lines Per Employee Development



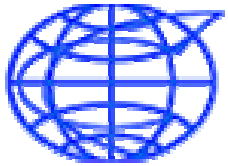


Auditing Privatization Impacts



- **Objective achievement audit.**
- **Economic effects audit.**
- **Funds protection post privatization audit.**



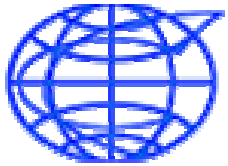


Objectives Achievement Audit



This has been represented in company's performance auditing in connection with fields related to customers' services. The following are some of the results that can be indicated in this regard:

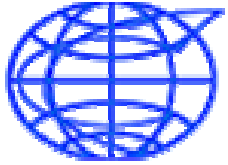
- Follow up implementation of company plans in regarding coverage of accumulated deficit.
- Follow up company's plans regarding pricing.
- Evaluate performance of telephone billing process.
- Special results relevant top development of Company's customer's services and achieving consumer satisfaction.



Privatization Impacts Audit



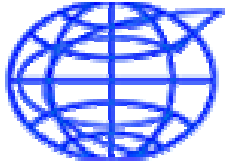
During this phase, the Bureau shifted to measure other impacts of privatization. Naturally, the interests were concentrated at that time on employment and extent of privatization effect on the situation of company's employees. Although the results showed that employment was not affected by privatization as number of company's employees increased, and no abdication was made to previous employees, organization recommendations were benefited from in the subsequent years of some companies.



Protection of Assets



During this phase the Bureau evaluated the impact of privatization process on the business behaviors of the new company as it initiated to evaluate the fields of using company's resources within the term of transferring into high-resilience commercial system and simplicity of auditing the resources, and started also to audit the company's performance in the field of vehicles, which showed that transferring into commercial system and achieving great profits by the company contributed to weakening audit on the process of securing and using vehicles.



Conclusions



- Based on the above, it is clear that General Auditing Bureau witnessed the biggest process of privatization for the Saudi Economy. The experiment of the Bureau can give briefed as “good” that greatly benefited the Bureau and the government.
- The Bureau audit role has not completed to this end where several sectors such as telecommunications, insurance and airways were transferred from government monopoly to competition.
- In the next phase, The Bureau will tend to concentrate on Economical Regulators to verify their independence, enrich markets and encourage competition.
- The Bureau will work according to guidelines given by ANTOSI in connection with auditing Economic Regulators.