



Risk?

Integrity?

**What's accelerating
your growth?**

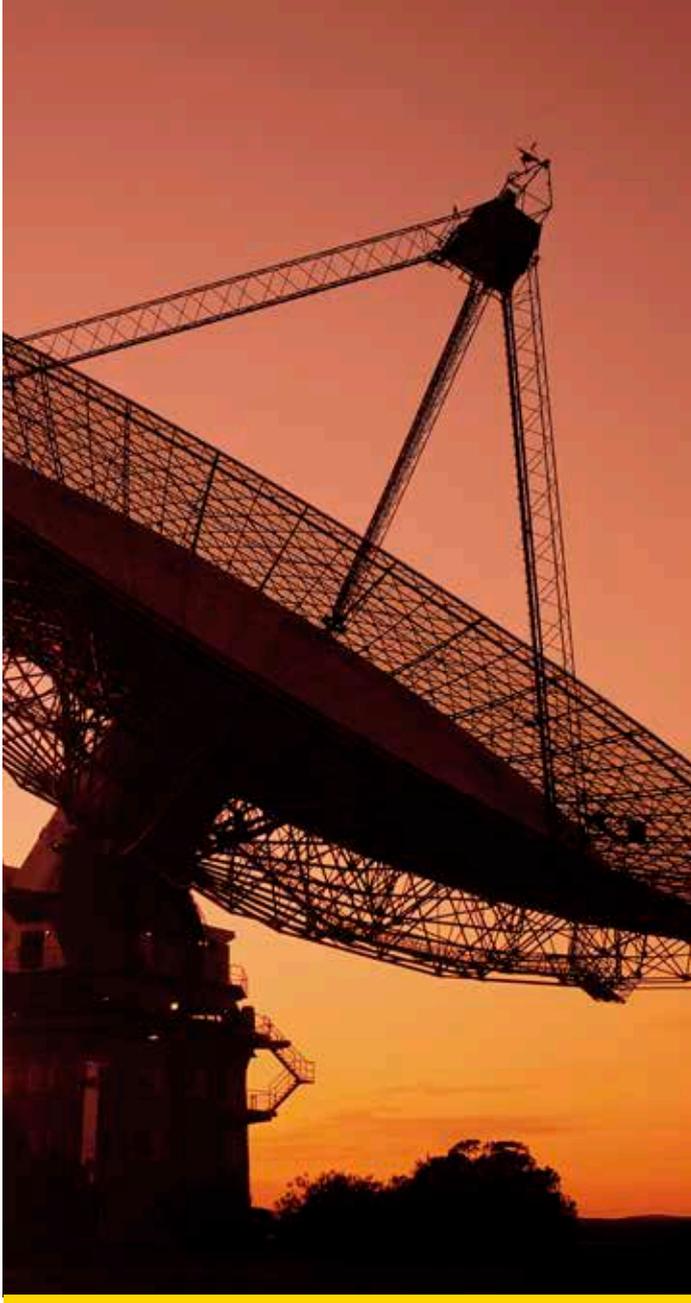


The better the question. The better the answer.
The better the world works.



EY

Building a better
working world



Fraud and compliance in the telecommunications sector

Fraud and noncompliance continue to be big challenges for the telecommunications sector. According to the Communications Fraud Control Association's 2015 Global Fraud Loss Survey, telecom fraud losses were estimated to exceed US\$38 billion in 2015.

Businesses are always under scrutiny, but it is most intense when shareholders, business partners or regulators suspect wrongdoing. The enforcement of anti-corruption and antitrust laws is now at its peak, with US regulations continuing to set the benchmark – telecom organizations face a variety of sector-specific regulation, plus data protection and data security risks. But there has also been an international shift toward a more aggressive approach to enforcement and penalties. Regulators in the United Kingdom, Germany, Brazil, China, Spain, Italy and France, among other countries, have been involved in major enforcement actions. This demands higher levels of integrity, honesty and transparency in the way businesses operate and makes it more critical than ever to respond rapidly, appropriately and robustly to any aberrational conduct.

With billions of dollars in fines being levied and executives being indicted, are companies doing enough to mitigate the risks of fraud, corruption and noncompliance? And what specifics must telecom companies consider to prevent and detect fraud and noncompliance, as well as respond to incidents?

The risk of fraud: manage your proper response

Even as businesses face increasingly complex challenges – market volatility, geopolitical instability, oil shocks and economic sanctions – they are also under tremendous pressure to achieve growth. In such circumstances, is unethical growth the easy option? The results of EY's latest Global Fraud Survey of 2,800 respondents across 62 countries continue to show the significant risk of individuals acting unethically. Respondents display the human tendency toward rationalizing behavior, ethical or not. The risks of fraud, bribery and corruption remain widespread, and we continue to see businesses fail to mitigate them effectively.

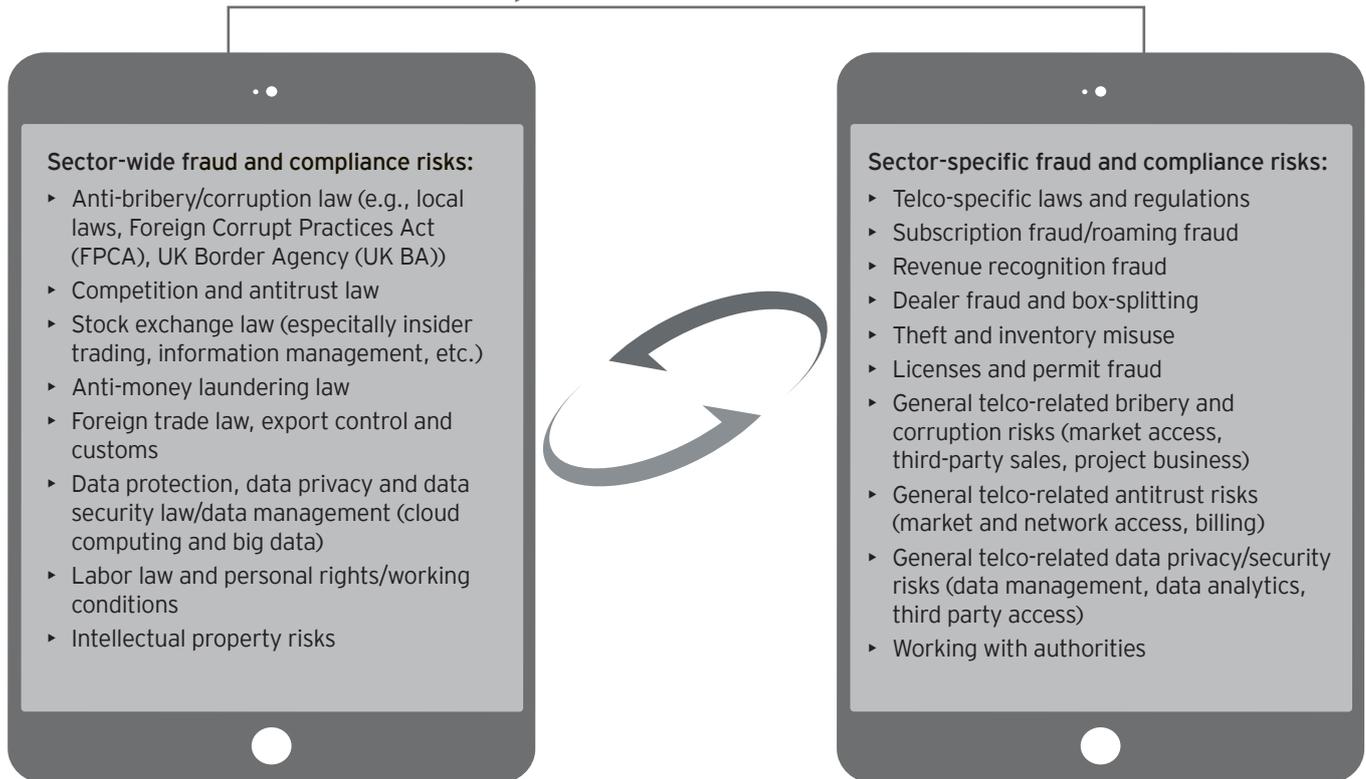
- ▶ Thirty-nine percent of respondents said bribery and corruption happen widely in their countries. The situation appears to have deteriorated in developed markets, where 21% of respondents reported that such behaviors are widespread.
- ▶ Almost half of all finance team members interviewed stated that they would be prepared to engage in at least one form of unethical behavior to meet financial targets – a greater proportion than the 36% who could justify such behavior to help a company survive an economic downturn. A fair number of CFOs also seem to lack appropriate risk awareness, with only 41% viewing cybercrime as a concern.
- ▶ For telecoms, media and technology, only 8% of respondents think that bribery and corruption are irrelevant to the sector. Thirty-eight percent of respondents answered that bribery and corruption can be justified if they help a business survive an economic downturn. Typical channels that are justified for these payments are entertainment expenses (26%), cash payments (18%) and personal gifts (10%).

With corporate fraud and misconduct, the question is not if they will happen, but when. A fraud and misconduct response plan is the foundation on which efficient and effective investigations are built. The design and implementation of an appropriate plan help create consistent responses by the right people taking the right

actions at the right time. Additionally, the design, implementation and maintenance of the plan assist in proactively identifying a line of reporting and internal control weaknesses so that the organization can take timely corrective action.

The fraud and compliance risk universe for the telcom sector:

Fraud and compliance risks in the telcom sector



Anti-fraud, compliance and integrity management – the way to sustainable growth for telcoms

Anti-fraud and corporate compliance is an essential element of good governance and a strategic priority for most organizations in the telecom sector. The current economic, regulatory, social and ethical climate, coupled with increasing stakeholder expectations, has propelled corporate compliance to the forefront of corporate priorities.

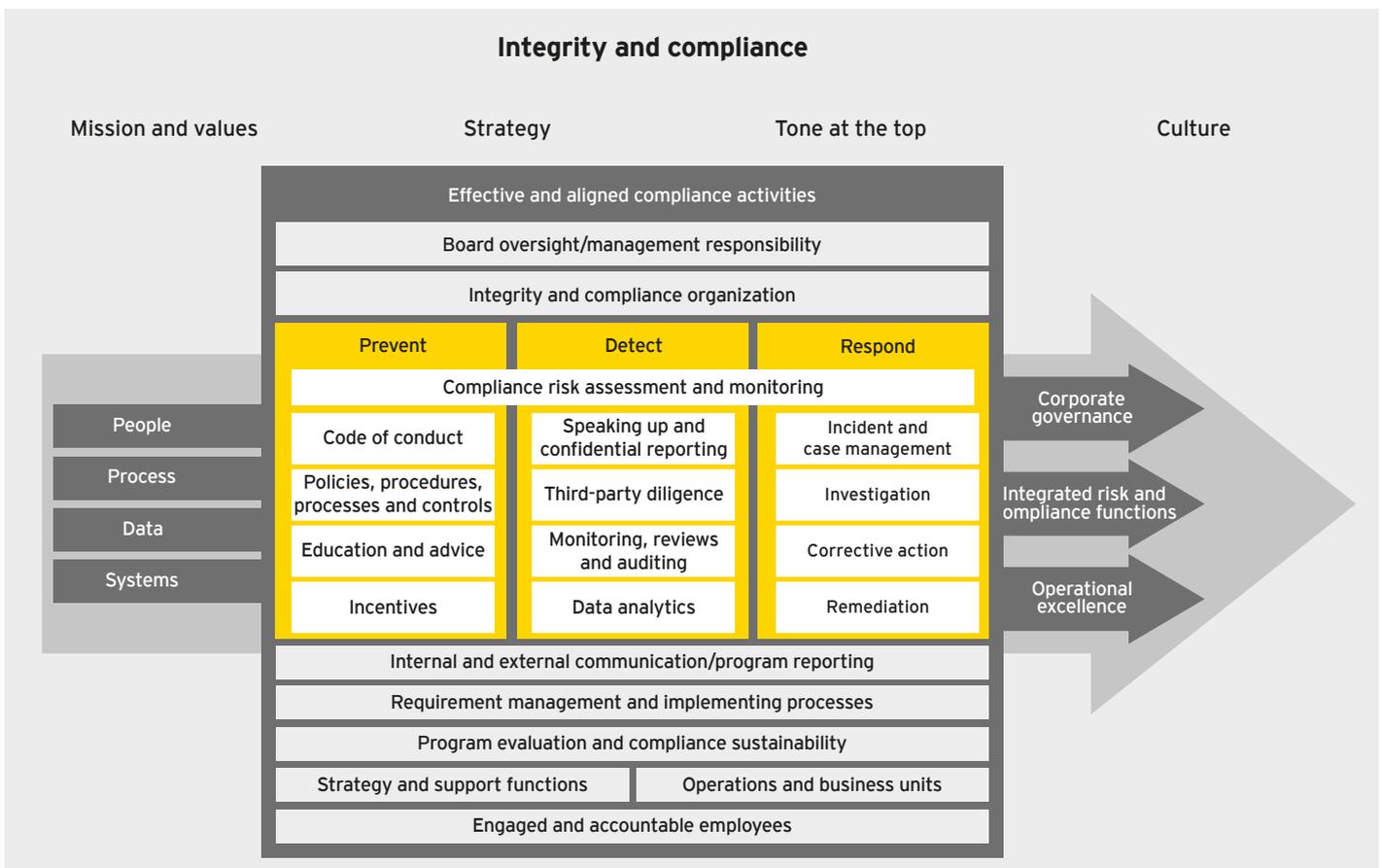
The challenge of effective integrity and compliance management

Organizations realize they need to embed principles of effective global integrity compliance management into the fabric of their day-to-day business – to keep them out of trouble, to integrate sustainable approaches and to drive better business performance. More than ever, boards and C-suite executives must respond to increasing pressure and scrutiny from stakeholders to provide tangible evidence that they are effectively addressing their compliance risks from a corporate and individual perspective. Broadly speaking, compliance includes both mandatory

requirements – such as laws and regulations – and voluntary, company-specific requirements – such as policies and procedures, public commitments and contractual obligations.

Telcom companies today are focused on determining whether their compliance infrastructure (programs, structures, people, processes and controls) is effective in preventing and detecting noncompliance and whether it is effectively integrated into business processes and everyday decision-making. Many companies address compliance reactively rather than proactively in response to events such as regulatory actions, criminal investigations and litigation.

This approach can result in increased costs, nonacceptance by employees and other stakeholders, liability and negative public exposure. Additionally, compliance responsibilities may be “siloed” within different corporate functions, departments and business units. This can create gaps and inconsistencies that undermine the company’s effectiveness in preventing and detecting noncompliance. As the business environment becomes more complex – across countries, languages, cultures and business lines – many of today’s compliance programs are not managed to reflect these realities.





An effective integrity and compliance program in the telcom sector should be designed to support and guide the business toward making decisions aligned with the mission, vision and values of the organization as well as the major compliance risks and regulations governing it. It should also provide management comfort that the organization operates with integrity. However, no single integrity and compliance program design fits every company. A company's risk profile, business model, organizational structure and culture should all influence the program design and operation, especially for telcom organizations.

Proper response – are you ready for the worst case?

There is no one-size-fits-all approach to the design, implementation and maintenance of an internal investigative capability and execution of internal investigations. Furthermore, needs, capabilities and requirements will evolve over time and should be reassessed as the landscape changes. Smaller organizations, as well as larger ones in the early stages of development, will likely outsource many of the activities associated with their investigative needs. But as those charged with implementing the investigative function gain knowledge, training and experience, companies will grow more confident in their ability to effectively execute their responsibilities with internal tools and resources. Small cases can rise to complex issues – including huge amounts of structured and unstructured data, research on business partners, forensic accounting and reviews, and eDiscovery.

Even after an incident, it is essential to rebuild the organization's reputation in the market and to establish anti-fraud and compliance programs to reduce risk in these complex matters.

Why EY?

Dealing with complex issues of fraud, corruption, regulatory compliance and business disputes can detract from efforts to succeed. Better management of fraud risk and compliance exposure is a critical business priority. We assemble the right multidisciplinary and culturally aligned team from our more than 4,500 fraud investigation and compliance professionals, and we bring an objective approach and fresh perspective to challenges, wherever you are in the world. And because we understand that you need tailored services as much as consistent methodologies, we work to give you the benefit of our broad telecom sector experience, our deep subject-matter knowledge and the latest insights from our work worldwide.

Services Overview: Fraud Investigation & Dispute Services (FIDS)

Fraud and investigations

Investigations

- Financial reporting and securities fraud
- Bribery and corruption
- Money laundering
- Employee fraud
- Embezzlement
- Monitorships

Corporate compliance, anti-fraud, anti-bribery and corruption

- Integrity and compliance program advisory
- Assessments, monitoring, improvements
- Policies and training

Integrity diligence

- Channel partner and vendor due diligence
- M&A target background checks
- Watch list and sanctions compliance support

Third-party management program design and administration

Forensic technology and discovery services

Forensic data analytics

- Anti-bribery/anti-corruption (ABaC) analytics
- Anti-fraud analytics
- Risk assessment
- Dispute and damage analysis
- Predictive modeling

Cybercrime investigation Incident preparedness and response services

- Cyber breach diagnostics
- Cybercrime forensics
- Cyber analytics

eDiscovery

- Preservation and collection of electronically stored information
- Computer forensics, data mining and analysis
- Early case assessment
- Technology-assisted review
- Managed document review
- Information governance
- eDiscovery advisory services
- Insider threat analysis

Dispute services

- Damage quantification and analysis
- Calculations of amounts due
- Expert witness testimony and reports
- Contract compliance disputes
- Post-acquisition disputes
- Intellectual property disputes
- Investigating allegations in class action litigation
- Alternative dispute resolution

Transaction forensics

- Pre-acquisition anti-corruption due diligence
- Contractual language assessment
- Post-acquisition analysis and integration/forensic look back
- Post-closing assistance with preparation of accounting mechanism
- Pre-arbitration dispute analysis
- Fund/strategic acquirer activities, including pre-IPO compliance and diagnostic review
- Portfolio company/subsidiary activities, including compliance review

Telco-specific services

- Billing and internal fraud diagnostic
- Network assets and allied services fraud diagnostic
- Network intrusion and data theft
- Fraud vulnerability assessments
- Telcom supply chain integrity assessment

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