KPMG

Commission for Communications Regulation

Review of eir's Regulatory Governance Model

Final Report

Redacted

7 July 2017

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7 July 2017

eir's Regulatory Governance Model Assessment

Dear Sir(s)

We enclose the Final Report from our independent assessment of the Governance aspects of eir's regulatory governance structures, including but not limited to, the Regulatory Governance Model ('RGM') performed in line with our Services Agreement dated 19 May 2016.

The matters raised in this report are only those that came to our attention during our review and are not necessarily a comprehensive statement of all weaknesses that exist, or all improvements that may be made.

We would like to note in particular the openness, professionalism and constructive manner with which eir management interacted with us during the review, and thank them for their help and cooperation.

If you have any questions in relation to this report, please do not hesitate to contact me to discuss further.

Yours faithfully

Patrick Farrell

Partner

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1 Executive Summary

1.1 Background and Context

1.1.1 Background to the Review

In accordance with the Services Agreement dated 19 May 2016, KPMG was engaged by the Commission for Communications Regulation ('ComReg') to perform a review of eircom Limited ('eir's') governance arrangements as they relate to compliance with its regulatory obligations. The review included an assessment of the scope and quality of eir's regulatory governance structures and the operation of the associated processes and procedures, including but not limited to the Regulatory Governance Model ('RGM'). The review was performed in three Phases:

- **Preliminary Phase**: To allow interested industry players to engage with ComReg's advisors. KPMG met with four Other Authorised Operators ('OAOs') and the Irish telecommunications business representative body, Association of Licensed Telecommunications Operators ('ALTO') in June 2016;
- **Phase 1**: To gain a broad understanding of the governance structure within eir, and perform an assessment of how that structure supports regulatory compliance and shapes incentives which affect regulatory outcomes; and,
- **Phase 2**: To perform detailed evidence gathering and walk through testing agreed with ComReg on the basis of the outputs of Phase 1.

This report sets out the observations from all Phases of the review.

1.1.2 Context of the review

Under the market analysis procedure[1] ComReg has designated eir with Significant Market Power ('SMP') in a number of markets and imposed regulatory obligations to address competition problems arising from that market power. Obligations comprise transparency, non-discrimination, accounting separation, access and price control and cost accounting obligations[2].

[redacted]

[redacted]

In 2011, eir publicly proposed a Voluntary Wholesale Reform Programme. According to eir, its key objectives for the process were as follows:

- Deliver outcomes to eir's Wholesale customers that reflect an enhanced commitment to its non-discrimination obligation;
- Enable a successful, customer-focused Wholesale business within eir; and,
- Develop trust in eir's re-focused Wholesale approach on the part of the industry.

eir has communicated to both ComReg and the industry on the steps taken to implement its Wholesale Reform Programme through the enhanced RGM which comprises:

- A Code of Practice ('CoP');
- Business Unit Process Compliance reviews ('BUPC');
- A Risk and Control Matrix ('RACM'); and,
- Compliance reporting to the Board, ComReg and, more recently, to the Industry.

The implementation of the RGM is monitored by eir and progress made is formally reported by eir's Compliance & Equivalence ('C&E') function to eir's Wholesale Reform Committee ('WRC')

on a bi-annual basis. This report is referred to as the Regulatory Compliance and Audit Report. During the period November 2013 to March 2016, five such reports have been prepared.

In May 2015, the fourth bi-annual Regulatory Compliance and Audit Report was issued to ComReg and a redacted version of this report was published as an Industry Update in August 2015. The most recent Regulatory Compliance and Audit Report was issued to the WRC in March 2016 and an industry version was published in May 2016.

In the August 2015 Industry Update report, eir identified a number of issues which it considered required remediation. For example, eir identified where it considers that the regulated facilities and services offered to their downstream businesses may have been of a higher quality than those offered to OAO's. These differences described as "Equivalence Issues" were detailed in this report together with proposed remediation and associated timelines.

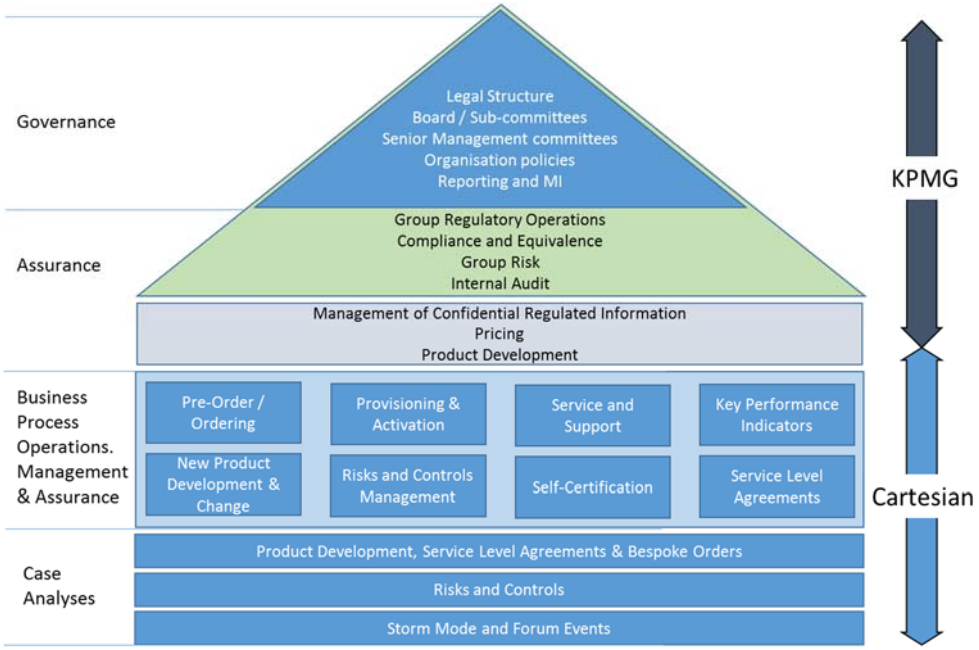
Following the issuance of this report, ComReg made a decision to conduct a review of the scope and quality of eir's regulatory governance structures and the operation of the associated processes and procedures, including but not limited to eir's RGM. The review was tendered as two lots in March 2016:

- Lot A ("Governance") which comprised of an assessment of the suitability for regulatory purposes of the macro structural, governance and control environment within which the operational risk and control framework operates. The review addressed such issues as eir's legal and management structure; the role of eir's main board and senior management; the independence and governance arrangements for its wholesale arm, open eir; the existence and quality of independent oversight; the existence of suitable codes of conduct together with related HR matters such as training and disciplinary arrangements; and,

- Lot B ("Operations"): which comprised of an assessment of the adequacy of the control environment within eir as it applies to operational business processes (including product development and the management of associated information). This included an assessment of the risk management and control environment throughout the eir organisation as it pertains to regulatory obligations. It also included the completeness and quality of process documentation, the documentation of reports and the management of reports and information flows and sample transaction testing of the operation of controls and the accuracy of source documentation.

In May 2016, KPMG was appointed to perform the Governance Review and Cartesian Limited ('Cartesian') was appointed to perform the Operations Review. These lots, while distinct, were inter-related and KPMG and Cartesian worked closely throughout the review to manage any potential gaps or duplication in the reviews. The high level scope of the two reviews delivered by KPMG and Cartesian is illustrated in the diagram below.

High level scope of the Governance and Operations Reviews



The overall objective of the Governance Review performed by KPMG was to establish whether eir's governance arrangements are sufficiently robust such that they demonstrate and ensure ongoing compliance with regulatory obligations and to identify whether any further actions are required by eir and/or ComReg.

1.2 Scope and Approach

1.2.1 Preliminary Phase

As part of the planning process for the assessment of eir's RGM, KPMG met with four OAO's and the Irish telecommunications business representative body Association of Licensed Telecommunications Operators ('ALTO') to obtain background information to consider as part of the scope of the review. These meetings took place at ComReg's offices in June 2016.

1.2.2 Phase 1

Scope

Phase 1 of the assessment of eir's RGM was performed during June 2016 to September 2016. The review was performed in accordance with Schedule 1 of the Services Agreement, dated

19 May 2016 and included a design assessment of eir's Governance structures, with particular reference to how these structures support regulatory compliance and shape incentives which affect regulatory outcomes.

Specifically, based on Schedule 1 of the Services Agreement, Phase 1 included a high level design assessment of:

- eir's legal and management structure;
- The role of the main board and senior management;
- The role, responsibilities, management and legal structure of eir's wholesale arm, open eir. An assessment of its operational and strategic independence;
- Governance arrangements regarding open eir;
- In the context of strategic decision making and major investment decisions, the relationship between open eir and the rest of the eir Group;
- How decisions with regard to product development prioritisation are made;
- The status, quality and independence of oversight mechanisms;
- The status of the group regulatory function;
- An assessment of controls to ensure that Pricing obligations are complied with, in particular, controls to ensure that Confidential Regulated Information is handled appropriately and potential conflicts of interest are eliminated or otherwise dealt with appropriately;
- The degree to which senior management incentives are aligned with regulatory obligations;
- The incentive and ability for board and senior management to override internal governance and the Risk Management Control Framework ('RMCF') as they pertain to regulatory obligations;
- The extent to which eir's governance arrangements are applied across the eir organisation;
- The adequacy of reporting and monitoring mechanisms;
- The adequacy of segregation of duties, identification of potential conflicts of interest and how these are managed;
- The adequacy of HR arrangements including the role out of codes of practice, training and other relevant arrangements;
- How senior management ensures compliance with regulatory objectives while at the same time responding to investor demands and if there are conflicts between regulatory compliance and investor demands, how these are addressed;
- Protocols regarding group decision making and information sharing at senior levels including but not limited to the preparation and submission of larger bespoke bids;
- The durability of any arrangements in place;
- Any other relevant material considerations; and,
- Validation of the assessment by conducting interviews with eir stakeholders.

Approach

Our approach to Phase 1 of the Governance review comprised an assessment of the existence and high-level design of the governance structures within eir with regard to the in scope activities. We established three key work streams to address these areas:

- **Governance**: including the legal structure of eir, the Board and its sub-committees and the Senior Management Team structure and governance fora;
- **Process**: including the governance over the processes for product development, investment decision making, pricing, human resources and training and management of Confidential Regulated Information; and,
- **Assurance**: including the role of the Regulatory and Compliance function and other assurance providers within the RGM.

Our approach to Phase 1 consisted of the following in relation to the three work streams:

- Performing a desktop review of relevant eir documentation;
- Holding interviews with the key stakeholders within eir to confirm the existence and high-level design of the governance, process and assurance procedures having regard to regulatory expectations;
- Considering the extent to which the areas in scope are reflective of good practice. This assessment was based upon our experience of performing similar governance, process and assurance reviews and related governance codes across a number of industry sectors; and,
- Drafting observations arising from our review and considering the relative risk of these observations to inform the scope of the Phase 2 review.

1.2.3 Phase 2

Scope

Phase 2 of the assessment of eir's RGM was performed between October 2016 and January 2017. The objective of Phase 2 of the review was to perform further detailed evidence gathering and substantive testing, the scope of which was agreed with ComReg on the basis of the outputs of Phase 1.

We used the following criteria to select the areas of focus for Phase 2:

- The relative risk of the initial observations made in each focus area of Phase 1 in relation to the RGM; and,
- The extent to which further validation and substantive testing would lead to different and/or more granular recommendations to validate the observations from Phase 1.

Based upon the criteria above, Phase 2 comprised further detailed evidence gathering and substantive testing of the following areas of focus:

The Regulatory and Compliance Function

Our review further considered the following aspects of the Regulatory and Compliance function:

- Positioning (structure, operational independence, oversight, mandate and nature of work);
- People (structure and reporting lines, competencies, training and development); and,
- Process (risk assessment and planning, delivery, review, reporting and follow-up).

Our focus on the Process elements included a review of the key activities of both the Regulatory Operations and Compliance and Equivalence ('C&E') functions. In particular:

- Formality and form of support provided by Regulatory Operations in relation to product development (including management of communications with OAOs and oversight of requests through Account Managers and Industry Fora), pricing, general advisory, proactive compliance activities and progressing regulatory issues/breaches with ComReg; and,
- Formality, scope, approach and frequency of Business Unit Process Compliance ('BUPC') reviews, Compliance Reviews of Controls ('CRoC'), maintaining the RACM, Statement of Compliance ('SoC') and activities to deliver the bi-annual Regulatory Compliance and Audit report.

In addition, we included a review of governance and controls with respect to the implementation of ComReg Decisions, for example pricing, and the role of the Regulatory and Compliance Function.

The Group Pricing Function

Our review further considered the following aspects of the Group Pricing Function:

- Positioning (structure, reporting lines, mandate, nature of work, oversight); and,
- Process (delivery of mandate, access to and use of pricing information, reporting processes).

Our focus on the Process – delivery of mandate, included a review of:

- The formality and form of support provided by Group Pricing to eir's Wholesale Division;
- The governance arrangements over the maintenance of pricing models;
- The process for notifying ComReg of new products and associated pricing; and,
- The proposed changes to processes resulting from the division of the Group Pricing Function into Wholesale and Retail teams.

Management of Confidential Regulated Information

Our review further considered the design and application of governance arrangements over management of Confidential Regulated Information. This included both data storage, transmission and communication from an electronic and paper based perspective.

For the purpose of this review, Confidential Regulated Information, as defined by eir, is *"unpublished technical or commercial information about a RAP offering which would be of value to a Downstream Business or a Wholesale customer in a Retail Business, as well as information provided by Wholesale customers to open eir".* We used this definition as the basis of our review.

Review of Product Development and Investment Prioritisation

Our review further considered the product development and investment prioritisation processes and included an end to end review of the relevant governance processes in place. Particular consideration was given to:

- Assessment of product development requests;
- Controls over decision making and approvals;
- Reporting of progress and decision processes including interaction with senior governance fora;
- Segregation of duties; and,
- Assurance activities to ensure process operating as intended.

Approach

Our approach to Phase 2 included:

- Validating our Phase 1 observations through further discussion with senior management and review of further documentation provided;
- Holding follow-up interviews with the key stakeholders within eir to obtain a deeper understanding of the Governance structures in place for the in scope areas;
- Assessing the appropriateness of the design of the Governance structures in place for the in scope areas;
- Walk-through testing of certain processes including product development and prioritisation, regulatory communications, SoCs, CRoCs and aspects of the RACM; and,
- Preparing a report to ComReg setting out our observations from this review.

1.2.4 Limitations of Scope

For the avoidance of doubt, our review did not:

- Include any detailed substantive testing of the policies, processes or procedures within scope to determine if they operated as intended or effectively. Phase 1 of the review focused on a high-level existence and design assessment. As part of Phase 2, we performed some walkthrough testing of the in scope areas;

- Constitute a detailed Group level Governance review against wider corporate governance good practice. Our review solely focused on Governance structures as they relate to regulatory governance matters;
- Constitute a detailed compliance review against legislative or regulatory guidelines;
- Include a review of the Risk and Control Matrices ('RACM') from a completeness and/or accuracy perspective;
- Include a review of the self-certification process, in particular the appropriateness of the assertions regarding the operating effectiveness of the RACM. This was part of the scope of the Lot B Operations review;
- Include a detailed effectiveness review of the Board, its sub-committees or any other committees;
- Include an assessment of the appropriateness of decisions made by the Board or Senior Management. For example, in relation to product development, investments or pricing;
- Include any detailed testing of Information Security measures such as firewalls or email filters. Additionally, we did not perform any detailed analysis of underlying data communications such as email traffic or data recorded on FileShares and/or SharePoints;
- Include an assessment of the accuracy of pricing models;
- Include an assessment of the accuracy of responses to regulatory Consultations, Decisions, Notifications and 13D Requests[3];
- Include an assessment of the accuracy of the information included in the bi-annual Regulatory Compliance and Audit reports; or,
- Include a detailed effectiveness review of Regulatory and Compliance, Risk Management or Internal Audit Functions.

In addition, our work was based solely on interviews with management, review of documentation provided to us and limited scope walk-through testing as agreed with ComReg.

1.2.5 Structure of the report

The remainder of this report is structured as follows:

- **Section 1.3:** 'Overview of Current State', includes an overview of the current state assessment across the governance, process and assurance structures within eir;
- **Section 1.4:** 'Summary of Observations', outlines a summary of observations across governance, process and assurance;
- **Section 1.5:** 'Conclusion' provides an overall conclusion and proposed next steps that should be considered by eir; and,

[3] See Communications Regulation (Amendment) Act 2007; http://www.irishstatutebook.ie/eli/2007/act/22/enacted/en/print#sec6

- **Section 2:** 'Detailed Observations', includes detailed observations and recommendations in relation to our assessment of eir's RGM.

1.2.6 Status of work

The status of this report is **final.**

1.3 Overview of Current State

1.3.1 Introduction

During our review, we documented and assessed the current state of the in scope RGM areas in both Phase 1 and Phase 2, which covered the periods June 2016 to September 2016 and October 2016 to January 2017 respectively. Our provisional observations from Phase 1 were shared with eir to check for factual accuracy. These draft observations were provisional and subject to validation in Phase 2.

Whilst outside the scope of our review, we were informed by management that, during the period of our Phase 2 review, eir initiated a programme to address some of the Phase 1 provisional observations (see **Section 1.4.3**).

The overview of the current state set out in this section, and detailed in Appendix A of this report, is related to the governance environment as at November 2016.

1.3.2 Governance

eircom Limited (Ireland) is a 100% owned subsidiary of eircom Holdings (Ireland) Limited. eircom Holdings (Ireland) Limited was incorporated in 2012 and operates as a 100 percent owned subsidiary of eircom Holdco SA. eircom Holdco SA comprises a syndicate of over 50 shareholders, the largest being Anchorage Capital Group which owns over 35% of the shares.

The Board of eircom Holdings (Ireland) Limited comprises six members, two of which are Executive Directors and four are Non-Executive Directors. There are four Board sub-committees:

- Audit Committee;
- Nominating Committee;
- Remuneration Committee; and,
- The Wholesale Reform Committee ('WRC').

All of the sub-committee membership is the full Board with the exception of the WRC which comprises of two Board members: the Chairman and a Non-Executive Director. The WRC is responsible for assisting the Board in the implementation of Wholesale reforms in eir and they also review and approve the bi-annual Regulatory Compliance and Audit Report.

The Senior Management Governance fora which are relevant to the RGM are:

- Senior Management Team ('SMT');
- Corporate Risk Committee ('CRC');
- Portfolio Board ('PB');
- Group Capex Committee ('GCC'); and,
- Information Security Council ('ISC').

The annual bonus is based upon eir's overall performance in the following areas:

- EBITDA – is the key driver and gatekeeper of annual bonuses, if threshold is not achieved there is no bonus pool available; and,
- Corporate Targets – this is based on eir achieving its targets for revenue, Net Promoter Score ('NPS') score and cash balance.

1.3.3 Process

The current state of the processes included in our review are set out below.

1.3.3.1 Product Development

The phases of the product development lifecycle are overseen by the Product Development Councils ('PDC'). Requests for new products and changes to existing products are submitted by customers to the Account Managers in the relevant Business Units or through the Industry Forum. Account Managers are split between Retail and Wholesale customers. A standard Business Case template is completed by the Account Manager which outlines a description of the product. The product development process consists of three phases: 1. Initiate, 2. Design and 3. Launch. The PDCs are responsible for signing off at each of the phases that the development has achieved the requirements of the phase and can progress in the process.

1.3.3.2 Investment Prioritisation

A rolling five year Capex Plan has been developed by the Chief Strategy Officer and reviewed and approved by the Board each year as part of the overall strategy plan. The Group Capex Committee is responsible for monitoring the overall annual capital budget allocations to each Business Unit. Once a Product Change Request has proceeded to Phase 2 (Design) of the product development process, the Group Capex Committee will be required to approve the Business Cases for products to be launched in excess of €25k and which are within budget. The approval is to confirm that the Business Case is in line with budget and in compliance with procurement regulations. For all requests from a Business Unit which are over-budget and in excess of €1m, the 'Matters Reserved to the Board' outlines that these must be approved by the Board. At Phase 3 (Launch) of the product development cycle, products are put forward to the Group Portfolio Board which is responsible for prioritisation and programming of the timing of product developments.

1.3.3.3 Pricing

The Group Pricing Function is led by the Director of Group Pricing and Regulatory Finance who reports to the Chief Finance Officer ('CFO'). The function comprises eight members of staff who worked on both Wholesale and Retail pricing until 1 September 2016, when the structure of the Group Pricing Function was divided into a Wholesale team and a Retail team.

Both teams remain in the same office area and continue to report to the Director of Group Pricing and Regulatory Finance. Group Pricing provides the pricing models for new or changed Regulated Access Products ('RAP') which are reviewed by the relevant PDC at Phase 2 (Design), prior to the Phase 3 (Launch) of the product development lifecycle.

Representatives from Group Pricing attend these PDC meetings. Where there is a new RAP product or change to an existing RAP product, the relevant price model must be updated and provided to ComReg for review.

1.3.3.4 Human resource and training

The roles and responsibilities of the Human Resource ('HR') function with regard to the RGM include:

- Coordinating the training on the Code of Practice ('CoP') with the external provider of the online training system, Logic Earth. Training on the updated CoP commenced in September 2016;
- Obtaining information from the online training system on completion rates for CoP training for inclusion in the bi-annual Regulatory Compliance and Audit Report; and,
- Setting the processes for Performance Management and Remuneration Award criteria for review and approval by the Remuneration Committee.

1.3.3.5 Bespoke Bids

Through discussion with management, we understand that Bespoke Bids can be either Wholesale or Retail. In addition, Bespoke Bids mainly include standard products that have already been approved through the PDC process. In addition Bespoke Bids can include RAP and non-RAP products. Bids can also include non-standard products which require submission of a request for product development to the relevant PDC. It is our understanding, that while unique, the government National Broadband Plan ('NBP') Bid is considered a Bespoke Bid by eir.

A Bid can be initiated by an individual Account Manager or a Business Development Manager, in response to a commercial or government request for proposal or tender. Details of the Bid are recorded on the Bid Alert Template. The Head of Business Projects will convene a Bid Evaluation Team which will assess whether the solution required for the bid is a standard or non-standard product. If the Bid is for a non-standard product, a request must be made through the PDC process and the product will be assessed for RAP implications at Phase 1 of this process. Where the Bid Evaluation Team propose to continue with the Bid, a standard Business Case template is completed which outlines a description of the Bid and the required IT technical support. This proposal is presented to the Group Senior Management Team for approval.

1.3.3.6 Information Security

The Chief Information Officer ('CIO') and his team are responsible for ensuring that appropriate system access is maintained and that the eir's Significant Market Power ('SMP') obligations including those of Non-discrimination and Access, as detailed in the CoP, are adhered to in relation to system access. In addition, the CIO has responsibility for monitoring and reporting on system access to ensure, for example, that Wholesale personnel do not have access to Retail systems and information and vice versa.

The bi-annual Regulatory Compliance and Audit Report describes the high level principles with regards to the handling of Confidential Regulated Information including confidential Wholesale customer information. In this context, eir's organisational structure is divided between:

- eir's downstream business which includes its Retail Business Units of eir Consumer and eir Business. Both Business Units provide PSTN and ISDN access and voices products, as well as other unregulated products and services to end customers. The downstream business also includes Managed Network Services ('MNS'), which provides Commercial Services to other Wholesale Customers, some of which contain RAP inputs and are therefore regulated with Price Control. MNS also provide services which are unregulated; and,
- eir's upstream business which include eir's Wholesale functions of open Wholesale RAP and open eir Wholesale Customer Services ('WCS'), as well as Networks and Technology Evolution & Development ('TE&D').

eir has described Confidential Regulated Information as "unpublished technical or commercial information about a RAP offering which would be of value to a Downstream Business or a Wholesale customer in a Retail business, as well as information provided by wholesale customers to open eir". As detailed in the bi-annual Regulatory Compliance and Audit Report, such Confidential Regulated Information, as described above, can be shared across eir's upstream businesses but not to either eir's downstream businesses or to other Wholesale Customers.

To monitor the risk of inappropriate access to Confidential Regulated Information, eir has implemented two separate system access reviews:

- A bi-annual Business Access Review ('BAR') which involves a system access report being issued by IT Security to line managers to confirm access is appropriate for line manager staff members; and,
- A bi-annual Technical System Data Segregation ('TSDS') review which involves IT Security generating a system access report outlining which members of staff have access to each system. The systems and system owners in scope for the TSDS review were identified by an independent review of eir's systems in 2014.

1.3.4 Assurance Functions

1.3.4.1 The Regulatory and Compliance Function

Regulatory and Compliance consists of two distinct teams: Regulatory Operations and Compliance & Equivalence ('C&E'). The Heads of these teams report to the Interim Head of Regulatory and Compliance.

Regulatory Operations

The role and responsibilities of the Regulatory Operations Function with regard to the RGM include:

- Supporting Wholesale and Retail Product Development Councils;
- Managing Wholesale and Retail pricing notifications to ComReg;

- Providing compliance advice to Business Units;
- Providing advice to the Business Units on Statements of Compliance ('SoC');
- Coordinating submission of SoCs to ComReg; and,
- Managing and progressing regulatory issues with ComReg and Business Units.

The Regulatory Operations Function provides advice to Business Units during the product development process including assessment of whether a product is RAP or non-RAP and co-ordinating the submission of pricing models to ComReg. The Regulatory Publications Manager is a member of the PDC. At Gate 2 and prior to the launch phase, the Regulatory Publications Manager will consider the regulatory impacts in launching the product and whether ComReg need to be notified.

Compliance & Equivalence

The C&E Function has a critical role in providing oversight of the RGM. The high level roles and responsibilities of the function were set out in the three year plan to develop the enhanced RGM which was submitted to ComReg in 2012. The C&E Function was responsible for three of the four main elements of the enhanced RGM as follows:

- Launch of the Code of Practice ('CoP') for Non-discrimination and Access obligations;
- Delivery of Business Unit Process Compliance ('BUPC') reviews on each of the eight segments of the Group (i.e. Next Generation Access ('NGA'), Next Generation Network ('NGN'), Local Loop Unbundling ('LLU'), Single Billing Carrier Pre-select ('SBCP'), Wholesale Broadband Access ('WBA'), Legacy Leased Lines ('LLL'), Pricing and IT Systems). The risks and controls identified in the BUPC reviews were used to create the RACM and, subsequently, for the preparation of SoCs, which eir is required to provide to ComReg when proposing a new RAP product or a change to a current RAP product; and,
- Compliance reporting to the Wholesale Reform Committee.

The Internal Audit Function was responsible for the fourth element of the enhanced RGM which comprised the preparation and maintenance of the Risk and Control Matrices ('RACMs') based upon the risks and controls identified during the BUPC reviews. The completed RACMs were combined into an integrated single document referred to by eir as the "Mother of All Risk and Control Matrix" (hereinafter referred to as the 'RACM').

In September 2016, the CoP was updated to include the Transparency and Pricing Control obligations.

1.3.4.2 The Risk and Audit Function

The Risk and Audit Function is led by the Audit and Risk Director who reports directly to the CFO.

Risk Function

The Audit and Risk Director leads the Risk Management team and the overall framework for managing risk is governed by the Corporate Risk Committee ('CRC'). The Audit and Risk Director is responsible for the oversight of the Group Risk Profile which includes coordinating the identification and management of risk, identification and certification of controls to manage risks, responses to incidents and implementation of remediating actions.

A quarterly Risk and Controls Monitoring Report is prepared by the Head of Risk Management for the Audit Committee which summarises the issues arising from the above processes and also includes details of health and safety incidents, compensation claims and insurance, risk incidents and continuity, data protection breaches, revenue monitoring, technology risks and fraud incidents.

Internal Audit Function

The Director of Internal Audit leads the Internal Audit Function at eir and reports functionally to the Audit Committee against the following mandate:

- Providing assurance to the Audit Committee and Board as to the adequacy, application and effectiveness of the Group's internal control system including risk management, governance and regulatory compliance processes; and,

- In an advisory capacity, assisting management with the design and application of the internal control system for which they are responsible and identifying opportunities for improvement as an independent assurance function.

The Director of Internal Audit provides a quarterly Group Internal Audit Report to the WRC. This outlines the results from the quarterly self-certification of the operational effectiveness of the RACM controls by the relevant control owner. The report also includes a summary of all high and medium level findings identified from any RGM related Internal Audit reviews that may have been completed on the Business Units.

The Internal Audit Function is also responsible for the maintenance of the RACM.

Please see **Appendix A for Detailed Current State Analysis.**

1.4 Summary of Observations

1.4.1 Key observations and actions for Management consideration

In 2011, as part of a Wholesale Reform Programme, eir made voluntary commitments to ComReg which included the development of an enhanced Regulatory Governance Model ('RGM'). These commitments included the development of the Code of Practice ('CoP'), the delivery of Business Unit Process Compliance ('BUPC') reviews and a regulatory Risk and Controls Matrix ('RACM'). eir has used the RGM to support the development of the Statements of Compliance ('SoC') for the key market areas.

Aspects of the effectiveness of the enhanced RGM are measured through completion of Compliance Reviews of Controls ('CRoC'), production of Key Performance Indicators ('KPIs') on response times to product change and development requests, self-certification of the RACM and the monitoring of systems access management through Business Access Reviews ('BAR') and Technical System Data Segregation ('TSDS') reviews. In addition to the CoP, some policies have been developed to manage the risk of non-compliance with Access and Non-discrimination obligations.

eir has a dedicated Compliance and Equivalence ('C&E') function which has a critical role in providing oversight of the RGM. eir has produced five bi-annual Regulatory Compliance and Audit Reports to report progress against the implementation of the enhanced RGM to the Board and ComReg. Most recently, the reports approved by the WRC in May 2015 and March 2016 were published in August 2015 and May 2016 respectively.

We have summarised in the table below key actions for management to address the observations noted in this report.

These actions are critical to the governance and effective operation of the RGM and to address the following key observations:

- The RGM has not been subject to robust independent monitoring and has not been appropriately embedded within eir;
- The Wholesale Division is currently operationally dependent on Group Governance fora and operational teams;
- The incentive structure for the Wholesale Division is not adequately aligned with the operational and financial performance of the Division;
- The Wholesale investment and product development prioritisation process is not clear, formal or transparent;
- The governance and management of system/data access and handling of Confidential Regulated Data is not adequately robust; and,
- The assurance mechanisms over the RGM are not fully effective, due to a combination of lack of resources, formality and prioritisation.

Component	Summary of actions for management
Governance	▪ Create an Independent Oversight Body ('IOB'), as a sub-committee of the Board, with responsibility for the robust oversight of the full RGM. The majority membership of the IOB should consist of independent members who are not eir Group Directors or employees. eir should liaise with ComReg regarding the process for appointing, remunerating and retiring the members of the IOB; ▪ The IOB should have the authority to approve the Wholesale Capex Budget and to request from the Board further Capex funding where required for compliance and/or regulatory development purposes. The accountability of the IOB to ComReg should be formally defined, agreed and established. In addition, reporting and communications requirements should be formalised from the IOB to the eir Group Board, ComReg and Industry; ▪ The Board and management should ensure that all functions with reporting responsibilities to the IOB, should be appropriately resourced (numbers, skills and competencies) to support the delivery of its mandate in a comprehensive, effective and timely manner; ▪ The IOB should review the effectiveness of the C&E Assurance function and the support provided by the Internal Audit function on an at least annual basis; ▪ Reduce the operational reliance of the Wholesale Division on Group resources by creating a Wholesale Pricing function, a Wholesale Regulatory Operations Function and a Wholesale Portfolio Board. The Heads of these functions should report directly to the Managing Director open eir. Wholesale related personnel should be physically located separately from non-Wholesale staff; ▪ Create a formal Wholesale Senior Management Team governance forum to increase Wholesale's strategic and operational independence. The delegated authority provided to the Wholesale Senior Management Team governance forum should include all decision making regarding Wholesale operational plans and authority to implement appropriate restrictions over any Confidential Regulated Information being provided to the Group Senior Management Team or other parts of eir; and, ▪ Change Wholesale employee incentives to focus on rewarding Wholesale's operational and financial performance in isolation from eir's downstream businesses. This should be implemented by ensuring that Wholesale staff are incentivised exclusively on the basis of the totality of Wholesale performance. This would include an assessment of Wholesale's performance with regard to both external and internal operational activity and revenues.
Process	▪ Develop Group policies and related procedures to align with the CoP and to support RGM matters, such as product development, investment prioritisation, pricing and ensure they are aligned with regulatory obligations. These policies need to be aligned with the overarching requirement for the appropriate strategic and operational independence of the Wholesale Division; ▪ Develop formally documented criteria to support decision making and the level of authorisation required. In particular, RAP and Non-RAP identification and product funding and launch approval;

Component	Summary of actions for management
	▪ Review the IT Strategy and where appropriate update, to consider the future BSS/OSS application landscape with specific regard for the need to appropriately segregate Wholesale and Retail data and related access. Additionally, the IT Strategy should be revised to ensure that adequate focus is given to the need to enhance IT governance arrangements regarding management of Confidential Regulated Information and related access management requirements; ▪ Perform a full review of all systems to ensure that Wholesale and Non-Wholesale access to these systems is appropriately controlled. This should include identifying the type of data held on each system and classification of the data. A review of user access profiles should be performed to ensure that levels of access are clearly defined and appropriately restricted to enable the Business Access Reviews and the Technical Data Systems Segregation reviews to be performed effectively; and, ▪ Review and appropriately segregate access to unstructured Wholesale data. This should include the development of an annual review to be incorporated into the Business Access Reviews.
Assurance	▪ Implement a formal Three Lines of Defence Model to provide an effective framework for the management of risk and clarity regarding the roles and responsibilities of the monitoring and assurance functions in relation to the RGM. eir Board and management should ensure that appropriate resources are made available for the 2nd and 3rd Line of Defence functions to deliver their RGM related roles and responsibilities. The eir model should comprise: - 1st Line of Defence: To comprise of eir's Business Units who are responsible for risk management, including the identification, assessment and mitigation of risk and providing confirmation on the appropriateness of the design and operation of controls through the RACM self-certification process; - 2nd Line of Defence: To comprise of the Group Risk Function with a Functional Reporting Line to the CFO, the Wholesale Regulatory Operations Function with a Functional Reporting Line to the Managing Director open eir and a Group Regulatory Operations Function with a reporting line to the CFO. The Group Regulatory Operations Function should be assigned the responsibility for certain regulatory activities as they relate to Business Units and functions outside of the Wholesale Division. The Group Risk Function's responsibilities should include coordination and oversight of the Business Unit Process Controls ('BUPC') reviews and development and provision of guidelines to the Business Units for the maintenance of the RACM, including how to perform risk assessments and develop controls. Group Risk should also review and challenge the quarterly Risk and Assurance Controls Matrix ('RACM') self-certification process, including a review of the completeness of the risk assessment and the design of the controls identified to mitigate the risks identified. The Wholesale Regulatory Operations Function should be assigned the responsibility to coordinate and oversee the Statement of Compliance ('SoC') preparation process; and, - 3rd Line of Defence: To comprise of the independent assurance functions, Internal Audit and C&E Assurance, with a Functional Reporting Line into the Audit Committee and the IOB respectively. In particular, C&E Assurance should, as a minimum, deliver the Compliance Reviews of Controls ('CRoC') which includes a review of the design and operating effectiveness of controls identified on the RACM. Specific to the RGM,

Component	Summary of actions for management
	Internal Audit should perform end to end review in the Wholesale Division with specific focus on Regulatory Compliance matters such as product development and pricing reviews, systems access management and management of Confidential Regulated Information. Internal Audit should also review the effectiveness of the 2nd Line of Defence functions such as the Wholesale Regulatory Operations Function and the Group Risk Function to provide assurance over all of the RGM related activities. ▪ Given the criticality of these assurance functions to supporting the IOB in performing effective oversight of the RGM, it is important that: - The effectiveness of the C&E Assurance function and the support provided by the Internal Audit function should be assessed at least annually by the IOB; - The budgeted resources assigned to the C&E Assurance Function and those assigned to the Wholesale and/or RGM related Internal Audit activity should be ring-fenced to ensure appropriate priority is given to both scheduled Internal Audit reviews and any special reviews requested by the IOB; and, - The Annual Assurance Plans are shared ComReg for review and comment.

1.4.2 Overview

Based upon our review of the existence and design of eir's governance arrangements as they relate to compliance with its regulatory obligations, including the RGM, we have noted the following observations:

	Governance	Scope Area	Rating	Page Number
G1	Enhance the clarity of the role of the Board and its sub-committees regarding the independent monitoring of RGM related activities and decision making.	Board and Senior Management	**H**	**27**
G2	Amend Senior Management structures to ensure that they effectively support the operation of the RGM.	Board and Senior Management	**H**	**31**
G3	Amend the performance management and remuneration processes for Wholesale personnel to be based on Wholesale performance.	Incentives	**H**	**35**
	Process			
P1	Enhance the investment prioritisation and product development processes.	Investment Prioritisation and Product Development	**H**	**38**
P2	Establish a stand-alone Wholesale Pricing function.	Pricing	**M**	**43**
P3	Enhance the governance over Regulatory pricing models.	Pricing	**M**	**45**
P4	Enhance the dissemination of regulatory obligations and the requirements of the Code of Practice across the Group.	Human Resources and Training	**M**	**47**
P5	Establish a formal Bespoke Bids Policy.	Bespoke Bids	**M**	**49**
P6	Enhance the governance arrangements for the safeguarding of Confidential Regulated Information.	Information Security	**H**	**52**
P7	Enhance the processes for Data Classification, Handling and related assurance processes.	Information Security	**H**	**54**
P8	Enhance Structured Systems Access Management and related assurance processes.	Information Security	**H**	**56**
P9	Implement appropriate access management controls over unstructured data.	Information Security	**H**	**61**

	Assurance	Scope Area	Rating	Page
A1	Enhance the clarity of the roles, responsibilities and reporting lines of the Risk and Assurance functions within a Three Lines of Defence model.	Monitoring and oversight mechanisms	**H**	**64**
A2	Establish a stand-alone Wholesale Regulatory Operations Function.	Monitoring and oversight mechanisms	**M**	**67**
A3	Enhance governance structures over regulatory submissions made to ComReg.	Monitoring and oversight mechanisms	**M**	**69**
A4	Amend the Compliance & Equivalence structures to segregate advisory/support activities from assurance activities.	Monitoring and oversight mechanisms	**H**	**72**
A5	Enhance the scope and activities performed by the Compliance & Equivalence Function.	Monitoring and oversight mechanisms	**H**	**76**
A6	Enhance the management and reporting of complaints in relation to the Regulatory Governance Model.	Monitoring and oversight mechanisms	**L**	**79**
A7	Enhance the process for the preparation of the bi-annual Regulatory Compliance and Audit Report.	Monitoring and oversight mechanisms	**L**	**81**
A8	Enhance the regulatory risk management process and linkages with the RGM.	Monitoring and oversight mechanisms	**M**	**84**
A9	Enhance the scope and activities of Internal Audit with regard to the RGM.	Monitoring and oversight mechanisms	**M**	**86**

[redacted]

1.5 Conclusion

During 2011, eir voluntarily committed to implementing a RGM to manage the risk of non-compliance with regulatory obligations. Significant efforts were made by eir during 2012 to set up the RGM which comprised a CoP, BUPC's and a RACM. The WRC was formed to oversee the implementation and maintenance of the RGM.

However, based upon the observations from our review, the maintenance and maturity of the RGM requires improvements, some of which will be significant, in the areas of governance structures, incentives, management of Confidential Regulated Information, pricing, product development and prioritisation, monitoring and independent oversight.

We have reviewed the overall governance framework for eir's upstream businesses, in particular eir's Wholesale Division. In line with recommendations from other International regulatory reviews, for example the current Ofcom review, we note a need to improve the governance and operational independence currently afforded to eir's Wholesale Division from other parts of eir.

An important element of eir's RGM, is the governance arrangements in place to safeguard Confidential Regulated Information (both in terms of access, release and timing of release) shared between OAO's and the Wholesale Division. This is a key driver for enhancing the operational independence of the Wholesale Division.

In particular, eir need to enhance its regulatory governance structures in the following areas:

- Establish an Independent Oversight Body ('IOB'), as a sub-committee of the Board, with responsibility for the robust oversight of the full RGM;
- Enhance and maintain the RGM. This will require Senior Management sponsorship, accountability and robust independent assurance on activities overseen by the IOB;
- Increase the Wholesale Division strategic and operational independence through lower level of reliance on Group governance fora such as the Group Capex Committee, Portfolio Board, Group SMT and Group functions including Regulatory Operations and Group Pricing by strengthening its own decision making fora and operational support functions;
- Change Wholesale employee incentives to focus on rewarding Wholesale's operational and financial performance in isolation from eir's downstream businesses. This would include assessment of Wholesale's performance with regard to both external and internal operational activity and revenues;
- Provide greater transparency to the Wholesale investment and product development prioritisation process and, where possible, remove decision making from Group governance fora or functions;
- Consider the most effective way to segregate Wholesale data (both structured and unstructured) at a system level. This can be achieved by either more robust System Access Management and enhanced independent assurance or greater system and data separation (Applications and FileShares); and,

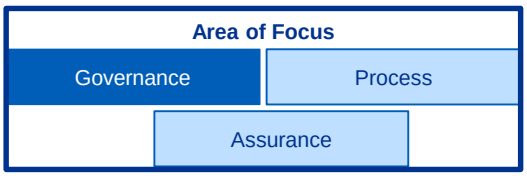
- Implement a formal Three Lines of Defence Model to provide an effective framework for the management of risk and clarity regarding the roles and responsibilities of the monitoring and assurance functions in relation to the RGM. The independent assurance functions should have an appropriate mandate, be appropriately resourced and effective in providing assurance on the operation of the RGM.

We recommend that eir consider the recommendations raised and establish a formal RGM Transformation programme to address the issues identified.

eir should also consider other inputs to the RGM Transformation programme, including, for example, those issues identified through C&E and Internal Audit inspections. We further recommend that the detail of this integrated RGM Transformation programme and an appropriate timeline for implementation is provided to ComReg for discussion and consideration as part of the project initiation.

An independent assurance mechanism over the progress and effective implementation of the RGM Transformation programme should also be agreed between eir and ComReg.

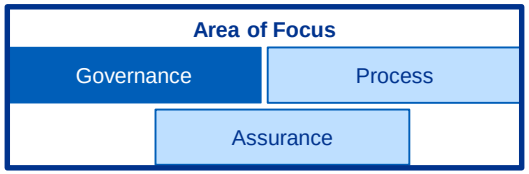
Finally, we are cognisant that there various governance and operational models available to eir and ComReg with regard to the provision of greater governance and operational independence to the Wholesale Division, from other aspects of eir's business. These include EU defined separation options under Articles 13(a) and 13(b) of the Access Directive. As is the case in other countries, the regulatory and business environment in continuing to evolve and change, with greater or more focused models of separation required to address this changing environment. Therefore, the recommendations included within this report should not be seen as limiting the extent to which these various governance and operational models could be implemented by either eir or ComReg.



2 Detailed Observations

2.1 Governance

Ref	Main Observations	Rating
G1	Enhance the clarity of the role of the Board and its sub-committees regarding the independent monitoring of RGM related activities and decision making.	H
G2	Amend Senior Management structures to ensure that they effectively support the operation of the RGM.	H
G3	Amend the performance management and remuneration processes for Wholesale personnel to be based on Wholesale performance.	H



2.1.1 Governance Detailed Observations

Ref: G1	Type: Governance	Rating: High

Observation: Enhance the clarity of the role of the Board and its sub-committees regarding the independent monitoring of RGM related activities and decision making.

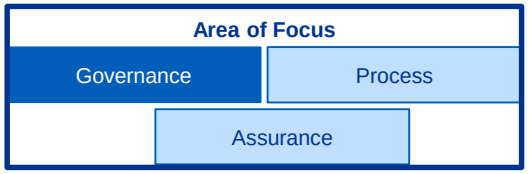
eir's Board of Directors comprises of six members, four of whom are Non-Executive Directors. Management informed us that there were seven scheduled meetings of the Board in the financial year 2015/16 and seven unscheduled meetings. The responsibilities of the Board with regard to approval of business decisions are set out in a document referred to as 'Matters Reserved to the Board' and in the Delegation of Authority Policy, which is subordinate to the 'Matters Reserved to the Board' and refers to the requirement to ensure that all expenditure is approved at the appropriate level in the organisation. The Board is supported by four sub-committees:

- The Audit Committee;
- The Remuneration Committee;
- The Nominating Committee; and,
- The Wholesale Reform Committee ('WRC').

With the exception of the Wholesale Reform Committee, the membership of each sub-committee is the full Board. The membership of the Wholesale Reform Committee comprises of two Non-Executive Directors.

During our review, we assessed the design of these governance structures with regard to the oversight of the RGM and related decision making activities. We noted that:

- There is no formally documented Terms of Reference in place for the Board that clearly set out its responsibilities with particular reference to the RGM;
- The 'Matters Reserved to the Board' is not aligned with the sub-committee Charters. For example, the Board's role to approve matters in relation to remuneration from the Remuneration Committee is not included in the 'Matters Reserved for the Board'. Additionally, the requirement to approve Wholesale reforms of a material nature as referred by the WRC is also not included;
- Both the 'Matters Reserved to the Board' and the Delegation of Authority Policy have not been updated since 2012. This presents a risk that the scope and levels of authority in the Policy are not reflective of the current structure within eir;
- The Charters/Terms of Reference for each of the sub-committees:
  - Do not include the Board's process for the review of the sub-committee's performance. Of particular importance to the RGM is the review of the performance of the WRC, Audit Committee and Remuneration Committee;
  - Have not been reviewed or updated on a regular basis to ensure that they are aligned with eir's regulatory obligations. The Charters/Terms of Reference are dated October 2012, with the exception of the WRC which is dated December 2014; and,
  - Have no evidence of review and approval by the Board.
- With respect to the extent of reporting of regulatory issues to the Board:
  - There is a lack of formal reporting to the Board by its sub-committees to evidence that issues relating the RGM are regularly brought to the attention of the Board. For example, there is no formal update by the WRC to the Board, and there is no formal report by the Regulatory and Compliance Function to the Board; and,



Ref: G1	Type: Governance	Rating: High

Observation: Enhance the clarity of the role of the Board and its sub-committees regarding the independent monitoring of RGM related activities and decision making *(continued)*

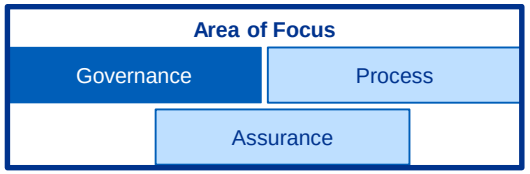
- The Interim Head of Regulatory and Compliance has attended three of the seven scheduled Board meetings held during the financial year 2015/16. We understand, through discussion with management, that a regulatory update is provided to the Board through the CEO reporting process. However, the Interim Head of Regulatory and Compliance is not required to provide the Board with a formal update on regulatory matters as part of the standing agenda.

- The Charter for the Audit Committee refers to the composition of the Committee but does not include a requirement, in line with good practice, that the majority of members be Independent Non-Executive Directors to support independent challenge of RGM related matters. In addition, we note that the duties and responsibilities of Audit Committee refer to "*The policies and overall process employed by management for identifying and assessing business risks".* However, there is no reference to the Audit Committee's role regarding regulatory related risks or any associated activities;

- The Charter of the WRC states that the Committee shall be responsible for reviewing, determining and recommending to the Board for its approval, proposals for any Wholesale reforms of a material nature. However, there is no definition of materiality within the Charter. In addition, we note the following:
  - The WRC membership includes two eir Board members. The other sub-committees require a minimum of three Board members to enable effective representation regarding voting and decision making;
  - The duties and responsibilities of the WRC is limited to Wholesale reforms in eir as they relate to eir's Non-discriminatory obligations and does not include reference to eir's other regulatory obligations which include obligations such as Access, Transparency and Pricing Control;
  - The WRC Charter has no reference to its responsibility or authority in respect of reporting requirements either to, or from the WRC; and,
  - The secretary to the WRC is the Director of RAP in the Wholesale Division which could raise a potential conflict of interest.

- With respect to the extent of reporting of the activities of the RGM, the WRC do not receive reports on:
  - The outcomes of Regulatory submissions to ComReg and details on the preparation and completion of Statements of Compliance ('SoC') (see **Observation A3**); and,
  - The management of regulatory risks at both Group level and at Business Unit level through the Risk and Control Matrix ('RACM') (see **Observation A8**).

- There is a lack of documented Policies including requirements for the level of authorisations required for processes and decision making which operate within the RGM, for example:
  - Approval of and prioritisation of new product developments and changes to existing products, as described in **Observation P1**;
  - Approval of Wholesale pricing changes, as described in **Observations P2** and **P3**;
  - Approval of contracts with other operators for network and other services, as described in **Observation P5**;
  - Approval of RGM related policies and procedures, as described in **Observation P4**; and,
  - Approval of Wholesale reports and other regulatory submissions issued to ComReg, as described in **Observation A3**.



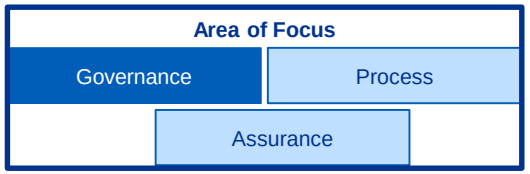
Ref: G1	Type: Governance	Rating: High

Observation: Enhance the clarity of the role of the Board and its sub-committees regarding the independent monitoring of RGM related activities and decision making *(continued)*

Recommendations:

We recommend that Management should:

- Create an Independent Oversight Body ('IOB'), as a sub-committee of the Board, with responsibility for the robust oversight of the full RGM by:
  - Establishing a formal Terms of Reference for the IOB to include, as a minimum, responsibility of all regulatory obligations. For example, these should include Access, Non-Discrimination, Transparency, Pricing Control and Accounting Separation;
  - Appointing external independent members to the IOB who are not eir Directors. These independent members should form the majority of membership. eir should liaise with ComReg on the process for appointing and remunerating these individuals and the process for retirement;
  - Defining, agreeing and establishing the accountability of the IOB to the eir Group Board and ComReg;
  - Ensuring that all functions with reporting responsibilities to the IOB are appropriately resourced (numbers, skills and competencies) to support the delivery of its mandate in a comprehensive, effective and timely manner. The budgets (resourcing and financial) for C&E Assurance and for the RGM related activities performed by Internal Audit should be ring-fenced and reviewed regularly by the IOB;
  - Establishing and formalising the communication and reporting requirements from the IOB to the eir Group Board, ComReg and Industry;
  - Requiring the IOB to review the effectiveness of the C&E Assurance Function and the appropriateness of the budgeted resources assigned to the function on an at least annual basis;
  - Requiring the IOB to review the appropriateness of the Internal Audit budgeted resources assigned to the Wholesale and/or RGM related reviews on an at least annual basis;
  - Ensuring that the IOB has the authority and resources (including financial) to commission reviews of RGM related activities which may not be covered by the C&E and Internal Audit Assurance Plans; and,
  - Implementing clear reporting requirements to the IOB. The reports provided should cover the full range of RGM activities in the areas of governance, control, remediation programme and assurance. We recommend the following as a minimum:
    - The Wholesale Regulatory Operations Function (see **Observation G2**) provides reports to the IOB on the preparation and completion of SoCs and regulatory submissions to ComReg as described in **Observation A3**, and reports the status of Wholesale complaints. Criteria should also be established and applied for the escalation of complaints to the IOB as described in **Observation A6**;
    - The Group Risk Function provides updates to the IOB regarding the outcomes of its review and challenge of the quarterly Business Unit RACM self-certification process, updates on the completion of Business Unit Process Compliance ('BUPC') reviews and the oversight of the Business Access Reviews ('BAR') and Technical Systems Data Segregation ('TSDS') reviews as described in **Observation A1**;
    - The Compliance and Equivalence ('C&E') Assurance Function provide reports to IOB on its annual Assurance Plan and completed CRoC reviews which includes a review of the design and operating effectiveness of controls identified on the RACM. The C&E Assurance Function should also present the bi-annual Compliance and Audit report to the IOB as described in **Observation A4**;



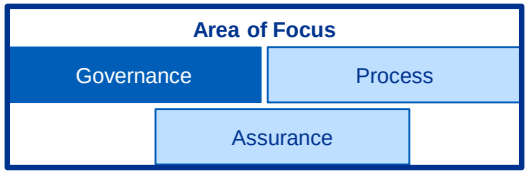
Ref: G1	Type: Governance	Rating: High

Observation: Enhance the clarity of the role of the Board and its sub-committees regarding the independent monitoring of RGM related activities and decision making *(continued)*

Recommendations:

- The Internal Audit Function provides the IOB with the Annual Internal Audit Plan, to approve the RGM aspects of the Plan. Internal Audit should also provide reports to the IOB regarding Internal Audit reviews performed of RGM related processes including functional reviews of the 2nd Line of Defence functions and end to end reviews in the Wholesale Division with specific focus on Regulatory Compliance matters such as product development, pricing, systems access management and management of Confidential Regulated Information as described in **Observations A9**;
- The Managing Director open eir provides the IOB with the Annual Wholesale Capex Budget, which also includes an opex allocation to Wholesale from the Group IT budget, for approval as described in **Observation P1**;
- The Managing Director open eir should also provide the IOB with details of Wholesale product developments that are in excess of the funding in the Annual Wholesale Capex Budget, as described in **Observation P1**; and,
- The fora responsible for overseeing the formal RGM Transformation programme should provide updates to the IOB on progress of implementation of the required actions.

- Document the level of authorisations required for processes which operate within the RGM including:
  - Approval of and prioritisation of new product developments and changes to existing products;
  - Approval of Wholesale pricing changes;
  - Approval of contracts with other operators for network and other services;
  - Approval of RGM related policies and procedures;
  - Approval of Wholesale reports and other regulatory submissions issued to ComReg; and,
  - The Delegation of Authority and RGM related Policies also need to account for **Observation G2**, which recommends the establishment of a formal Wholesale Senior Management Team governance forum and a Wholesale Portfolio Board which have the appropriate delegation of authority to ensure its appropriate operational independence from eir Group.
- Prepare a Charter/Terms of Reference for the Board and enhance existing Charters/Terms of Reference for its sub-committees, with particular reference to RGM related responsibilities. These should be reviewed and approved annually;
- Perform an annual review of the 'Matters Reserved to the Board' and the Delegation of Authority Policy to ensure that the levels of authority in the Policy are reflective of the current Governance and Senior Management structures within eir;
- Implement a formal reporting framework, in addition to the IOB reporting line, for reporting on RGM matters to the Board;
- Require the Audit Committee to review the effectiveness of the Internal Audit Function and the appropriateness of the budgeted resources assigned to the function and,
- Consider changes to the membership of the Audit Committee so that that the majority of members are Independent Non-Executive Directors to support independent challenge to RGM related matters and align with good corporate governance practice.



Ref: G2	Type: Governance	Rating: High

Observation: Amend Senior Management structures to ensure that they effectively support the operation of the RGM.

eir's Senior Management fora comprises:

- The Group Senior Management Team ('SMT');
- The Corporate Risk Committee ('CRC');
- The Portfolio Board ('PB');
- The Group Capex Committee ('GCC'); and,
- The Information Security Council ('ISC').

Further details of the roles and responsibilities of these committees are set out in **Appendix A**.

A critical element of the RGM is to ensure that the structure and processes in place for senior management decision making are in compliance with regulatory obligations. A key part of the decision making process is the timeliness and availability of information upon which decisions are made, for example strategic and operational network developments, pricing, product and customer information.

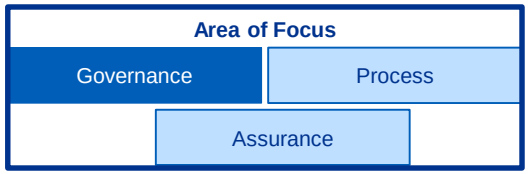
In particular, it is important that any decision making processes are in compliance with eir's Non-discrimination obligation. This regulatory obligation indicates that the provider of regulated Wholesale products should treat internal and external customers on a non-discriminatory basis, such as providing equivalent quality of service and equivalent access to Confidential Regulated Information on regulated products[4]. This implies a requirement for strategic and operational independence to exist between eir's regulated Wholesale Division, which supplies regulated products, from other parts of eir.

eir has described Confidential Regulated Information as *"unpublished technical or commercial information about a RAP offering which would be of value to a Downstream Business or a Wholesale customer in a Retail Business, as well as information provided by wholesale customers to open eir".* As detailed in the bi-annual Regulatory Compliance and Audit report, such Confidential Regulated Information, as described above, can be shared across eir's upstream businesses but not to either eir's downstream businesses or to other Wholesale customers.

However, we note that aspects of the current structure and processes in place for senior management decision making may not effectively facilitate the requirements of the regulatory obligations and principles outlined above. For example:

- The Wholesale Division is operationally dependent on Group functions such as Group Pricing and the Regulatory Compliance Function. This structure places limitations on Wholesale's operational independence, which may impact on its ability to meet regulatory obligations, as well as increasing risks of sharing Confidential Regulated Information. In addition, the Wholesale Division do not have a separate Portfolio Board to ensure that there is appropriate authority at a Wholesale level and transparency over the prioritisation of product developments for the Wholesale Division;

[4] For more detail please see European Commission Recommendation of 11 September 2013 on consistent non-discrimination obligations and costing methodologies to promote competition and enhance the broadband investment environment (2013/466/EU) (the '2013 Non-Discrimination Recommendation'), Recital 12.



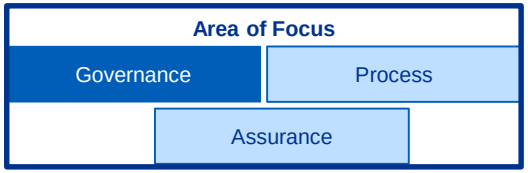
Ref: G2	Type: Governance	Rating: High

Observation: Amend Senior Management structures to ensure that they effectively support the operation of the RGM (*continued*)

- The Group SMT includes members from both upstream and downstream Business Units. Management has informed us that, when Confidential Regulated Information is made available at Group SMT meetings, attendance at the meetings is managed to ensure that access to such information is restricted to the appropriate personnel. However, we note that these processes are not documented and heavily reliant on manual intervention. As such, there is a lack of robustness and clarity in relation to the handling, preparation and distribution of Confidential Regulated Information (verbally, electronically or paper based) to and from the Group SMT and the decision making process;
- There is no formal agenda for the meetings of the Group SMT and minutes of the meeting are not formally maintained. It is not clear how the minutes of the other Senior Management fora are distributed to ensure that Confidential Regulated Information is controlled effectively. For example, if the minutes included Confidential Regulated Information there should be separate redacted versions prior to circulation, in particular between Wholesale and Retail;
- The Wholesale Leadership team, led by Managing Director open eir, is not a formal governance forum and has no Terms of Reference. As such, there is a lack of clarity on its mandate, delegated responsibilities and the extent of its operational independence from eir Group and downstream businesses. In addition, as with the Group SMT, there is a lack of clarity within these meetings in relation to the handling, preparation and distribution of Confidential Regulated Information; and,
- The Director of MNS, Business Development and Key Accounts reports to the Managing Director open eir. This management structure does not support the separation of the upstream from the downstream businesses as described above. Management has informed us that MNS provide support to the Managing Director open eir, with MNS personnel involved in the preparation of the Wholesale packs that are produced for the CEO monthly Operations Review meeting. Consequently, there is a lack of clarity regarding how Confidential Regulated Information is protected between MNS and other areas of the Wholesale Division, given that personnel within these Business Units have the same reporting lines.

We also noted that:

- There is no overarching structure for the senior management fora setting out their mandate, how information is shared or how reports from these committees are reported across the various governance fora;
- Terms of Reference are not in place for the Group SMT, the Portfolio Board and the Information Security Council. As such, responsibilities with regard to the RGM are not formally established and there is lack of clarity on membership versus participants;
- There are four Product Development Councils ('PDC'), including a RAP PDC. Products developed by the individual PDCs are sent for approval and prioritisation to the Portfolio Board. The Portfolio Board, which is chaired by the Director of Technology Evolution and Development ('TE&D'), is responsible for prioritisation of product developments and approving the proposed date for the launch with regard to available resources. However, there is a lack of clarity regarding the oversight over the activities of the PDCs and the Portfolio Board with regard to reporting requirements on decisions made or a process for escalation of issues. In particular, we further noted that:
  - It is not clear who has ultimate responsibility for the governance, operational oversight and decisions made by the PDCs and Portfolio Board;
  - The responsibilities of the PDCs and Portfolio Board in terms of reporting activities and decisions to Senior Management fora are not clear; and,
  - The same members of various Business Units attend all PDCs which increases the risk that Confidential Regulated Information is shared between Business Units. For example, the Finance, Regulatory Operations, Group Pricing, Legal and TE&D representatives can be the same individuals.
- A key part of the Information Security Council's role with regard to the RGM is reviewing the completion and results of the six monthly Business Access Reviews ('BAR') and Technical System Data Segregation ('TSDS') reviews. Based on discussions with management, the ISC met in August 2015 and November 2015 but have not met since then as management is reviewing the structure of the various IT governance fora.



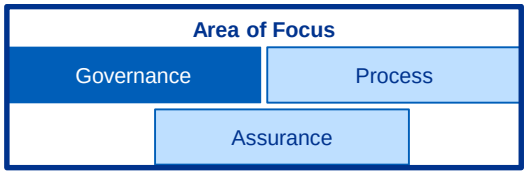
Ref: G2	Type: Governance	Rating: High

Observation: Amend Senior Management structures to ensure that they effectively support the operation of the RGM (*continued*)

Recommendations:

We recommend that Management should:

- Further consider the most appropriate organisational structures for the Wholesale Division. Factors that should be considered include regulatory requirements, provision of active and passive RAP products, and appropriate handling of Confidential Regulated Information. More specifically, management should:
  - Separate MNS from Wholesale Division to support the appropriate segregation of upstream and downstream businesses;
  - Establish separate Wholesale Pricing (see **Observation P2**) and Wholesale Regulatory Operations (**see Observation A3**) functions, with the Heads of these functions reporting directly to the Managing Director open eir. These and other Wholesale related personnel should be physically located separately from non-Wholesale staff. Robust physical access controls should be introduced; and,
  - Establish a separate Wholesale Portfolio Board (as described in **Observation P1**) to approve and prioritise RAP products and allocation of IT related resources in accordance with the RAP protocols.
- Formalise the Wholesale Senior Management Team governance forum to support an increased strategic and operational independence. This should facilitate compliance with eir's regulatory obligations and handling of Confidential Regulated Information. The delegated authority provided to the Wholesale Senior Management Team governance forum should include:
  - All decision making regarding Wholesale operational plans (including operational decision making regarding planning, investments, new products, changes to existing products and operational prioritisations), with a clear demarcation between approval levels within the Wholesale Division and those requiring Group SMT and/or Board approval;
  - Approval of the strategic and annual Wholesale Capex budgets (see **Observation P1**), in addition to approval of Wholesale product developments that are in excess of the Wholesale approved budgets; and,
  - Implementation of appropriate restrictions over any Confidential Regulated Information being provided to Group SMT or other parts of eir Group.
- Formalise the membership of the Wholesale Senior Management Team governance forum, which should be chaired by the Managing Director open eir, and comprise of the following:
  - Membership representatives from the Wholesale Pricing Function, the Wholesale Regulatory Operations Function, the RAP PDC, the Wholesale Portfolio Board, Field Operations and Network Design and Service Management; and,
  - Attendance, where required for specific agenda matters, by representatives from Group, including from Technical Evolution and Development ('TE&D'), Finance, Internal Audit, Compliance and Equivalence ('C&E') and Group Risk.
- Perform a review of the structure, mandate and coordination of all Senior Management fora with regard to the RGM and, where necessary, enhance formality of structures, composition and proceedings (frequency, agendas, information flows and minutes). On completion of such a review, document formal Charters/Terms of reference for each of the Senior Management fora. This review should ensure that:
  - Changes made to the structure of the Senior Management fora include the delegation of authority to the Wholesale Senior Management Team governance forum as described above. The appropriateness of the membership/attendance of the Managing Director open eir at the meetings of the Group Senior Management Team should only be determined when the respective mandates of the governance fora have been determined; and,



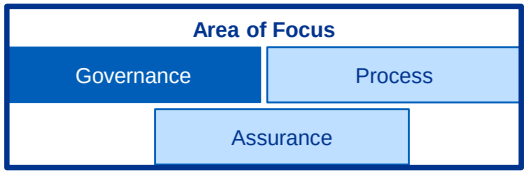
Ref: G2	Type: Governance	Rating: High

Observation: Amend Senior Management structures to ensure that they effectively support the operation of the RGM (*continued*)

Recommendations:

- The Wholesale specific fora, for example the Wholesale Portfolio Board and the RAP PDC, report directly to the Wholesale Senior Management Team governance forum.

- Ensure that the Wholesale Senior Management Team governance forum should, as a minimum, receive reports from:
  - The Wholesale Portfolio Board on prioritisation of products as described in **Observation P**1;
  - The Wholesale PDC on product development requests and related status updates including any delays as described in **Observation P**1;
  - The Wholesale Regulatory Operations Function on Wholesale complaints (see **Observation A6**) and submissions to ComReg that meet the criteria for a formal sign off from the Wholesale Senior Management Team governance forum (see **Observation A3**);
  - The C&E Assurance Function on issues arising from RGM related activities and also the bi-annual Regulatory Compliance and Audit Report (see **Observation A4**); and
  - Group Risk on issues arising from its review and challenge of the quarterly Business Unit RACM self-certification process, updates on the completion of Business Unit Process Compliance ('BUPC') reviews and the oversight of the Business Access Reviews ('BAR') and Technical Systems Data Segregation ('TSDS') reviews as described in **Observation A8**.



Ref: G3	Type: Governance	Rating: High

Observation: Amend the performance management and remuneration processes for Wholesale personnel to be based on Wholesale performance.

The Performance Management framework (and short-term incentive plan) within eir is referred to as 'Thrive' and requires employees to set functional and behavioural objectives at the start of each financial year. We understand that monthly meetings are held between the employees and their line managers to discuss performance and, at mid-year, the employee is required to complete a self-evaluation against their objectives. At the year-end performance meetings, the line managers will rate their appraisee's performance on a scale of one to five, with five being outstanding performance and one being poor performance. The ratings are subject to a 'divisional fairness check' with HR Business Partners and the Group SMT.

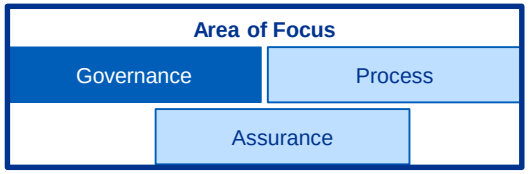
The annual bonus process is prepared by the Compensation and Benefits Manager and requires approval from by the Chief Human Resources Officer ('CHRO'), the CFO and the CEO prior to submission to the Remuneration Committee for final approval. The annual bonus is based upon eir's overall performance in the following areas:

- EBITDA – is the key driver and gatekeeper of annual bonuses, if threshold is not achieved there is no bonus pool available; and,
- Corporate Targets – this is based on eir achieving its targets for revenue, NPS score and cash balance.

Employees who are eligible for a bonus have a percentage range set out within their contract of employment. For example, some employees may be eligible for a bonus of up to 10% of their salary. Achievement of the targets above is applied to 50% of the individuals' bonus and the personal performance rating is applied to the remaining 50%.

However, we noted that:

- The annual remuneration review is based on the performance of eir at Group level as well that of the individual Business Units. Hence Wholesale employees are being rewarded on the basis of Group wide performance. As such it does not directly align with the need for equivalent treatment of external and internal customers from an incentive perspective;
- The bonuses for employees in Assurance functions are linked to a financial performance target. This does not appropriately reflect the core assurance objectives of these functions;
- Whilst a presentation document is in place setting out the approach to creation of the bonus pool for the financial year 2015/16, there is no formally documented Policy for the Performance Management and Remuneration processes within eir; and,
- It is not a formal requirement for staff to have regulatory related performance objectives.



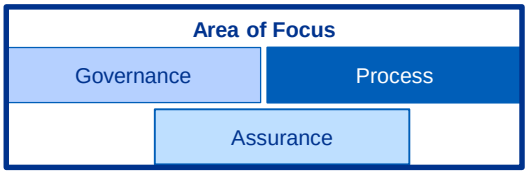
Ref: G3	Type: Governance	Rating: High

Observation: Amend the performance management and remuneration processes for Wholesale personnel to be based on Wholesale performance. (*continued*)

Recommendations:

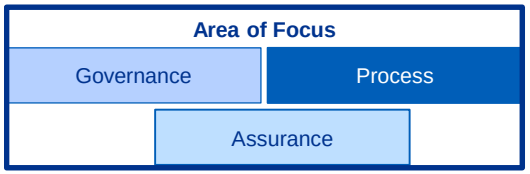
We recommend that Management should:

- Change Wholesale employee incentive plans to focus on rewarding Wholesale's operational and financial performance in isolation from eir's downstream businesses. This should be implemented by:
  - Ensuring that Wholesale staff are incentivised through both the Short Term Incentive Plan ('STIP') and Long Term Incentive Plan ('LTIP') exclusively on the basis of the totality of Wholesale performance. This would include assessment of Wholesale's performance with regard to both external and internal operational activity and revenues; and,
  - Assessing the balance of incentives between the STIP and LTIP (e.g. share options) for Wholesale employees. Consideration should be given to increasing the period over which the short-term incentive may be spread to better reflect the capital investment nature of the Wholesale Division.
- Ensure that bonuses for employees in Assurance functions are not linked to financial performance targets;
- Formally document the approach to incentivising Wholesale staff in a formal Policy which is subject to annual review and approval initially by the Independent Oversight Body ('IOB') then by the Remuneration Committee from a Group governance perspective; and,
- Ensure that all incentive structures are aligned with eir's regulatory obligations and requirements. For example, ensure that staff are required to have a number of regulatory related performance objectives, including compliance with the CoP and where appropriate effective maintenance of controls on the RACM.



2.2 Process

Ref	Main Observations	Rating
P1	Enhance the investment prioritisation and product development processes.	**H**
P2	Establish a stand-alone Wholesale Pricing Function.	**M**
P3	Enhance the governance over Regulatory pricing models.	**M**
P4	Enhance the dissemination of regulatory obligations and the requirements of the Code of Practice across the Group.	**M**
P5	Establish a formal Bespoke Bids Policy.	**M**
P6	Enhance the governance arrangements for the safeguarding of Confidential Regulated Information.	**H**
P7	Enhance the processes for Data Classification, Handling and related assurance processes.	**H**
P8	Enhance Structured Systems Access Management and related assurance processes.	**H**
P9	Implement appropriate Access Management controls over unstructured data.	**H**



2.2.1 Process Detailed Observations

Ref: P1	Type: Process	Rating: High
Observation: Enhance the investment prioritisation and product development processes.		

The Phases of the product development lifecycle are overseen by the Product Development Councils ('PDCs'). There are four PDCs: Wholesale RAP, Wholesale Non-RAP, Consumer and Business. Requests for new products and changes to existing products are submitted by customers to the Account Managers in the relevant Business Units or through the Industry Forum. A standard Business Case template is completed by the Account Manager which outlines a description of the product. The Group Capex Committee is responsible for monitoring budget allocations to each Business Unit through the review and approval of Business Cases for capital expenditure prior to the request being submitted to the Group Portfolio Board ('PB') for approval and prioritisation.

The product development process consists of three phases (Initiate, Design and Launch). Based upon our review of eir documentation and interviews, we understand that when a product development request is received, it is assessed by the relevant Business Unit to determine if the product is a RAP or non-RAP. In the event that the Business Units are unsure as to whether a product is RAP or non-RAP, guidance can be sought from the Regulatory Operations Function. The decision on whether the product is RAP or non-RAP is recorded on the 'Initiate' document which is presented to the relevant PDC. For RAP products the request is recorded on the Wholesale RAP portal which was developed in February 2016 and is available online for customers to review progress against the request. Updates are also provided by eir at the Industry Forum meetings.

Phase 2 of the process requires product feasibility and funding to be approved. Where a product development request requires IT resources, an IT Solution Architect is assigned to the request by the PB. The IT Solution Architect's role is to document the proposed technical solution, identify the costs and resources required to deliver the technical solution and to determine if the project is feasible from an IT capacity perspective. The final Business Case for the product is submitted to the Group Capex Committee for review to approve the funding, procurement requirements and that the expenditure is within the overall annual Capital budget.

Phase 3 comprises development and launch of the product. Products are put forward to the Group PB which is responsible for prioritisation and programming the timing of product developments. We understand through discussion with management, that priority is given to RAP and risk related product developments, for example developments to facilitate compliance with data protection regulations.

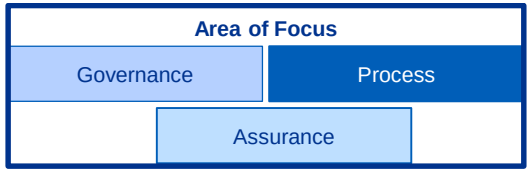
However, we noted that:

Governance Fora

- Whilst there is a separate PDC for Wholesale there is not a separate Wholesale Portfolio Board to approve and prioritise RAP products and allocation of IT related resources in accordance with the RAP protocols;

Approval of budgets and expenditure

- The Wholesale product development budget is included in the Group Capex budget, rather than a separate Wholesale budget. Additionally, there is lack of formal procedure for requesting further Wholesale Capex funding where required for compliance and/or regulatory development purposes;
- There is a lack of formal protocol for the Group Capex Committee to approve Business Cases for products which are in excess of the Capex budget; and,
- There is no segregated opex allocation to Wholesale for the IT resources utilised during product developments.



Ref: P1	Type: Process	Rating: High

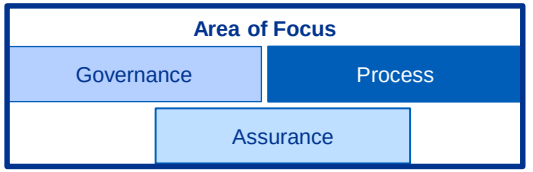
Observation: Enhance the investment prioritisation and product development processes *(continued)*

Clarity of product development policies and procedures

- There is no Group wide Product Development Policy which outlines:
  - The overall end to end process, including any pre-ordering stages;
  - The roles and responsibilities for the approval and prioritisation of product requests for development including who is responsible for product prioritisation and how this is evidenced and authorised;
  - The approach to prioritisation of changes to, or development of, RAP products. We understand, through discussion with management, that priority is given to RAP, regulatory and risk related product developments. However, this is not formally documented; and,
  - The requirement for identification, categorisation and escalation of product development delays to the Wholesale Senior Management team governance forum and the WRC outside of the bi-annual Regulatory Compliance and Audit Report process.
- Across the product development phases, there is a lack of clarity within the documentation for the PDC process on whether:
  - The Group Pricing sign off is a confirmation of compliance with regulatory pricing obligations; or,
  - The Regulatory Operations sign off is a confirmation of compliance with regulatory obligations.
- There are inconsistencies between the names of the different phases of the product development process within the various PDC documentation:
  - General documents referring to the PDC process and Business PDC documents refer to three phases: Initiate, Design and Launch;
  - The Consumer PDC documentation refers to four phases: Request For Resource, Risk Assessment, Launch and Post Development Review;
  - The RAP PDC documentation refers to four phases: Concept, Under Review, Development and Delivery; and,
  - There are also some differences between the Terms of Reference and related documents and templates for the different PDCs.

Compliance with eir's RAP PDC processes and ComReg's requirements for Notifications

- During our review, we selected a sample of eight product changes that were notified to ComReg during the period 2014 to 2016. We performed walk through testing of the sample through each stage of the product development process. We noted that:
  - Not all of the requested documentation was made available by eir for the sample selected. Out of the sample of eight product changes:
    - For one case (13%), eir did not provide us with any supporting documentation;
    - In four cases (50%), there were no formally signed PDC minutes provided to evidence approval of the change;
    - In six cases (75%), the documentation for the PDC Phase 2 approval was not formally signed; and,
    - In four cases (50%), the PDC risk assessment was not available.



Ref: P1	Type: Process	Rating: High

Observation: Enhance the investment prioritisation and product development processes (*continued*)

- In one case (13%), a Notification was issued by eir's Regulatory Publication Manager to ComReg prior to PDC Phase 2 approval;
- There was no evidence of Post Implementation Reviews ('PIR') being performed post launch of products in the sample as required at post PDC Phase 3; and,
- There was no evidence of proof of implementation being provided to the relevant PDC post implementation in the sample as required at post PDC Phase 3.

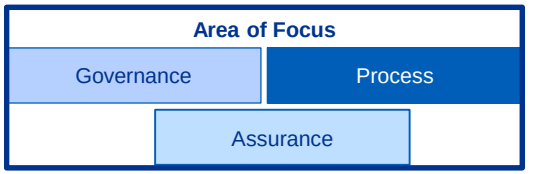
There is a lack of ongoing monitoring of the RAP product development process by the Wholesale RAP PDC to ensure that RAP products are developed in compliance with eir's Policies and Procedures and ComReg's Decisions and the obligations arising from them.

Formality of criteria and adherence to regulatory obligations during decision making

- There is a lack of formally documented criteria for the following decisions:
  - Assessment of whether a product is RAP or non-RAP;
  - Prioritisation of product requests by the Portfolio Board to ensure that there is a consistent and transparent approach;
  - The nature and type of product development that would require approval by the Wholesale Senior Management Team governance forum; (see **Observation P2**); and,
  - Under what circumstances a new or changed product should be fast-tracked.
- The Portfolio Board prioritises product development and reviews the appropriate timing of the launch of approved products for both Wholesale and Retail products. Based on discussions with management, it was stated that both Wholesale and Retail personnel attend the initial part of the Portfolio Board meetings when eir Business, eir Consumer and Open eir MNS projects are discussed. Retail and MNS personnel are requested to leave the meeting room for the second part of the Portfolio Board meetings when the non-Retail and non-MNS projects are discussed. However, no evidence of this including minutes of meetings could be provided by eir. This presents a risk of non-compliance with regulatory obligations in the event that Confidential Regulated Information is shared in relation to RAP product developments; and,
- The Regulatory Publications Manager is responsible for preparing PDC Phase 2 documentation for Retail Notifications to ComReg for product requests, which are then submitted to PDC Phase 2 for approval. For Wholesale Notifications of product requests, the Project Manager is responsible for completing the Notification document which is subsequently reviewed by the Regulatory Publications Manager prior to submission at PDC Phase 2. As the Retail Notification does not require a further review, the associated product request may be processed through the PDC more rapidly than the Wholesale request.

Reporting and independent oversight

- There is no formal requirement for the Wholesale RAP PDC to report its activities and decisions to an appropriate Wholesale Senior Management Team governance forum; and,
- Whilst the Director of Internal Audit attends the Group Capex Committee and the Portfolio Board in a monitoring capacity, there has not been a recent Internal Audit review of the investment prioritisation and product development processes. As such, there is a lack of independent assurance on the effectiveness of the design and operation of the controls in place over the investment prioritisation process and product development.



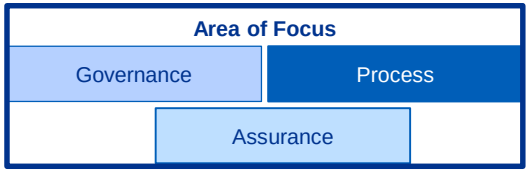
Ref: P1	Type: Process	Rating: High

Observation: Enhance the investment prioritisation and product development processes (*continued*)

Recommendations

We recommend that Management should:

- Establish a separate Wholesale Portfolio Board ('PB') to review and prioritise product developments and provide reports on activities to the Wholesale Senior Management Team governance forum as described in **Observation G2.** The Wholesale Regulatory Operations representative at Wholesale PB should be responsible for ensuring that Industry Fora product development requests, including any associated support, are treated on an equivalent basis to requests received through other channels;
- Ensure that the membership of the Wholesale PB includes a representative of the Chief Information Officer ('CIO') in relation to prioritisation of RAP products and allocation of IT related resources;
- Set a separate Wholesale Capex Budget (as part of the wider Group Capex Budget) that is approved by the Independent Oversight Body ('IOB'). In addition, the IOB should have the authority to request from the Board further Capex funding where required for compliance and/or regulatory development purposes. This process should be documented in the Group-wide Product Development Policy referred to below;
- Set an appropriate Group IT Opex Budget for Wholesale that is approved by the IOB. Consideration should be given to the reallocation of this budget and related expenditure from Group to Wholesale at year-end;
- Update the protocols for the Group Capex Committee to include approval of funding for Wholesale product developments which are in excess of the budget. These instances should be reported to the IOB;
- Ensure that the Wholesale PB provides reports on product developments to the Wholesale Senior Management Team governance forum as described in **Observation G2**;
- Formally document criteria for the following decisions:
  - Assessment of whether a product is RAP or non-RAP;
  - Prioritisation of product requests by the PBs to ensure that there is a consistent and transparent approach;
  - The nature and type of product characteristics that would require approval by the Group Senior Management Team (see **Observation P2**); and,
  - Under what circumstances a new or changed product should be fast-tracked
- Develop a Group-wide Product Development Policy which covers the overall end to end product development process. The Policy should contain sections covering introduction and scope, roles and responsibilities, key processes and reporting requirements. The section on key process should include reference to the Product Development Lifecycle, approvals, prioritisation, monitoring, launch and post implementation review. The Policy and supporting Procedures should include reference to:



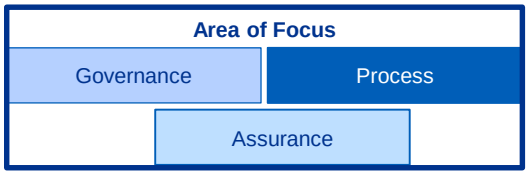
Ref: P1	Type: Process	Rating: High

Observation: Enhance the investment prioritisation and product development processes (*continued*)

Recommendations

- The roles and responsibilities of the Group SMT, IOB, Wholesale Senior Management Team governance forum, PDCs, Group Capex Committee, the Wholesale PB and the Group PB for the approval and prioritisation of product requests for development including who is responsible for product prioritisation and progression of product developments through the three phases and how this is evidenced and authorised. In considering the most appropriate delegation of authority for product and investment prioritisation, it should be recognised that the Wholesale Division should have operational independence in prioritisation decisions, with appropriate input from Group functions such as IT;
- The approach to prioritisation of changes to, or development of, RAP products;
- The requirement for the sign off by the Wholesale Pricing Function and the Wholesale Regulatory Operations Function to be a confirmation of compliance with relevant regulatory obligations;
- The requirement for identification and escalation of product development delays by the Wholesale Regulatory Operations Function to the Wholesale Senior Management team governance forum and the IOB. The report should include identification of each product as being either an active or passive product. This would support independent challenge on any ongoing delays and support the identification of any potential discrimination within the product prioritisation process; and,
- Standard definitions of the phases of product development and standardisation of the pro-formas required for each phase of the process.

- Implement a Quality Assurance process over the submission of product requests to the RAP PDC to ensure that all of the relevant documentation has been completed appropriately and evidence of approval has been provided at the appropriate level. The Quality Assurance process should be delivered by a dedicated Wholesale Regulatory Operations resource as referred to in **Observation A2**. Where documents are not complete or approved they should be returned to the Project Manager and resubmitted for review prior to submission to the PDC;
- Ensure that the process for the preparation and approval of Wholesale and Retail Notifications is consistent to reduce the risk of unequal delays in processing product requests; and,
- Implement an appropriate oversight mechanism to provide independent assurance over the product development process (e.g. Internal Audit).



Ref: P2	Type: Process	Rating: Medium

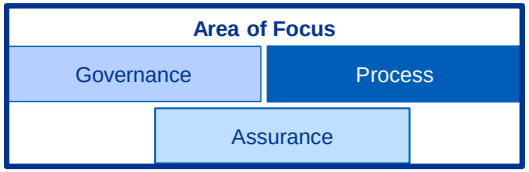
Observation: Establish a stand-alone Wholesale Pricing Function.

The Group Pricing Function is led by the Director of Group Pricing and Regulatory Finance and comprises eight members of staff. The Group Pricing Function maintain pricing models for all of eir's regulated products. These models outline how individual regulated Wholesale product pricing should be calculated. For example, the pricing may be on the basis of margin squeeze or a cost oriented basis. Pricing details for new or changed RAP products are reviewed by the Wholesale RAP PDC at Phase 2 (Design), prior to Phase 3 (Launch). Representatives from Group Pricing attend the Wholesale RAP PDC meetings. In the case of a new RAP product or change to an existing RAP product, the relevant price model must be updated and provided to ComReg for review.

In September 2016, the Group Pricing Function was divided into a Wholesale team and Retail team. However, the team remain located in the same office and report to the Director of Group Pricing and Regulatory Finance. In addition, Wholesale information remains available to the Retail team as some of the pricing models which have both Retail and Wholesale information have not been separated and the shared drive within the Group Pricing Function has yet to be segregated into separate Wholesale and Retail drives. As noted in **Observation G2**, the Wholesale Division remains reliant on the Group resource for the provision of pricing support.

We further note that:

- There is a lack of formal reporting of Wholesale pricing activities to a Wholesale Senior Management Team governance forum;
- There is a lack of Policies and Procedures in place for the Group Pricing Function setting out the required control framework for pricing activities;
- When management agree to retire a product, there is no formal procedure in place for retirement of products. Furthermore, there is no sign off required from senior management for the corresponding pricing models retired;
- There is no formal process and criteria in place for documenting the approval of pricing as part of the PDC process to ensure it has been reviewed at the appropriate level and meets regulatory requirements. Management stated that the approval of the Business Cases by the Group Capex Committee is a proxy for approval of pricing decisions;
- There is no formal review process in place within the Group Pricing Function prior to submitting Pricing information or models to Group Regulatory Operations prior to submission to ComReg in relation to S13D requests, Consultations, Notifications or Decisions;
- The RGM was updated in September 2016 to include Transparency and Pricing Control obligations in addition to Access and Non-discrimination obligations which formed the basis of the first iteration of the RGM. At December 2016, a bottom up review has not performed of obligations in respect to Transparency and Pricing Control. Consequently, there are no regulatory pricing risks and controls on the RACM; and,



Ref: P2	Type: Process	Rating: Medium

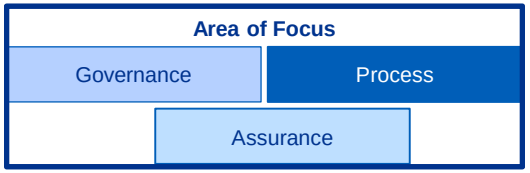
Observation: Establish a stand-alone Wholesale Pricing Function *(continued)*

- There has not been a recent Internal Audit review of the pricing process. As such, there is a lack of independent assurance on the effectiveness of the design and operation of the controls in place over pricing.

Recommendations

We recommend that Management should:

- Set up a fully segregated Wholesale Pricing Function which reports to the Managing Director open eir and to the Wholesale Senior Management Team governance forum;
- Document the mandate of the Wholesale Pricing Function;
- Develop a formal Wholesale Pricing Policy and related procedures that reflect the new structure, roles and responsibilities of Wholesale Pricing Function and it's interactions with other Business Units and Senior Management fora. This should include the process to be followed for retiring a product;
- Document the criteria in place for the approval of pricing decisions throughout the PDC process as described in **Observation P1**;
- Implement a formal review process of pricing information and pricing models prior to submission to the Group Regulatory Operations Function in relation to S13D requests, Consultations, Notifications or Decisions;
- Arrange for a BUPC review to be performed to identify pricing risks and controls, including eir compliance with its pricing obligations, to be included on the RACM. Furthermore, ensure that the completeness of the risk assessment and design and operation of the controls are formally reviewed on a six monthly basis as part of the RACM self-certification process; and,
- Implement an appropriate oversight mechanism to provide independent assurance over the pricing processes (e.g. Internal Audit).



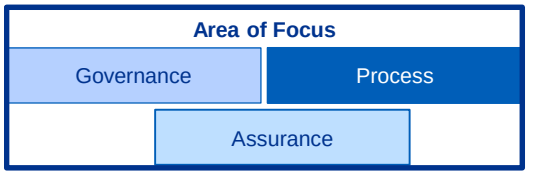
Ref: P3	Type: Process	Rating: Medium

Observation: Enhance the governance over Regulatory pricing models

The Group Pricing Function is responsible for maintaining pricing models. Regulatory pricing models, Retail and Wholesale, are based on the various Market Decisions, as issued by ComReg. Any changes made to regulatory pricing models by the Group Pricing Function must be advised in advance to ComReg. Where required, ComReg will meet with the Group Pricing Function to agree on pricing models and perform reviews on these models if any further updates are made. In the main, these models outline how individual regulated Wholesale product pricing will be calculated (e.g. on a margin squeeze, retail minus or cost oriented basis).

However, we noted that:

- There is a lack of formal documentation in place to support the eir developed regulatory pricing models with regard to how they operate, who is responsible for processing and approving changes (ensuring appropriate segregation of duties);
- Both the Wholesale team and Retail team in the Group Pricing Function utilise various pricing models for each of the products which eir offer. However:
  - There is no complete list of eir developed regulatory pricing models used by the Group Pricing Function which includes model owners and location of the file;
  - There is an over-reliance/key man dependency placed on certain team members who have extensive knowledge of pricing models with no formal plans to mitigate;
  - For all changes made to Wholesale and Retail pricing models, eir do not always communicate these to ComReg and in some cases, changes to the model do not align to the documentation to support the change;
  - For one of our sample (Wholesale Notification 12) the NGA Margin Squeeze model submitted by eir to ComReg did not contain all updates previously made to the model; and,
  - There is no formal process in place within the Pricing team to perform peer reviews of any updates made to the pricing models.
- There are no security controls in place over the pricing models maintained within Group Pricing, for example:
  - The pricing models are not password protected;
  - Key formulae or standing data cells are not locked on the eir developed regulatory pricing models to prevent the editing of these cells;
  - The structure of certain eir developed regulatory pricing models includes some sheets which have inputs, calculations and output on the same sheet. This is not considered good practice in terms of model design;
  - There is a lack of formal change logs on the pricing models to evidence changes made and who these changes were made by; and,
  - Models are saved in folders which can be accessed by all team members. Whilst a project is currently undergoing to split the file share site between Wholesale and Retail, this has yet to be completed and no definitive implementation deadline has been set.



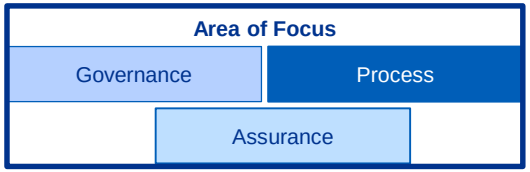
Ref: P3	Type: Process	Rating Medium

Observation: Enhance the governance over Regulatory pricing models *(continued)*

Recommendations

We recommend that management should:

- Ensure that the Wholesale and Retail Pricing functions maintain a list of pricing models used including details of model owners and where the models are located;
- Provide ComReg with the appropriate supporting documentation for all eir developed regulatory pricing model changes to provide a clear audit trail for changes made;
- Ensure that sufficient documentation is in place to support the eir developed regulatory pricing models with regard to how they operate, who is responsible for processing changes and who is responsible for approving changes to reduce the key man dependency risk;
- Introduce pricing model peer reviews in the Wholesale and Retail Pricing functions, for example where significant changes or updates are implemented to eir developed regulatory pricing models; and,
- Ensure that security controls are in place over the pricing models developed and maintained by eir including:
  - Password protection;
  - Locking of formulae and standing data cells;
  - Improving the pricing model construct to include separation of the inputs, calculations and output sheets;
  - Maintaining change logs to evidence why change were made and who these changes were made by; and,
  - Limiting access to the Wholesale pricing information through the implementation of a FileShare or SharePoint that can be accessed by the Wholesale Pricing Function only.



Ref: P4	Type: Process	Rating: Medium

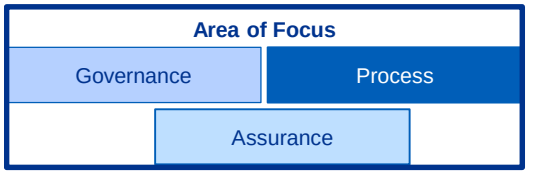
Observation: Enhance the dissemination of regulatory obligations and the requirements of the Code of Practice across the Group.

The Code of Practice ('CoP') is an integral part of the RGM and informs eir personnel on the high-level principles to follow when dealing with Wholesale customers and Regulated Access Products ('RAP's). The current version of the CoP sets out guidance to ensure "all eir customers can avail of the same opportunities, the same high quality products and be kept up to date on product developments at the same time". The CoP applies to all eir employees, including contractors, and it sets out principles which govern how they should go about their daily work, interact with customers, colleagues and the various organisations within the Business.

Training is provided to all staff upon joining eir on the CoP. There is an online training module managed by an external company, Logic Earth. Completion rates for each Business Unit are tracked and monitored by the HR Function and reported to the Compliance & Equivalence ('C&E') Function for inclusion in the bi-annual Regulatory Compliance and Audit Report. The first CoP covered both Access and Non-discrimination obligations. The risks and controls associated with these obligations were identified through BUPC reviews and included in the RACM, which is to be reviewed on a quarterly basis by the Business Units to ensure that the controls operate effectively to reduce the risk of non-compliance with these obligations. In September 2016, the CoP was updated by C&E to include the regulatory obligations with regard to Transparency and Pricing Control obligations. However, the BUPC reviews have not been completed for these obligations and, as such, the risks and controls associated with these obligations have not been included in the RACM or any assurance related process (see **Observation A4** and **A5**).

Furthermore, we noted that:

- The Regulatory Operations Function do not sign off on the CoP to confirm that they have reviewed the contents of the CoP and that it captures all relevant regulatory obligations and requirements, at the right level of detail or that further details is provided for in the wider Group Policies and Procedures;
- The CoP is a principles based code that sets out the key requirements for staff to ensure compliance with relevant regulatory obligations. However, there is a no formal link from the CoP to the key Group wide Policies and Procedures where principles are formally defined and disseminated across the organisation;
- There is no formal process for Group wide Policies and Procedures to be reviewed following the publication of Decisions by ComReg to ensure that any required changes are reflected in these Policies and Procedures;
- The CoP includes a reference to eir's Whistle-blower hotline as a process for staff who may wish to draw attention to a problem anonymously. However, the Whistle-blowing Policy does not refer to regulatory obligations as a type of concern that should be informed to the Whistle-blower hotline. To date, based on discussions with management, we understand that there has been no incidents of potential malpractice reported;
- Training is provided to all staff upon joining eir. However, refresher training is not provided to ensure that employees remain fully aware of their obligations;
- There are no formal assessments performed of employees' understanding of the requirements of the CoP once the initial training has been completed. As such, there is no determination of the level of understanding employees have of their own obligations in respect to the CoP;
- There is no requirement for staff undertaking the training to sign a declaration to confirm that they will comply with the requirements of the CoP; and,
- There is a lack of clarity on the consequences of a breach of the requirements of the CoP. For example, we understand to date there have been no transparent consequences for the poor maintenance of the RACM from a completeness and quality perspective.



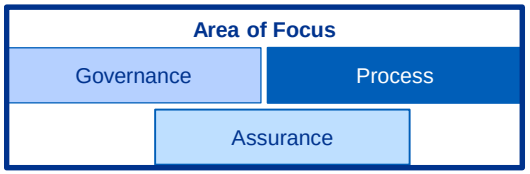
Ref: P4	Type: Process	Rating: Medium

Observation: Enhance the dissemination of regulatory obligations and the requirements of the Code of Practice across the Group *(continued)*

Recommendations

We recommend that management should:

- Formalise the review and approval of the CoP and ensure that the review assesses whether the CoP considers all relevant regulatory obligations and requirements at the right level of detail;
- Align the requirements of the CoP with the relevant Group Policies and Procedures that support the embedding of the key regulatory obligations in day to day operations;
- Implement a formal process for Group wide Policies and Procedures to be reviewed and, where required, updated following the publication of Decisions by ComReg;
- Enhance the CoP training process to include, for all personnel at all levels of eir, assessments, annual declarations of compliance and refresher training;
- Improve the effectiveness of management information available on CoP training completion and pass rates by obtaining analysis by Business Unit and staff grade. Independent assurance should also be obtained on the accuracy of this information;
- Formalise and communicate to all eir personnel at all levels, the significance of breaching the requirement of the CoP and the consequences of such a breach. In addition compliance with the CoP should be included formally in performance objectives as described in **Observation G3**; and,
- Formalise the reporting requirements of breaches of the CoP to the relevant Senior Management team governance fora and to the IOB. This reporting should include the identification of the breach status, consequence and resolution.



Ref: P5	Type: Process	Rating: Medium

Observation: Establish formal Bespoke Bid Policy

Through discussion with management, we understand that Bespoke Bids are usually developed by eir in response to a commercial or government request for proposal, or tender, with the Bespoke bid developed by either eir's downstream or its upstream Wholesale Division.

In addition, Bespoke Bids are mainly for standard products, which are defined by eir as products having already been approved through the PDC process. However, Bespoke Bids can include both standard and non-standard products. The non-standard products must follow the product development lifecycle and be submitted for review and approval through the PDC and Portfolio Board ('PB') governance fora**.** For example, if the non-standard product includes a RAP product, then a request to the Wholesale RAP PDC is required.

The process in place for Bespoke Bids includes the following steps:

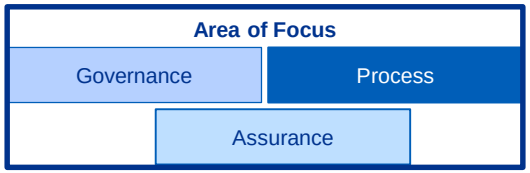
- A Bid can be initiated by an individual Account Manager or a Business Development Manager and the details of the Bid are recorded on the Bid Alert Template. The Bid Alert Template is sent by the Account Manager or a Business Development Manager to the Head of Business Projects;
- The Head of Business Projects will convene a Bid Evaluation Team which comprises the Business Unit Finance Director and any other required specialist. The Bid Evaluation Team will assess whether the solution required for the Bid includes standard and/or non-standard products. If the Bid includes a non-standard products, a request must be made through the PDC process and the product will be assessed for RAP implications at Phase 1 of this process;
- Where the Bid Evaluation Team propose to continue with the Bid, a standard Business Case template is completed which outlines a description of the bid and the required IT technical support. This proposal is presented to the Group Senior Management Team for approval; and,
- Upon receipt of support from the Group Senior Management Team, a Bid team is formed to proceed with the Bid process. The Bid Team will comprise of attendees across various functions. For example, in the case of a Management Network Services ('MNS') Bid, Regulatory Operations, Legal, Networks, Finance, and MNS will all be involved. Once completed all members of the Bid team must sign off the Bid as approved. Management informed us that the last approval is sought from the Legal Function and the Regulatory Operations Function to confirm that the Bid is compliant with regulatory obligations.

From discussions with management, the Wholesale Bespoke Bid in relation to the government National Broadband Plan ('NBP')[5] is considered a Bespoke Bid by eir. We note the unique characteristics of this Bid in terms of size, timelines and requirement for significant access network development. In addition, as part of the procurement process, eir has established a segregated team within Wholesale, to enable all NBP bidders to engage with eir Wholesale on the potential access to eir's passive RAP products, such as Poles and Ducts.

It is our understanding that this segregated Wholesale team was established with the aim of ring-fencing sensitive commercial and Confidential Regulated Information of all NBP bidders from eir Wholesale in relation to their potential network plans. Furthermore, through the involvement of Internal Audit in an oversight role, we understand assurance is provided to the NBP bidders that only those directly engaged with the bidder would have access to such information. In addition, the establishment of this segregated Wholesale team to engage with all NBP bidders on passive products has enabled eir to continue to bid for the NBP.

It is our understanding that this segregation of Wholesale teams is unique to the NBP Bid process and is not a standard process for other Wholesale only Bespoke Bids.

[5] Department of Communications, Climate Action & Environment ('DCCAE') - National Broadband Plan http://www.dccae.gov.ie/communications/en-ie/Pages/ProgrammeAndScheme/National-Broadband-Plan.aspx



Ref: P5	Type: Process	Rating: Medium

Observation: Establish formal Bespoke Bid Policy (continued)

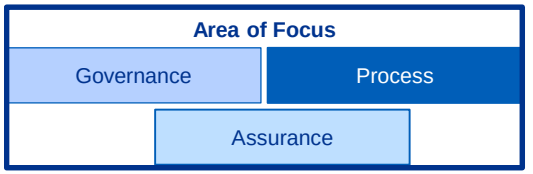
However, we noted that:

- Open eir has a document 'Bid Process Revisited' that refers to the steps to follow when reviewing and responding to a request for proposal. However, there is no formal Group wide Policy on the processes to be followed for Bespoke Bids or specific processes to be followed for Wholesale only Bespoke Bids (similar to NBP);
- There is a lack of a documented Policy including requirements for the level of authorisations required for approval of Bespoke Bid contracts;
- There is a lack of clarity on the procedures and protocols for the establishment of the Bid Evaluation team and the Bid team to ensure that the risk of sharing Confidential Regulated Information is managed. This is particularly the case where an OAO may be seeking to purchase passive RAP products to support their own commercial bid and where an eir downstream business is also bidding for the same proposal or tender;
- Bespoke Bids may include RAP products and, as such, there is a requirement for approval to confirm that these products have been incorporated into the Bespoke Bid in compliance with regulatory obligations;
- While the NBP is a unique Bespoke Bid, there are aspects of the governance arrangements of the NBP Bid which would appear to be relevant to the Wholesale Bespoke Bid process but are not included in the standard process. For example, enhanced controls over the handling of Confidential Regulated Information and assurance provided through the segregation of Wholesale teams and oversight provided by Internal Audit; and,
- There is a lack of independent assurance over the Bespoke Bid process in terms of pricing and potential impact on regulatory obligations.

Recommendations:

We recommend that Management:

- Document a formal Bespoke Bid Policy and related procedural documentation which includes:
  - Protocols for establishing the Bid team;
  - The level of authorisation required for decision making during the bid preparation and contract agreement processes;
  - Policies and procedures to how Confidential Regulated Information is managed in compliance with eir's regulatory obligations;
  - The reporting to and approval requirements of senior management governance fora; and,
  - This Group Bespoke Bid Policy and relation procedure should contain specific procedures, including segregation of Bid teams, for Wholesale only Bespoke Bids where Confidential Regulated Information needs to be managed sensitively.
- Should ensure that for Wholesale only Bespoke Bids:
  - The Bid Evaluation Team should, at a minimum include Wholesale Pricing and Wholesale Regulatory Operations with responsibility for confirming compliance with regulatory obligations in relation to the direct or indirect inclusion of RAP products;
  - Which include RAP products, the Bids should be submitted to the Wholesale Senior Management team governance forum for formal approval; and,
  - Where relevant, consideration is given to adoption of the enhanced NBP Bid related governance and assurance arrangements for the all wholesale only Bespoke Bid processes.

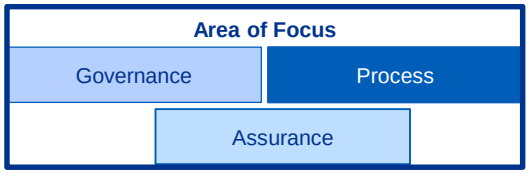


Ref: P5	Type: Process	Rating: Medium

Observation: Establish formal Bespoke Bid Policy (continued)

Recommendations (continued)

- Should ensure that for other Bespoke Bids:
  - The Bid Evaluation Team should at a minimum include Group Regulatory Operations with responsibility for confirming compliance with regulatory obligations in relation to the direct or indirect inclusion of RAP products; and,
  - Which include RAP products, the Bids should be submitted to the Group Senior Management Team for formal approval.
- Implement an appropriate oversight mechanism to provide independent assurance over the Bespoke Bid process (e.g. Internal Audit).



Ref: P6	Type: Process	Rating: High

Observation: Enhance the governance arrangements for the safeguarding of Confidential Regulated Information.

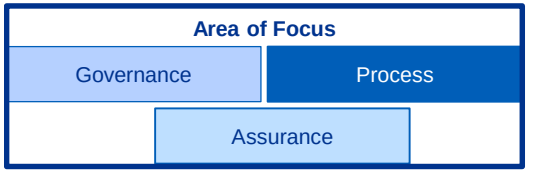
An important element of the RGM is the governance arrangements in place to safeguard Confidential Regulated Information that other operators provide to Wholesale and also safeguard unpublished technical or commercial information which would be valuable to eir's downstream business. For example, details of products requests provided to Wholesale should not be shared with other parts of the eir business. Wholesale has a responsibility to identify and protect information that it holds and which its customers would not want shared with their competitors, including eir's downstream businesses.

Based on our review of documents and interviews, we understand that eir has implemented some processes to manage the risk of inappropriate sharing of Confidential Regulated Information, including:

- The CoP refers to the fact that safeguards are required over access to Confidential Regulated Information; and,
- There are three policies and procedure documents in place within eir that refer to the requirements for management of Confidential Regulated Information: The CoP (September 2016), the Data Classification Policy (February 2016); and, the Rules for Sharing Confidential Regulated Information and Confidential Wholesale Customer Information (February 2016).

However, we noted that:

- eir has prepared an IT Strategy. However, there is little evidence how the future BSS/OSS application landscape vision will ensure appropriate segregation of data and related access between Wholesale and Retail. Additionally, the current IT strategy does not address the need for more robust IT governance structures particularly regarding restricting the flow of Confidential Regulated Information and access management;
- Whilst there are a number of policies available regarding rules for sharing Confidential Regulated Information, there is no over-arching Group wide policy on management of Confidential Regulated Information from a Data classification, handling and security perspective;
- Whilst an Application Register is maintained by IT, which includes details of eir's systems (live and retired), sub systems, applications and technical tools, the following issues were identified from our review of the register:
  - The register is not up to date;
  - The register does not provide a description of application use/functionality, type of data, data classifications or any general access restrictions;
  - There is no overall Application Owner for each system listed; and,
  - For each system there is a column to include details of the Level 1 Manager, Business Owner, Design and Build Manager, IT Support Manager and the CTI Architect Owner. However, not all of the systems have a staff member allocated to these roles.
- The CoP does not refer to the methods by which access to Confidential Regulated Information should be managed to ensure that Wholesale and Retail data and related access is appropriately segregated; and,
- Whilst a Whistleblowing Policy is in place at eir, there is no other escalation procedure for breaches relating to sharing of Confidential Regulated Information. For example, there are no formal procedures in place for employees to follow in the event that information is incorrectly sent to them or where to report data or systems access issues.



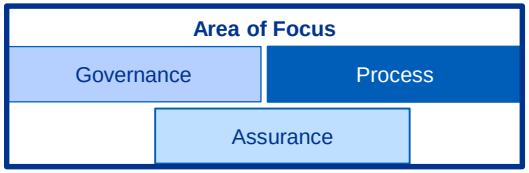
Ref: P6	Type: Process	Rating: High

Observation: Enhance the governance arrangements for the safeguarding of Confidential Regulated Information *(continued)*

Recommendations

We recommend that Management should:

- Review the IT Strategy and where appropriate update, to consider the future BSS/OSS application landscape with specific regard for the need to appropriately segregate Wholesale and Retail data and related access. Additionally, the IT Strategy should be revised to ensure that adequate focus is given to the need to enhance IT governance arrangements regarding management of Confidential Regulated Information and related access management requirements;
- Develop an overarching policy on the management of Confidential Regulated Information from a Data classification, handling and security perspective;
- Develop the Application Register into a more formal Data Asset Register to include the data types and related classifications included on each system, and the implications of this for the level and type of access management controls to be applied to the system. The Data Asset Register should also include:
  - Details of Application Owners;
  - Description of system including functionality/use;
  - Where the system is hosted;
  - Types of data held (e.g. Wholesale customer PII, Retail customer PII, Employee PII, Financial, Wholesale Commercial, Retail Commercial, IP etc.)
  - Classification of data as per the Data Classification Policy (e.g. Wholesale Confidential etc.);
  - General access restrictions;
  - Responsibility for User Access Management ('UAM'); and,
  - Date of last Technical System Data Segregation ('TSDS') review.
- Enhance the CoP to reference the requirements and escalation process regarding the management of Confidential Regulated Information; and,
- Document the formal procedures for employees to follow in the event that information is incorrectly sent to them or where to report data or systems access issues.



Ref: P7	Type: Process	Rating: High

Observation: Enhance the processes for Data Classification, Handling and related assurance processes

The current policies and guidelines are in place within eir regarding Data classification and Data handling include:

- The Code of Practice (September 2016);
- A Data Classification Policy (February 2016); and,
- The Rules for Sharing Confidential Regulated Information and Confidential Wholesale Customer Information (February 2016).

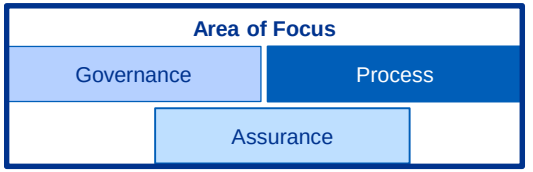
We were also provided with following two guidance documents which are available on eir's intranet entitled:

- "Label the Data Appropriately"; and,
- An "eircom Group Data Protection and Data Handling Good Practice" guide.

Through discussion with management, we understand Data handling controls include using ink stamps on documents to mark them as 'Confidential' or 'For Wholesale use only' and also managing meeting attendance of Retail employees at meetings where Wholesale information is being discussed.

However, we noted that:

- As described in **Observation P6**, there is no Data Asset Register in place to support the application of the Data Classification Policy to eir's systems;
- The "eircom Group Data Protection and Data Handling Good Practice" guide and the "Label the Data Appropriately" guide are not formal policies and do not constitute a Data Handling Policy and, as such, are not enforceable;
- Training has not been provided to staff on Data Classification and Data Handling;
- Through discussion with management, we understand that as part of the RGM the role of Data Steward was implemented in a number of the Business Units. The Data Stewards were responsible for classifying and controlling the distribution of Confidential Regulated Information within the Business Unit. However, this role no longer exists and, as such, there is no ownership of Data Handling at a Business Unit level; and,
- There is no formal assurance in place over the processes in place for management of Confidential Regulated Information or for adherence to the Group Policies. For example:
  - There is no assurance provided over the processes in place over Data Classification or Data Handling procedures to protect Confidential Regulated Information;
  - Some informal assurance is provided over the management of Confidential Regulated Information at management meetings through the attendance of the Director of Internal Audit who will observe the information discussed at these meetings. Internal Audit also has access to a software tool called Legal Discovery which can be used to track emails and documents attached in emails to ensure they are appropriate and only shared with the correct personnel. However, there are no formal reports produced for the Audit Committee or Wholesale Reform Committee on the outcomes of these activities; and,
  - Internal Audit do not perform assurance reviews of compliance with Data Classification and Handling Policies.



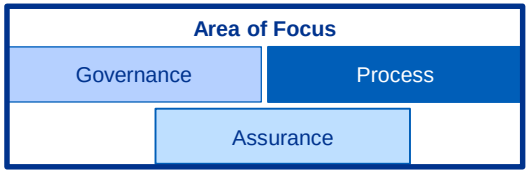
Ref: P7	Type: Process	Rating: High

Observation: Enhance the processes for Data Classification, Handling and related assurance processes *(continued)*

Recommendations

We recommend that Management:

- Develop a formal Data Handling Policy which should be subject to review and approval by the Independent Oversight Body ('IOB') initially then the Board from a group governance perspective;
- Provide training to all staff on both the Data Classification Policy and Data Handling Policy once it has been developed;
- Reintroduce the role of the Data Steward in each Business Unit to oversee the implementation of the Data Classification and Data Handling Policies; and,
- Develop an assurance plan to assess adherence to these Data related policies and to assess the controls over the management of Confidential Regulated Information. Allocate the responsibility for development, execution and reporting to an appropriate assurance function. These assurance reports should be presented to both the Group Audit Committee and the IOB.



Ref: P8	Type: Process	Rating: High

Observation: Enhance Structured Systems Access Management and related assurance processes

Based on eir's regulatory obligations, eir must implement the following key principles of Non-discrimination and Transparency as defined in the CoP (September 2016):

- "eir's downstream businesses and other Wholesale customers must have the same opportunities to ask for RAP products and services to be developed or changed;
- Dealing with eir Wholesale must not lead to eir's downstream businesses seeing confidential Wholesale customer information; and,
- The RAP services and information provided to Wholesale customers must be of the same quality and available at the same time, as the services and information provided to eir's downstream businesses."

In 2014, eir commissioned a third party to perform a review of its System applications to identify those which contained Wholesale RAP and Wholesale Confidential Data. At the time of the review, there were 336 systems listed in eir. Any systems which did not contain Confidential Regulated Information data or customer confidential data were removed from the list which reduced the number of systems to 97. The list was further reduced to 47 systems as 31 were removed based upon the Systems Owner confirming that there was no Retail Business Unit access to the system and 19 systems were replaced or retired.

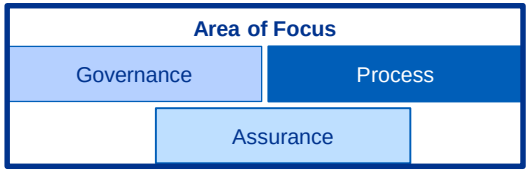
For the 47 systems reviewed, the existing controls were assessed to ensure that data access was restricted to authorised user groups. Where gaps or risks were identified, controls or remediation activities were defined to mitigate these. The following were key parameters were used to review each system:

- Data held in the system;
- Different users and user groups who have access to the system;
- Partitioning of the data across different users of the system; and,
- Access controls for a given system, i.e. how access controls for a given system are defined and the policy for handling staff members who leave the company or change groups within the company.

The outcome of the review was a list of 17 systems that were assessed as being "High Risk" from a Confidential Regulated Information perspective. These systems are subject to a bi-annual access review by the Systems Owners to ensure that the type and level of access is appropriate. These reviews are referred to as Technical System Data Segregation ('TSDS') reviews. To perform these reviews, System Owners are provided with system access listings from eirAM by IT Security. The information includes a cover guidance sheet. The access listing identifies the number of system users from each business area and their corresponding user profiles. The System Owner is responsible for certifying that all access granted to the system is appropriate. Upon completion of the review, the System Owners report back to IT Security on whether any issues were identified with the access granted to staff.

On eir's Application Register, dated November 2016, 553 systems are listed. These include systems (live and retired), sub systems, applications and technical tools. Access to these systems is requested by the user via 'eirAM' (229 systems), through the previous Systems Access Management application ('SAM') (10 systems) or through email requests to the System Administrator (314 systems). We understand two approvals are required for the requestor to obtain access. User profiles are set up to reflect the level of access that the requester requires. Bi-annual reviews of systems access at staff member level is performed by Line Managers for those systems which are managed on eirAM. These reviews are referred to as Business Access Reviews ('BAR'). The Line Manager is provided with an access listing from eirAM by IT Security, setting out the systems access held by each of the Line Manager's direct reports. The Line Manager will review the appropriateness of systems access for each of their direct reports. Upon completion of the review, the Line Manager will report back to IT Security on whether any issues were identified with the access granted to staff on the system under review.

The outcomes of both the BAR and the TSDS reviews is made available by IT Security to the Compliance and Equivalence Function who have oversight of the completeness of the reviews and any issues raised. C&E report on completion of the BAR and TSDS reviews, and any issues arising, in the bi-annual regulatory Compliance and Audit Report.



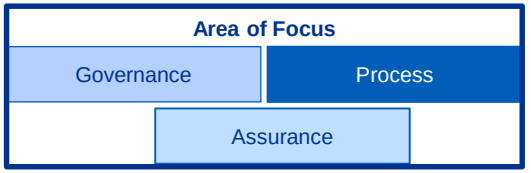
Ref: P8	Type: Process	Rating: High

Observation: Enhance Structured Systems Access Management and related assurance processes *(continued)*

Systems Access Management governance

There are weaknesses in the Systems Access Management governance process as follows:

- There is a lack of a formal Policy and supporting Procedure describing the end to end user access management process (including setting up user profiles, granting access, retiring access, user access reviews, minimum password length and expiration period etc.);
- There is no definition of user access profiles for each system with the levels of access attached;
- There is no formal reconciliation of the user profiles on eirAM, SAM and the applications themselves;
- Since the systems review was completed in 2014, we understand through discussion with management, that:
  - There was no ownership assigned to eir management for the review performed by the third party;
  - There were no actions or associated timelines developed for issues identified;
  - There was no tracking of issues identified to ensure that the implementation of remediation actions was completed; and,
  - Of the 19 systems identified as “High Risk” in the 2014 review, one system (Geosmallworld) is not included on eirAM and hence are not included in the BARs.
- For a sample of 13 systems selected by us to walkthrough, we requested an access listing from eirAM, access listings from the system itself and details of the level of access associated with user profiles on these systems. We did not receive a full eirAM access listing for four of the 13 systems (31%) requested. We did not receive access listings from the systems themselves or any details regarding the levels of access associated with the user profiles. Based on our testing, we noted that:
  - There is no narrative explaining the level of access associated with each user profile. Hence, when completing BAR and TSDS reviews it is unclear how Line Managers and Systems Owners can assess whether the level of access associated with the user profiles is appropriate;
  - User profiles are defined at the design stage of an application. However, some of the older systems have had a significant increase in the range of user profiles. For example Salesforce (Retail) has over 90 user profiles and this presents a risk that staff providing access may not be aware of what access is associated with each user profile;
  - From visually reviewing user profile names between the Retail and Wholesale Division, we identified instances whereby Retail staff were allocated user profiles which would indicate that they have access to Wholesale information on the system and vice versa. Examples of this include:
    - The AMP DSL system, which is a broadband inventory support system, had one Retail staff member with the role profile "DSL_WLSALE" allocated to them. In addition, one Wholesale staff member has the user profile allocated "DSL_RETAIL2"; and,
    - The Corporate Data Warehouse (‘CDW’) system, which is used to support analysis, reporting, decision making and the business intelligence function, has one Wholesale staff member had the role profile "CDW_Retail_eB_MIS_Role" allocated to them.
  - Numerous user profiles on each system are allocated to both Wholesale and Retail staff. Without a clear understanding of what user profiles grant access to, we cannot confirm if user profiles granted to Retail and Wholesale staff are in line with regulatory obligations such as Management of Confidential Information; and,
  - The Unified Gateway ("UG") system had no user profiles recorded on the access report obtained from eirAM.
- Furthermore, when access is granted, there is no expiry date for this access. Without adequate access reviews and expiry dates for access rights there is a risk that inappropriate access to the portal may exist.



Ref: P8	Type: Process	Rating: High

Observation: Enhance Structured Systems Access Management and related assurance processes *(continued)*

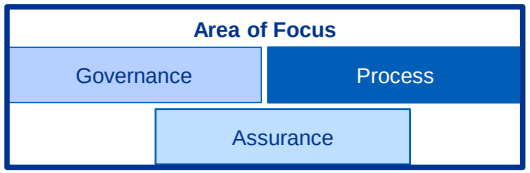
Requests for changes to RAP products are recorded on the Wholesale RAP portal i.e. Product Change Request Log ("PCRL") which was developed in February 2016 and is available online for customers to review progress against the request. However, we observed that access to this log is not reviewed for appropriateness.

Business Access Reviews ('BAR')

- There are weaknesses within the design of the BAR process as follows:
  - Out of the 553 systems listed on the Application Register, 229 systems are managed through eirAM and will be subject to review as part of the BAR process. The remaining systems (59% of the application estate) are not subject to the BAR review process; and,
  - The extent of checks performed as part of the BAR review varies between Line Managers. For example, the Manager of Customer Care/HCL has a large number of staff on her team and will obtain a report from HR showing leavers so that she can check that they have been removed from the Active Directory and other relevant systems. It is not a formal requirement for this check to be performed by other Line Managers.
- Information made available for the BAR reviews from HR is not sufficient for the review to be performed effectively. We requested a list of staff from HR to test whether a sample of staff members' details on eirAM were correct in terms of whether the individual was part of the Wholesale or Retail part of the business. However, we note the following:
  - There are different naming conventions for Business Unit titles in HR to those in eirAM. Hence, it was not possible to fully complete this test for all of the sample;
  - One member of staff who was identified as being in the Wholesale Division by HR but was identified as being in eir Consumer on eirAM; and,
  - HR was unable to provide us with details of Third Party personnel who have systems access. For example, HCL personnel who have access the Wholesale customer services system; and,
  - There have been no reviews or assurance activities performed on eirAM to ensure that the information obtained from the system for the performance of the BARs is complete and accurate.
- Through discussion with management, we understand that the findings from the BAR reviews are reported to the Information Security Council and are also included in the bi-annual Regulatory Compliance and Audit Report. However, the Information Security Council has not held a meeting since November 2015.

Technical System Data Segregation ('TSDS') reviews

- There are weaknesses within the design of the TSDS reviews as follows:
  - The list of systems and the Systems Owners has not been formally reviewed and updated since it was initially prepared to ensure that any new systems containing Confidential Regulated Information and any changes in Systems Owners roles have been addressed. This risk is particularly relevant in geographic or pricing information given the sensitivity of such information held between Wholesale and Retail; and,
  - There is limited instruction or guidance provided to management who perform the TSDS review.
- The TSDS review is performed by the System Owner. During our review of a sample of eir's systems, we observed that numerous System Owners can be assigned to individual applications but only one of these System Owners will perform the TSDS review. This results in the System Owner performing the TSDS review on parts of the system which they are not familiar with. For example, the Head of Wholesale RAP performing the full TSDS review for TIS. TIS is a multi-tenant system used for a range of operations including customer ordering and billing;



Ref: P8	Type: Process	Rating: High

Observation: Enhance Structured Systems Access Management and related assurance processes *(continued)*

- Through discussion with management, we understand that the findings noted from the TSDS reviews are reported to the Information Security Council and are also included in the bi-annual Regulatory Compliance and Audit Report. However, the Information Security Council has not held a meeting since November 2015; and,
- Information made available for the TSDS reviews from HR is not sufficient for the review to be performed effectively. We requested a list of staff from HR to test whether a sample of staff members' details on eirAM were correct in terms of whether the individual was part of the Wholesale or Retail part of the business. However, we note the following:
  - There are different naming conventions for Business Unit titles in HR to those in eirAM. Hence it was not possible to fully complete this test for all of the sample;
  - HR was unable to provide us with details of Third Party personnel who have systems access. For example, HCL personnel who have access the Wholesale customer services system; and,
  - There have been no reviews or assurance activities performed on eirAM to ensure that the information obtained from the system for the performance of the TSDS reviews is complete and accurate.

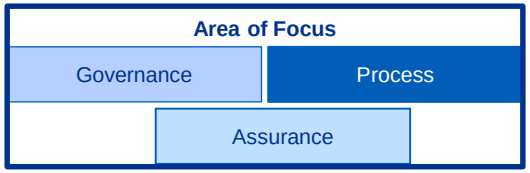
Systems Administration

- During our review of the administrators user profiles for 9 of the systems in our sample, we noted that:
  - For four of the systems (44%) (FHS, BOOTS, ANRM and TIS), the individual named as the administrator by eir did not have access to the system; and,
  - There were three systems with more than one member of staff having the administrator role profile as follows: the Pre-Qual system (5 Administrators), the CDW system (15 Administrators) and the FIMS systems (69 Administrators).

Recommendations

We recommend that Management should:

- Perform a full review of all systems to ensure that Wholesale (RAP and Non-RAP) and Non-Wholesale access to these systems is appropriately controlled. This should include:
  - Identifying and classifying the data held on each System as described in **Observation P6** regarding the Data Asset Register;
  - Reviewing user access profiles on each of the systems to understand and document what levels of access is provided under each user access profile;
  - Reconciling the number of profiles on eirAM, SAM and the applications themselves;
  - Reviewing the number of administrator profiles on each system to ensure that user profiles for these are used by one individual and not shared. Management should also ensure that such levels of access associated with the administrator profiles are appropriate;
  - Considering the appropriateness of the number of user access profiles on the systems and whether job based role profiles should be introduced across all systems;
  - Documenting the description of each of the user access profiles to ensure that it is clear what level of access is associated with the profile to facilitate the TSDS and BAR reviews; and,
  - Consideration of the appropriateness of password length and frequency of password change prompts.

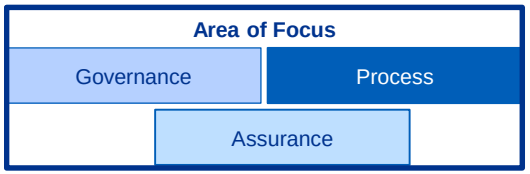


Ref: P8	Type: Process	Rating: High

Observation: Enhance Structured Systems Access Management and related assurance processes *(continued)*

Recommendations

- Upon completion of this review, consider the most effective way to segregate Wholesale data (both structured and unstructured) at a system level. This can be achieved by either more robust System Access Management and enhanced independent assurance or greater system and data separation (Applications and FileShares). In addition, management should ensure that:
  - Where instances of inappropriate access are noted, these instances are documented and a root cause analysis performed to ascertain how the access was granted;
  - Where there is a requirement for control to be updated or a new control to be implemented to address the access issue, details of the change should be recorded on the RACM; and,
  - An annual review of systems access is performed where confirmation is given on the appropriateness of those personnel who have access.
- Complete and report the results of the six monthly BAR and TSDS reviews to an appropriate IT Governance forum and provide the details to the Group Risk Function to report to the IOB as described in **Observation A8**;
- Implement ongoing tracking and monitoring of user access to assess unusual trends. For example, users in certain divisions accessing multiple systems in a day, out of hours access etc.; and,
- Implement the most appropriate oversight mechanism to provide independent assurance over Systems Access Management processes (e.g. Internal Audit).



Ref: P9	Type: Process	Rating: High

Observation: Implement appropriate access management controls over unstructured data

Unstructured data is information that either does not have a pre-defined data model or is not organised in a pre-defined manner. Unstructured data includes e-mail messages, word and excel documents, presentations, webpages and many other kinds of business documents. Within eir, unstructured data is held on SharePoints and FileShares managed through the Active Directory.

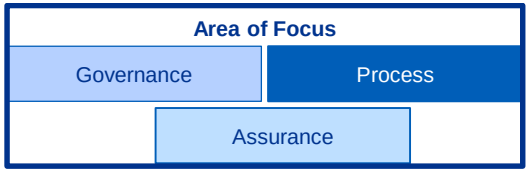
Through discussion with management, we understand that there are some filtering controls in place regarding email transmission as follows:

- Emails received from external domains: The gateway employs multiple filters including reputation filtering, spam filtering, Anti-virus scanning, lexical analysis and file type filtering. Once mail items go through these checks, they are scanned using Symantec mail security for 'Microsoft Exchange';
- Emails sent to external domains: Anti-virus scanning and maximum mail size of 12mb; and,
- Emails sent/received internally: Anti-virus scanning and maximum mail size of 20mb.

Where an email has be quarantined, due to a breach of a specific filter, we understand the email is assessed by the Exchange Team to determine what action is required.

However, we noted that:

- There is no overall Policy describing how eir should manage unstructured data;
- The Third Party review of access to eir's systems in 2014, as described in **Observation P8**, included a finding that a similar review has not been performed of unstructured data at eir. At the time of our review, eir had not completed a review of access to unstructured data;
- There are weaknesses with the controls in place for the management of unstructured data. Based on discussions with management, we understand that eir has FileShares for both Wholesale and Retail which are split logically between Wholesale and Retail access rights. In addition, eir has numerous SharePoint sites which the Business use to share documents. From reviewing these structures, we noted that:
  - There is high reliance on unstructured data and there is no formal Policy on how access to these data sources should be managed;
  - SharePoints can be set up and access managed differently between various business areas. For example, in Customer Care (HCL), the SharePoint is managed by one individual who manages access for staff and the documents which are posted on the site. However, for Consumer, one person manages access but it is the responsibility of the person posting the document to restrict access to that document;
  - There are no Business Access Review ('BAR') or Technical Systems Data Segregation ('TSDS') reviews performed on FileShares or SharePoint sites to ensure that access granted to them is appropriate; and,
  - There is no evidence and/or documentation available for any IT review of specific SharePoints or FileShares performed from a user profile perspective or evidence that the issues identified from the reviews are actioned.



Ref: P9	Type: Process	Rating: High

Observation: Implement appropriate access management controls over unstructured data *(continued)*

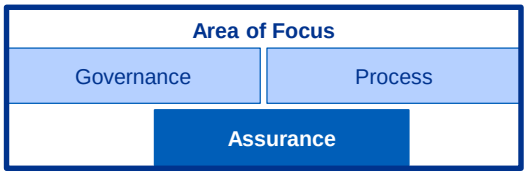
- The IT Security Team within eir have enforced controls around emails of certain size. However, other than size limitations, there are no scans, filters and subsequent review, performed on the email server for the following:
  - Emails sent externally; or,
  - Emails sent/received internally for e.g. between Wholesale and Retail teams.
- Where an email has be quarantined, due to a breach of a specific filter, there is no formally documented process in place for the release of the email.

Recommendations

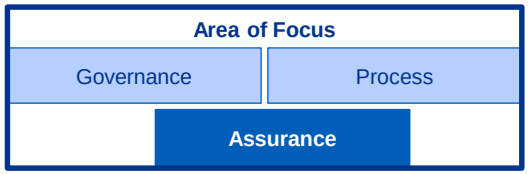
We recommend that management should:

- Perform a review of the access to unstructured Wholesale data. This should include:
  - Identification of the universe of unstructured data;
  - Identification of the location of unstructured Confidential Regulated Information;
  - Identification of users with access to Confidential Regulated Information;
  - Consideration of the appropriateness of user's access based on the individual's roles and responsibilities;
  - Identification of users with excessive access rights;
  - Identification of dormant users and un-used access rights;
  - Where instances of inappropriate access are noted, these instances are documented and a root cause analysis performed to ascertain how the access was granted; and,
  - Where there is a requirement for control to be updated or a new control to be implemented to address the access issue, details of the change should be recorded on the RACM.
- Incorporate a bi-annual review of access to unstructured data as part of the enhanced BAR and TSDS reviews;
- Enhance the transmission controls in place over email by:
  - Applying appropriate filtering and review mechanisms for emails sent externally and internal emails;
  - Formally documenting the approach to filtering, quarantine and release of emails; and,
  - Ensuring that eir staff are aware of the enhanced transmission controls.
- Implement an appropriate oversight mechanism to provide independent assurance over the management of unstructured data (e.g. Internal Audit).

2.3 Assurance



Ref	Main Observations	Rating
A1	Enhance the clarity of the roles, responsibilities and reporting lines of the Risk and Assurance functions within a Three Lines of Defence model.	**H**
A2	Establish a stand-alone Wholesale Regulatory Operations Function.	**M**
A3	Enhance governance structures over regulatory submissions made to ComReg.	**M**
A4	Amend the Compliance & Equivalence structures to segregate advisory/support activities from assurance activities.	**H**
A5	Enhance the scope and activities performed by the Compliance & Equivalence Function.	**H**
A6	Enhance the management and reporting of complaints in relation to the Regulatory Governance Model.	**L**
A7	Enhance the process for the preparation of the bi-annual Regulatory Compliance and Audit Report.	**L**
A8	Enhance the regulatory risk management process and linkages with the RGM.	**M**
A9	Enhance the scope and activities of Internal Audit with regard to the RGM.	**M**



2.3.1 Assurance: Detailed Observations

Ref: A1	Type: Assurance	Rating: High

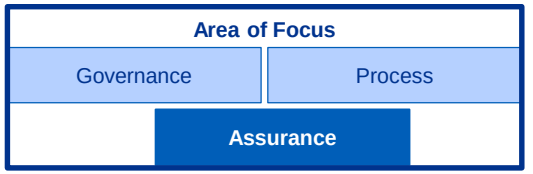
Observation: Enhance the clarity of the roles, responsibilities and reporting lines of the Risk and Assurance Functions within a Three Lines of Defence model.

We note that there are four advisory and assurance related functions that support eir's governance structures. These functions and their responsibilities with regard to the RGM are:

- **The Regulatory Operations Function** oversees communications between eir and ComReg, provides regulatory advice to Business Units and promotes a compliance culture for the provision of regulated services;
- **The Compliance & Equivalence ('C&E') Function** is responsible for the management of the RGM including Business Unit Process Compliance ('BUPC') reviews, Statements of Compliance ('SoC') and Compliance Reviews of Controls ('CRoC');
- **The Risk Management Function** is responsible for ensuring that risks are identified and managed across eir by promoting effective operational and financial risk management and monitoring appropriate and timely mitigation of risks; and,
- **The Internal Audit Function** is responsible for completing end to end assurance reviews of Business Units, oversight and monitoring of the completion of the RACM self-certification process, assessing the design and appropriateness of controls of the RACM and attendance at a range of governance fora to ensure that Confidential Regulated Information is handled correctly and decisions are made in line with regulatory requirements.

However, we noted that:

- There is a lack of a clarity regarding roles, responsibilities and reporting lines of the advisory and assurance related functions. For example:
  - There is a lack of clarity regarding the division of the responsibilities between the Regulatory Operations and the C&E Functions with respect to the provision of advice and approvals in relation to regulatory matters such as RAP classification, pricing and product development priorities;
  - Neither Risk Management nor C&E function have a responsibility for the oversight of regulatory risk and the review and challenge of the RACM from a completeness of risk assessment and adequacy of control design perspective;
  - There is a lack of clarity on the division of responsibilities between C&E and Internal Audit with regard to assurance over the design and operating effectiveness of controls documented in the RACM and the SoCs; and,
  - The process for escalation of regulatory issues is not consistently understood in terms of which function such issues should be reported to. This may lead to the risk of regulatory concerns not being centrally reported and resolved effectively.
- There is a lack of a mature "Three Lines of Defence Model" within eir. The Three Lines of Defence Model is a best practice model to support the effectiveness of an organisation's risk management framework in relation to formalising the roles, responsibilities and reporting lines for the Board, Audit Committee, WRC, Senior Management and Business Units and related monitoring and assurance functions within the organisation.



Ref: A1	Type: Assurance	Rating: High

Observation: Enhance the clarity of the roles, responsibilities and reporting lines of the Risk and Assurance Functions within a Three Lines of Defence model. (*continued*)

Recommendations

We recommend that Management should:

- Segregate the Group Risk and Internal Audit Functions and change the administrative (not functional) reporting line of the Director of Internal Audit to the CEO, in line with good practice. The Functional (direct) Reporting Line of the Director of Internal Audit should remain to the Chair of the Audit Committee;
- Segregate the RGM advisory/support activities of C&E from its assurance activities as described in **Observation A4**. C&E advisory/support activities should be re-assigned across the Group Risk Function and the Wholesale Regulatory Operations Function as outlined below. The C&E assurance activities should be part of the 3rd line of defence with a Functional Reporting Line to the Chair of the IOB;
- Implement a formal Three Lines of Defence Model to provide an effective framework for the management of risk and clarity regarding the roles and responsibilities of the monitoring and assurance functions regarding the RGM as follows:

  1st Line of Defence

  To comprise of eir's Business Units who are responsible for risk management, including the identification, assessment and mitigation of risk and providing confirmation on the appropriateness of the design and operation of controls through the RACM self-certification process;

  2nd Line of Defence:

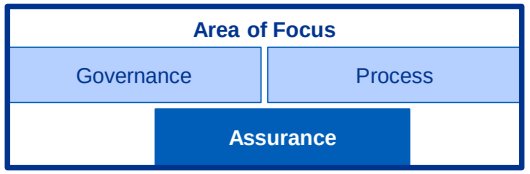
  To comprise of the Group Risk Function with a reporting line to the CFO, the Wholesale Regulatory Operations Function, with a reporting line to the Managing Director open eir (**see Observation G2**) and a Group Regulatory Operations Function with a reporting line to the CFO.

  The Group Risk Function, as described in **Observation A8,** should be assigned the responsibility to:

  - Coordinate and oversee the BUPC process;
  - Develop and provide guidelines to the Business Units for the maintenance of the RACM, including guidelines on how to perform risk assessments and develop appropriate controls;
  - Review and challenge the quarterly RACM self-certification process, including a review of the completeness of the risk assessment and the design of the controls identified to mitigate the risks identified;
  - Integrate the RACM appropriately into the Group Risk Profile for onward reporting to the Audit Committee;
  - Oversee the effective completion of the Business Access Reviews ('BAR') and Technical Systems Data Segregation ('TSDS') reviews; and,
  - Report to the Independent Oversight Body ('IOB') on the activities set out above.

  The Wholesale Regulatory Operations Function, as described in **Observation A2** and **A3**, should be assigned the responsibility to:

  - Coordinate and oversee the SoC preparation process;
  - Coordinate and oversee regulatory submissions to ComReg. This includes ComReg Consultations, Decisions, 13D requests and Notifications;
  - Report to the Wholesale Senior Management team governance forum and the IOB on the outcomes of Regulatory submissions to ComReg and the status of implementation of ComReg Decisions as described in **Observation A3**; and,



Ref: A1	Type: Assurance	Rating: High

Observation: Enhance the clarity of the roles, responsibilities and reporting lines of the Risk and Assurance Functions within a Three Lines of Defence model. (*continued*)

Recommendations

- Manage the Wholesale complaints process, including the requirement to report the status of complaints to the Wholesale Senior Management team forum and the IOB. Criteria should also be established and applied for the escalation of complaints to the IOB. This should include responsibility for the formal communication of the complaints process to Industry.

The Group Regulatory Operations Function should be assigned the responsibility for certain regulatory activities as they relate to Business Units and function outside of the Wholesale Division. The role and responsibilities of the Group Regulatory Operations Function should mirror those of the Wholesale Regulatory Operations Function, but should include a the central role as central point of contact for ComReg and as the initial recipient and the assignment of ownership to ComReg requests as described in **Observation A3**, analysis of retail pricing controls and engagement on the Regulatory Accounts preparation process. In addition, the Group Regulatory Operations Function should have a reporting requirement to the IOB for Retail regulatory obligations and requirements.

The Wholesale Regulatory Operations Function and the Group Regulatory Operations Function should operate separately and independently of each other.

3rd Line of Defence:

To comprise independent assurance functions, Internal Audit and C&E Assurance, with a Functional Reporting Line (including objective setting, performance management and remuneration) into the Audit Committee and the IOB respectively. The IOB should approve the C&E Annual Plan and the RGM related aspects of the Internal Audit Annual Plan. In particular, C&E Assurance should, as a minimum, deliver the CRoC reviews which includes a review of the design and operating effectiveness of controls identified on the RACM. Specific to the RGM, Internal Audit should perform, as a minimum, end to end review of the Wholesale Division with specific focus on Regulatory Compliance matters such product development and pricing reviews, systems access management and management of Confidential Regulated Information. Internal Audit should also review the effectiveness of the 2nd Line of Defence functions such as the Wholesale Regulatory Operations Function and the Group Risk Function to provide assurance over all of the RGM related activities.

Given the criticality of these assurance functions to supporting the IOB in performing effective oversight of the RGM, it is important that:

- The effectiveness of the C&E Assurance function and the support provided by the Internal Audit function should be assessed at least annually by the IOB;
- The budgeted resources assigned to the C&E Assurance Function and those assigned to the Wholesale and/or RGM related Internal Audit activity should be ring-fenced to ensure appropriate priority is given to both scheduled Internal Audit reviews and any special reviews requested by the IOB; and,
- The Annual Assurance Plans are shared ComReg for review and comment.

Area of Focus	
Governance	Process
Assurance	

Ref: A2	Type: Assurance	Rating: Medium

Observation: Establish a stand-alone Wholesale Regulatory Operations Function

The Regulatory Operations Function is led by the Head of Regulatory Operations and the team composition and responsibilities are as follows:

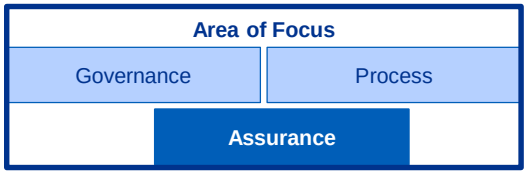
- Regulatory Finance Manager: provides an interface between Regulatory Accounting, Group Pricing Function and ComReg;
- Regulatory Manager Retail: manages retail issues including USO delivery and consultation responses;
- Regulatory Manager Wholesale Networks: manages wholesale and technical issues including network incident reporting and participation in the Industry forums;
- Regulatory Publications Manager: supports the Wholesale and Retail Product Development Councils ('PDC') processes with regard to regulatory obligations;
- Regulatory Operations Executive: supports PDC and ComReg notifications and manages escalated complaints;
- Economist: deals primarily with market analysis; and,
- Graduate placement (for 6 months): supports Regulatory Operations with the ComReg review of eir's RGM.

The Head of Regulatory Operations sets objectives for the function each year which are agreed with the Interim Head of Regulatory and Compliance. The objectives outlined for the financial year 2015/2016 included:

- To achieve a more flexible framework for wholesale product development; and,
- To facilitate achievement of commercial objectives and to promote compliance culture in provision of regulated services.

However, we noted that:

- There are no formal procedures in place within the Regulatory Operations Function to ensure that Confidential Regulated Information is not shared between members of the function who have responsibility for Retail product development;
- There is no formally documented mandate or annual plan in place for the Regulatory Operations Function to clearly demonstrate the scope of its work and associated deliverables;
- The financial year 2016/17 objectives do not include supporting the development of compliant policies and procedures and monitoring implementation;
- There is no formal competency matrix in place to assess whether there are appropriate skills and experience within the Regulatory Operations Function to effectively deliver the mandate;
- There is no formal training plan in place to address any competency gaps within the Regulatory Operations Function;



Ref: A2	Type: Assurance	Rating: Medium

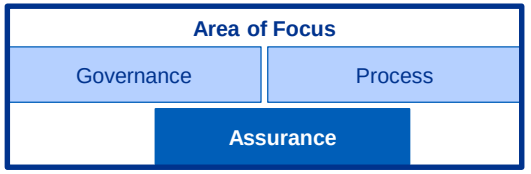
Observation: Establish a stand-alone Wholesale Regulatory Operations Function *(continued)*

- There is a lack of a formality around certain aspects of the role of Regulatory Operations in promoting a compliance culture in the provision of regulated services. For example:
  - Whilst the Interim Head of Regulatory and Compliance attends the WRC and reports when required, there is no formal requirement for Regulatory Operations to report to the Board or its sub-committees with updates on regulatory governance issues;
  - There is no formal process to specify the key decisions which should involve Regulatory Operations to ensure that regulatory compliance matters are formally considered. For example, pricing decisions, release of Confidential Regulated Information and prioritisation of product development;
  - There is no requirement for Regulatory Operations to confirm that they have reviewed the contents of the CoP and that it captures all relevant regulatory obligations and requirements, at the right level of detail or that further details is provided for in the wider Group Policies and Procedures as described in **Observation P4**;
  - There are no Group wide regulatory related policies owned by Regulatory Operations to ensure that key regulatory requirements are formally documented and disseminated to staff, and that compliance assessments can be made against such policies;
  - There is no formal requirement for Regulatory Operations to review and approve Group wide policies and procedures to ensure that all regulatory requirements have been reflected in the documents. For example, policies and procedures with regard to pricing and product development;
  - The Group Risk Profile does not include a risk of failure to comply with regulatory requirements; and,
  - There is no representative from Regulatory Operations on the Corporate Risk Committee.
- Business Units may request advice from the Regulatory Operations Function when it is unclear whether a new product, or changes to existing products, are RAP or non-RAP. However, there is no formally documented criteria to assess whether a product is RAP or non-RAP and there is no formal requirement for all new product or product change requests to be reviewed by Regulatory Operations to ensure that they are correctly categorised; and,
- During 2016, Regulatory Operations provided training sessions to Group SMT members on regulatory issues such as Regulatory Principles, Competition Law, Margin Squeeze Pricing and management of Confidential Regulated Information. However, the Regulatory Operations Function do not assess adherence to these policies within eir to ensure that all areas of non-compliance with Regulatory requirements are identified and addressed.

Recommendations:

We recommend that Management should:

- Create a Wholesale Regulatory Operations Function and formalise its role and responsibilities as a 2nd Line of Defence function, as described in **Observation A1**. The Wholesale Regulatory Operations Function should report directly to the Managing Director open eir, as described in **Observation G2**;
- Document the mandate of the Wholesale Regulatory Operations Function, related reporting requirement and prepare an Annual Plan to illustrate how the mandate will be met (including the monitoring of Business Unit adherence to Regulatory related Policies and Procedures);
- Ensure that the mandate of the Wholesale Regulatory Operations Function is deliverable in terms of the resources available, the competencies of the team and that training is provided to address any gaps in the skills and experience required to deliver the mandate; and,
- Formalise certain activities of the Wholesale Regulatory Operations Function including those responsibilities as listed in **Observation A1,** as well as other activities including establishment of and monitoring of adherence to Regulatory related Policies and Procedures, approval of the CoP, review of Group wide Policies and Procedures, input to into risk management processes and application of criteria to assess whether a product is RAP or non-RAP.



Ref: A3	Type: Assurance	Rating: Medium

Observation: Enhance governance structures over regulatory submissions made to ComReg.

The Regulatory Operations Function is responsible for co-ordinating responses to ComReg in response to:

- Information requirements to undertakings pursuant to section 13D (1) of the Communications Regulations Acts 2002. It is mandatory for the operator receiving the 13D request to respond to ComReg;
- Consultations issued by ComReg on potential changes to sector regulations which are published to the industry and voluntary responses requested;
- Decisions made by ComReg following completion of a Consultation and the changes required in the Decision must be implemented by the relevant operators; and,
- Other information requests, for example monthly and quarterly reporting on various aspects of eir's performance.

ComReg will provide details of the response timeline when issuing any of the above correspondence. The Regulatory Operations Function will notify the relevant Business Unit upon receipt of ComReg correspondence to enable the information required for eir's response to be prepared within the timeline defined by ComReg.

eir is also required under its SMP transparency obligations to notify ComReg in the event of a proposed price increase, new products or change to an existing products. These Notifications must be issued within specified timelines as defined by ComReg in its SMP decision. For example, a Notification to ComReg for a price increase to an NGA product must be issued 4 months prior to the price increase coming into effect. The Regulatory Operations Function coordinates the communication of Notifications to ComReg.

During our review, we selected a sample of two Consultations, five Decisions, four Section 13D requests and eight Notifications and performed walk-through testing to review the adequacy of the governance processes over these communications with ComReg.

We noted that:

- For Consultations, Decisions and Section 13D requests:
  - There is no formally documented process in place for the receipt, handling and issuing of responses to the different types of requests made by ComReg;
  - There is no formal ownership assigned to a request to identify a key contact within the Regulatory Operations Function to ensure that the response to a request is appropriate and is submitted on time;
  - There is no formal process for notifying senior governance fora of receipt and progression of a request. In addition, there is no defined criteria or threshold documented for when a request should be notified to senior governance fora;
  - There is a lack of formality over the review and approval of responses prior to providing the response to the Regulatory Operations Function. In addition, there is no formal review and approval process in place by the Group Regulatory Operations Function prior to submitting a response to ComReg; and,
  - There is no formal escalation process in place in the event that a Business Unit does not respond to information required or if gaps are noted on the information provided.
- There is no formal route for 13D requests to be received by eir. As such, they are issued to numerous members of the Regulatory Operations Function, C&E Function and most recently, the Company Secretary. A formal register of 13D requests is not maintained by eir to ensure that all requests received by different parts of the organisation are centrally logged to monitor achievement of submission dates;
- There is a lack of follow up performed by the Regulatory Operations Function to ensure that appropriate action has been taken by the relevant Business Units to implement the required actions arising from the publication of a ComReg Decision;

Area of Focus	
Governance	Process
Assurance	

Ref: A3	Type: Assurance	Rating: Medium

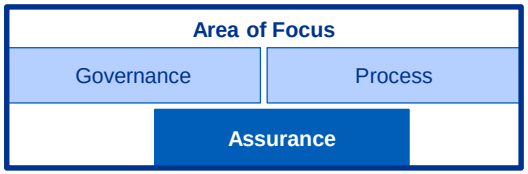
Observation: Enhance governance structures over regulatory submissions made to ComReg *(continued)*

- The Regulatory Publications Manager is responsible for issuing Notifications to ComReg. Prior to a Notification being made to ComReg, the product change must be supported by the relevant documentation. For example, the Compliance Statement, updated price list and supporting pricing model and evidence of the product being signed off by eir at Phase 2 of the PDC process. However, from our review of eight Notifications, we further noted that:
  - There is no formally documented process in place for the Notification process;
  - There are inconsistencies in the level of documentation provided by the PDCs to the Regulatory Publications Manager prior to issuance of the Notification to ComReg. For example, five of the eight Notifications (63%) did not have a supporting risk assessment submitted by the PDC. These Notifications, four of which were Wholesale related, were still submitted to ComReg despite the risk assessments not being completed; and,
  - There is a lack of follow up performed and documented by the Regulatory Operations Manager to ensure that the implementation of changes outlined in the Notification have been completed by the defined timeline.
- One of the eight Notifications (13%) in our sample was issued to ComReg prior to eir obtaining approval by the PDC at Phase 2 of the product development process; and,
- Regulatory Operations do not have a formal monitoring and oversight role in the process for preparation of Statements of Compliance ('SoC') to ensure that they are prepared and submitted in accordance with ComReg requirements (see **Observation A4**).

Recommendations:

We recommend that Management should:

- Formally document the separate roles and responsibilities of the Wholesale Regulatory Operations Function and the Group Regulatory Operations Function for submissions to ComReg and ensure that there are appropriate resources available;
- Ensure that the Group Regulatory Operations Function is the initial recipient for ComReg requests and is responsible for the assignment of these requests to relevant owners. For example, the Wholesale Regulatory Operations Function should be allocated as owners of the Wholesale related requests;
- In relation to the Wholesale Regulatory Operations Function, formally document the processes to be followed for ComReg Consultations, Decisions, 13D requests and Notifications including:
  - The requirement to record all Wholesale related requests received from the Group Regulatory Operations Function on a register and assign an appropriate owner for each request;
  - The criteria to apply to consider whether to notify the Wholesale Senior Management Team governance forum of receipt and progression of a response;
  - The level of supporting documentation required for Notifications;
  - The requirements for a formal review and approval of responses to ComReg requests being obtained prior to submission to the Wholesale Regulatory Operations Function;
  - The requirement for a formal review to be completed by the Wholesale Regulatory Operations Function prior to submitting a response to ComReg;
  - The escalation process in place in the event that a Business Unit does not respond to information required or if gaps are noted on the information provided; and,
  - The requirement for the Wholesale Regulatory Operations Function to follow up actions taken by the relevant Business Units to implement changes arising from the publication of a ComReg Decision and report on progress to the Independent Oversight Body ('IOB').

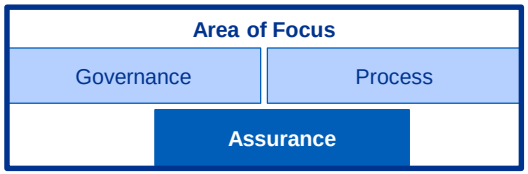


Ref: A3	Type: Assurance	Rating: Medium

Observation: Enhance governance structures over regulatory submissions made to ComReg. *(continued)*

Recommendations:

- Ensure that the Wholesale Regulatory Operations Function provides reports to the Wholesale Senior Management governance forum and the IOB on the outcomes of Regulatory submissions to ComReg;
- Ensure that Notifications are submitted to ComReg only when the product or price change has been approved at Phase 2 of the PDC process and all required supporting documentation has been completed;
- Ensure that the Wholesale Regulatory Operations Function is allocated the responsibility for formal monitoring and oversight of the process for preparation of Statements of Compliance ('SoC'). This responsibility should include:
  - Prepare a formal procedure document that sets out the end to end processes for the preparation and approval of SoCs;
  - Perform a review of SoCs prepared by the Business Units, prior to submission to ComReg, to ensure that the SoC has been prepared in accordance with ComReg requirements; and,
  - Inform the Group Risk Function of any changes to the controls arising from the SoC and the rationale for the change. The Group Risk Function should assess the appropriateness of such changes in terms of the impact on the associated risk and update the RACM reflect these changes.



Ref: A4	Type: Assurance	Rating: High

Observation: Amend the Compliance & Equivalence structures to segregate advisory/support activities from assurance activities.

The Compliance & Equivalence ('C&E') Function comprises a Head of C&E, a Head of Equivalence and a Head of Regulatory Compliance. The Head of C&E reports to the Interim Head of Regulatory and Compliance, who reports directly to the CFO. C&E's RGM responsibilities can be categorised into either advisory/support of RGM activities and provision of independent assurance on RGM related activities.

C&E's advisory and support activities comprise:

Approval of changes to controls on the Risk and Control Matrix ('RACM')

The risks and controls recorded on the RACM were initially identified during four Business Unit Process Compliance ('BUPC') reviews, which were performed by a third party in 2014. The objective of the BUPCs was to identify the risks, and associated controls to be implemented by eir, with regard to achieving compliance with eir's Access and Non-discrimination obligations. BUPC reviews were performed over the processes relating to Change Control, Ordering (including any pre-ordering stages), Provisioning and Repair. Following completion of the BUPC reviews, the risks and controls identified were used to create the RACM.

The RACM is subject to a quarterly review and self-certification by the Control Owners from the Business Units to confirm whether the controls are operating as designed. The Head of Equivalence is responsible for approving any changes to the controls on the RACM, which may result from the quarterly self-certification process or from Statements of Compliance as described below. The Internal Audit Function are notified of any changes to the controls by C&E, and are responsible for updating the RACM.

Oversight of Statements of Compliance ('SoCs')

Based on ComReg Decisions, eir is required to provide SoCs to ComReg when there is a change to a product or development of a new product, or changes to existing products. Occasionally, ComReg may request, or eir may volunteer, preparation of a SoC for a specific business process. For example, in 2014, ComReg requested that eir produce a SoC on the extent to which its systems were set up and managed with regard to Confidential Regulated Information. The SoCs for new/changed products are prepared at the PDC Phase 2, and are based upon an assessment of any material differences between the required controls for the new/changed product and the current systems and processes that are used by eir as documented on the RACM. Any proposed changes to the controls are notified by the Business Unit to the Head of Equivalence, who will review and approve the changes. Once approved, the control changes are notified to Internal Audit who will update the RACM. The updated extract from the RACM is sent along with the SoC report to ComReg.

In the event of a change to an internal process within eir, the SoCs that may be impacted by such a change must be reviewed and, where required, the risks and controls updated. Such changes must be approved by the Head of Equivalence and the RACM is updated by Internal Audit.

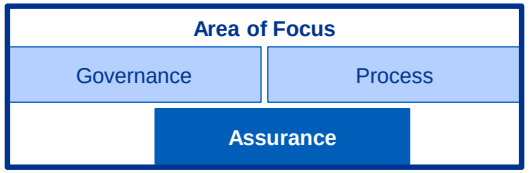
Oversight and monitoring of Wholesale Complaints

The Head of Regulatory Compliance receives and reviews complaints in respect to compliance issues from ComReg or Wholesale Customers and performs investigations accordingly (see **Observation A6**).

C&E's assurance activities include:

Performance of Compliance Reviews of Controls ('CRoC') assurance reviews

To provide further oversight of the controls identified in the RACM, C&E prepared an annual plan in 2014 to perform Compliance Reviews of Controls ('CRoC') of the operation of the controls in the RACM in relation to the process areas of Change Control, Ordering (including any pre-ordering stages), Provisioning and Repair. The Head of Regulatory Compliance is responsible for the performance of the CRoCs (see **Observation A5**).



Ref: A4	Type: Assurance	Rating: High

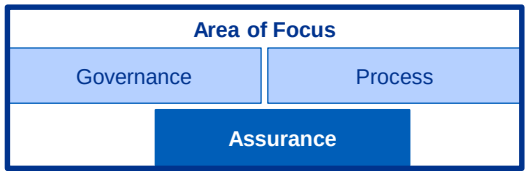
Observation: Amend the Compliance & Equivalence structures to segregate advisory/support activities from assurance activities. *(continued)*

Bi-annual Regulatory Compliance and Audit Report

The Head of C&E is responsible for the preparation of the bi-annual Regulatory Compliance and Audit Report that is provided to ComReg and the industry (see **Observation A7**).

However, we noted that:

- There is a lack of independence between C&E's advisory/support activities and the provision of assurance over RGM related activities. For example, C&E is responsible for approval of changes to controls on the RACM and on the SoCs, whilst also performing CRoCs which provide assurance on the operation of the controls on the RACM;
- There is no formally documented mandate or Annual Plan in place for the C&E Function to demonstrate the scope of its work and associated deliverables, and for the WRC to provide input to and approve the planned work programme. In the absence of a Board approved (or WRC by way of delegation) mandate and Annual Plan, it is difficult to assess if the function is appropriately resourced to ensure that it can effectively deliver the critical assurance role relating to the RGM. However, given the delay of performing the CRoCs (see **Observation A5**), there is a strong indication that the function is under resourced;
- The C&E Function is required to complete the bi-annual Business Unit Risk and Control Questionnaire to contribute to the group wide assessment of risk. However, it is unclear how the risks identified in the RACM are considered as part of the Group Risk Management Framework and the development of the Group Risk Profile;
- The C&E Function is responsible for the oversight of the Business Units' management of the risks and controls on the RACM, however:
  - There is no formally documented methodology for the RACM process. For example, there is no formally documented process for the identification of new risks and controls, monitoring of the effectiveness of the controls, frequency of assurance activities over the process or criteria for impact assessments;
  - There is no escalation process for issues relating to the RACM. For example, in the event where controls which have been self-certified as being in operation when they are not actually operating;
  - There is a lack of detailed guidelines provided by the C&E Function to Business Units on expectations regarding the maintenance of the RACM. Based on a high-level review of the current version of the RACM (Version 2.9), control descriptions are often not controls and at times reference future developments or describe a process and are outdated. As such, there are indicators that the RACM has not been appropriately maintained;
  - There is a lack of clarity on the division of responsibilities between C&E and Internal Audit with regard to assurance over the completeness of the risk assessment process and responsibilities to assess the design and operating effectiveness of controls documented in the RACM. The Group Risk Function currently do not have a role in the RACM process (see **Observation A8**);
  - There is a lack of formality over the role of C&E in challenging the design of the controls within the RACM as only operating effectiveness testing is performed as part of the CRoC process; and,
  - There is a lack of follow up by C&E to ensure that control failures identified by the Business Units' self-certification of the RACM are appropriately addressed.



Ref: A4	Type: Assurance	Rating: High

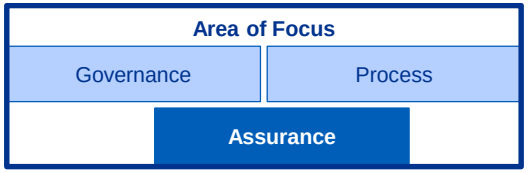
Observation: Amend the Compliance & Equivalence structures to segregate advisory/support activities from assurance activities. *(continued)*

- The Regulatory Operations Function is responsible for oversight of the preparation of the SoCs for proposed new products or changes to current products, with the C&E Function being responsible for notifying Internal Audit of changes to controls to enable the RACM to be updated. However:
  - There is no formally documented procedure setting out the requirements for the completion of SoCs, including proactive updates made during the RACM self-certification or reactive changes from a ComReg Decision or Consultation;
  - Based on our testing of a sample of five controls within the RACM which had been changed, retired or merged with another control, we noted that in all cases there was a lack of audit trail within the SoC related documentation to demonstrate that the change had been approved and the rationale for the change;
  - Through discussion with management, we understand that the Head of Equivalence has been absent since June 2016. As such, C&E were unable to provide us with the full working papers in relation to the preparation of a SoC that we selected. Consequently, our walkthrough testing was limited to review of a small number of emails, the SoC that was prepared following the review and the corresponding controls included in the RACM. Whilst no issues were noted during this limited walkthrough test, this is evidence of the key man dependency risks that exist within C&E due to the size of the team; and,
  - There is no independent oversight of the process for the preparation of SoCs.

Recommendations:

We recommend that Management should:

- Segregate the RGM advisory/support activities of C&E from its assurance activities:
  - The Group Risk Function should be assigned responsibility for the advisory/support activities of C&E which includes the responsibility to:
    - Coordinate and oversee the BUPC process;
    - Develop and provide guidelines to the Business Units for the maintenance of the RACM as described in **Observation A8**;
    - Review and challenge the quarterly RACM self-certification process, including a review of the completeness of the risk assessment and the design of the controls identified to mitigate the risks;
    - Integrate the RACM appropriately into the Group Risk Profile for onward reporting to the Audit Committee;
    - Oversee the effective completion of the Business Access Reviews ('BAR') and Technical Systems Data Segregation ('TSDS') reviews; and,
    - Report to the Independent Oversight Body ('IOB') on the activities set out above.
  - The Wholesale Regulatory Operations Function, should be assigned the responsibility to coordinate and oversee the SoC preparation process; and,
  - The C&E Assurance should deliver the CRoC reviews which includes a review of the design and operating effectiveness of controls identified on the RACM.
- Ensure that the Group Risk Function prepares a formal mandate and a risk based Annual Plan to inform the resourcing and competencies required to deliver the RGM related activities as described above and ensure that there are appropriate resources available. Resources should also be made available for commissioning external providers to support Group Risk on certain aspects of the RGM. For example, where certain activities require specialist skills;

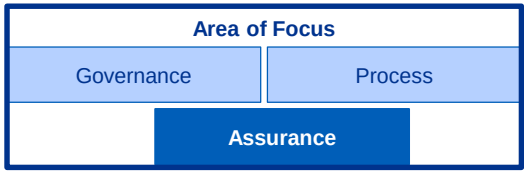


Ref: A4	Type: Assurance	Rating: High

Observation: Amend the Compliance & Equivalence structures to segregate advisory/support activities from assurance activities *(continued)*

Recommendations:

- Ensure that the Wholesale Regulatory Operations Function's responsibilities with regard to the SoC preparation process includes the requirement to:
  - Prepare a formal procedure document that sets out the end to end process for the preparation and approval of SoCs as described in **Observation A3**;
  - Perform a review of SoCs prepared by the Business Units, prior to submission to ComReg, to ensure that the SoC has been prepared in accordance with ComReg requirements as described in **Observation A3**; and,
  - Inform the Group Risk Function of any changes to the controls arising from the SoC and the rationale for the change. The Group Risk Function should assess the appropriateness of such changes in terms of the impact on the associated risk and request the business to update the RACM to reflect these change as described in **Observation A8**.
- Ensure that Internal Audit perform a review of the Group Risk Function and Wholesale Regulatory Operations Function to provide assurance over all of the RGM related activities performed by these functions.



Ref: A5	Type: Assurance	Rating: High

Observation: Enhance the scope of activities performed by the Compliance & Equivalence Function.

The Compliance and Equivalence ('C&E') Function is responsible for two types of regulatory governance reviews:

- Business Unit Process Compliance ('BUPC') reviews are performed to identify the risks, and associated controls to be implemented by eir with regard to achieving compliance with regulatory obligations. In 2014, four BUPC reviews were performed by a third party in relation to the Access and Non-discrimination obligations. The risks and corresponding controls identified during the BUPC reviews formed the basis of the Risk and Control Matrix ('RACM'); and,
- Compliance Reviews of Controls ('CRoC') reviews which focus on testing of the operating effectiveness of the controls (not design adequacy) in the RACM that were identified during the BUPC reviews. The objective of these reviews is to provide assurance to all stakeholders that the regulatory governance framework supporting the SoC is fit for purpose. A summary of the findings of these reviews are included in the bi-annual Regulatory Compliance and Audit report.

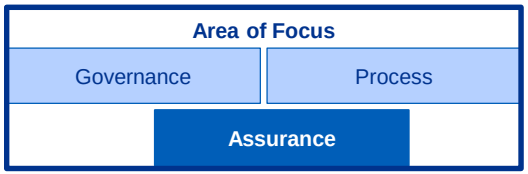
During our review, we performed an assessment of the processes relating to the BUPC and CRoC reviews and we noted that:

BUPC reviews

- The risks and controls associated with eir's Access and Non-discrimination obligations were identified through four BUPC reviews performed in 2014 and were included in the RACM. In September 2016, the CoP was updated by C&E to include the regulatory requirements with regard to Transparency and Pricing Control obligations. However, the BUPC reviews have not been completed for these obligations. As such, the risks and controls associated with these obligations have not been identified to be assessed as part of the SoC preparation process and subsequent inclusion in the RACM or any assurance related process;
- There have been no further BUPC reviews of the Access and Non-discrimination obligations formally planned since the initial BUPC reviews were performed in 2014. As such, no end to end reviews have been performed to identify further risks within Change Control, Ordering (including any pre-ordering stages), Provisioning and Repair; and,
- Whilst we did not perform a review of the approach to the BUPC reviews, as they were delivered by a third party, we understand that there is no formal methodology in place within C&E for the completion of BUPC reviews to ensure that future reviews are completed in a consistent manner.

CRoC reviews

- In 2014, the C&E Function prepared a plan to perform four CRoC reviews of the operation of the controls on the RACM in the areas of Change Control, Ordering (including any pre-ordering stages), Provisioning and Repair, however:
  - There is no evidence that the plan for the CRoC reviews was discussed with the WRC or approved at any governance forum; and,
  - There was a delay in the completion of the four CRoC reviews set out in the initial plan for 2014/2015. The reviews of Change Control and Ordering (including any pre-ordering stages) were performed in 2015. As at November 2016, the reviews of Provisioning and Repair had just been completed (approximately 1 year delayed) and management informed us that the results of these reviews will be included in the forthcoming bi-annual Regulatory Compliance and Audit Report.
- The CRoC reviews are performed by the Head of Regulatory Compliance. During our walk through testing of the CRoC review of Ordering, we noted the following issues in respect of the scope of the reviews:
  - The CRoC reviews test the operating effectiveness of controls in the RACM. The reviews do not consider the completeness of the risk assessment, emerging risks and/or changes in products or assess whether the control is designed effectively to mitigate the risk identified or if the risk is still accurate; and,

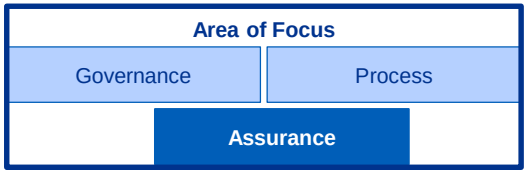


Ref: A5	Type: Assurance	Rating: High

Observation: Enhance the scope of activities performed by the Compliance & Equivalence Function. *(continued)*

- The four CRoC reviews did not include the IT related controls, including those IT controls relating to access to Confidential Regulated Information. We understand through discussion with management that, in December 2016, the Head of Regulatory Compliance has commenced a CRoC review on all IT related controls identified in the initial four BUPC reviews. However, this review will not assess the design of the controls or whether there are any new or emerging risks.

- There is a lack of formality over the delivery of the CRoC reviews:
  - There is no formally documented methodology for the performance of the CRoC reviews to ensure that the reviews are delivered consistently. For example, there is no formal sampling methodology in place which addresses the required level of testing required for daily, weekly, monthly controls;
  - Terms of Reference are not issued to the Business Units for the CRoC reviews outlining scope, approach, timelines and information requirements;
  - There is no central repository where control evidence is saved by the Business which C&E have access to perform their reviews; and,
  - There is no formal work papers or work programmes completed which illustrate the risk, control, tests to be performed, results of tests and issues noted. As such, no formal file is compiled by the Head of Regulatory Compliance for the reviews completed to clearly reference evidence to a control which was assessed as operating effectively.
- There is a lack of formality over reporting and follow up of the findings from the CRoC reviews:
  - The findings from the CRoC reviews are reported back to the Business Units by email and a summary of the findings are included in the bi-annual Regulatory Compliance and Audit Report. There is no formal report issued on completion of these reviews that details the findings, management's agreed actions to address any control issues noted and an overall opinion on the level of compliance in the area under review;
  - There are no ratings assigned to the findings identified. For example, ratings of high, medium or low which highlight the seriousness of certain issues identified;
  - There is no formalised timeline set for the Business Unit to revert back with management response and an agreed implementation date;
  - There is no evidence of review or approval of the outputs from the CRoC reviews by the Interim Head of Regulatory and Compliance prior to the results being communicated to the Business Units or prior to the results being included in the bi-annual Regulatory Compliance and Audit Report;
  - The recommendations arising from the CRoC reviews are followed up by the Head of Regulatory Compliance prior to the preparation of the bi-annual Regulatory Compliance and Audit Report by obtaining management confirmation that the required actions have been taken. However, validation of the implementation of the recommendations is not performed by the Head of Regulatory Compliance until the next CRoC review of the process is completed which, based on current frequency of the CRoC reviews could be every three years; and,
  - There is no clear escalation path in place for any significant issues identified during the BUPC reviews or the CRoC reviews.
- There is no independent oversight provided by Internal Audit over the completeness and adequacy of the CRoC process.



Ref: A5	Type: Assurance	Rating: High

Observation: Enhance the scope of activities performed by the Compliance & Equivalence Function. *(continued)*

Recommendations:

We recommend that:

- The Group Risk Function be responsible for the management of the BUPC reviews and should prepare a risk based Annual Plan for the reviews to be performed (see **Observation A8**). This risk based Annual Plan should be submitted to the Independent Oversight Body ('IOB) for review and approval. When deciding on resourcing requirements, consideration needs to be given to risk assessment and the frequency of the review cycle;
- C&E Assurance (as described in **Observation A4**) be responsible for the delivery of the CRoC reviews. The frequency of CRoC reviews performed should be increased and C&E Assurance should prepare a risk based Annual Plan for these reviews (see **Observation A8**). This risk based Annual Plan should be submitted to the IOB for review and approval and the resource requirements should be based upon this risk assessment and the frequency of the review cycle;
- Appropriate budgeted resources are made available to C&E Assurance and that these resources are ring-fenced to ensure appropriate priority is given to these assurance activities. In addition, resources should be made available for commissioning external providers to support C&E Assurance on certain aspects of the RGM. For example, where certain activities require specialist skills;
- C&E Assurance should broaden the scope of the CRoC reviews to include consideration of:
  - Completeness of the risk assessment;
  - Appropriateness of the design of controls;
  - Emerging risks;
  - Development of new, or changes to existing products; and,
  - IT controls in relation to access to Confidential Regulated Information.
- C&E Assurance should develop methodologies to support the CRoC review process including the requirement for:
  - A Terms of Reference;
  - Application of a sampling methodology;
  - Retention of work papers;
  - Use of a central repository for Business Units to provide control evidence to C&E;
  - A formal report to be issued on completion of the review with ratings, owners and timescales assigned to the observations;
  - The report to be reviewed by the Interim Head of Regulatory and Compliance prior to presentation to the IOB as described in **Observation A4**;
  - The findings, recommendations and actions from the reviews to be centrally recorded and progress tracked on a monthly basis; and,
  - An escalation path in place for any significant issues identified during the performance of the reviews.

Area of Focus	
Governance	Process
Assurance	

Ref: A6	Type: Assurance	Rating: Low

Observation: Enhance the management and reporting of complaints in relation to the Regulatory Governance Model.

The Head of Regulatory Compliance is responsible for receiving and reviewing complaints regarding Wholesale products and services. Complaints can be received by C&E from ComReg, directly from Wholesale customers or from within eir. In addition, the Wholesale Complaints Manager within the Wholesale Division records all complaints received on the Wholesale Complaints Log and then refers complaints considered as compliance related to C&E. Complaints which are related to the RGM processes and Regulatory obligations are reported in the bi-annual Regulatory Compliance and Audit Report.

We noted that:

- There were 10 complaints captured on the Wholesale Complaints Log since 2013. C&E do not have access to the complaints log maintained by Wholesale and there is reliance on the Wholesale Complaints Manager to escalate all complaints of a compliance nature to the Head of Regulatory Compliance. Hence, there is no overall central record of Wholesale complaints received. This presents a risk that not all compliance related complaints are identified and reported to the Head of Regulatory Compliance for review and resolution monitoring;
- Wholesale complaints are not formally discussed between the monitoring and assurance functions and the Wholesale Division on a regular basis. We understand that the Interim Head of Regulatory and Compliance meets informally with Wholesale, the Head of Regulatory Operations, the Head of C&E and the Director of Group Pricing and Regulatory Finance on a fortnightly basis. This meeting, if formalised, would provide an effective forum to discuss progress against Wholesale complaints and any associated changes required to the RACMs to remediate the issues causing the complaints;
- There is no formal Complaints Template or other supporting documentation completed for each complaint identified. Such a Template should include the timing requirement to resolve the complaint, date the complaint was made, who identified it, a rating of the complaint in terms of potential seriousness and impact on the business, who the complaint was escalated to (if required), the steps followed to resolve the complaint and details of when the complaint was resolved;
- Retail complaints are handled by a Third Party Service provider, 'HCL'. As set out in the SLAs with HCL, timelines are in place for HCL to respond and resolve complaints. Furthermore, we understand that both a root cause and trend analysis is performed on all Retail complaints received. Wholesale complaints do not have set timelines for resolution or any formally documented methodology for completion of root cause analysis to ensure that the cause of the complaint is appropriately identified and resolved to avoid reoccurrence;
- There is no formally documented procedure for updating the RACM for new risk and controls resulting from complaints received; and,
- Complaints under review by the Head of Regulatory Compliance are included in the bi-annual Regulatory Compliance and Audit Report. However, the full population of Wholesale complaints received do not get tabled at any formal governance forum and there is no criteria in place for when a complaint must be escalated.

Area of Focus	
Governance	Process
Assurance	

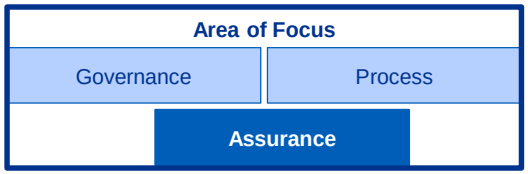
Ref: A6	Type: Assurance	Rating: Low

Observation: Enhance the management and reporting of complaints in relation to the Regulatory Governance Model. (*continued*)

Recommendations

We recommend that Management should:

- Allocate the management of Wholesale complaints to the Wholesale Regulatory Operations Function, including the requirement to report the status of complaints to the Wholesale Senior Management Team governance forum as described in **Observation G2**;
- Develop a centralised Wholesale Complaints Log to be maintained and analysed by the Wholesale Regulatory Operations Function;
- Ensure that complaints procedures and whistleblowing procedure are effectively communicated internally, to ComReg and to Industry;
- Ensure that the C&E Assurance Function has access to and analyses all Wholesale related complaints to include in the bi-annual Regulatory Compliance and Audit Report;
- Ensure that standard Complaint Templates are used to ensure that all of the required details of the complaint are captured including timelines for responding to the complainant;
- Document the required approach for root cause analysis of complaints and for new controls arising from these reviews to be included in the RACM; and,
- Implement more formal reporting of Wholesale complaints, including the requirement for Wholesale Regulatory Operations to report the status of complaints to the Wholesale Senior Management team forum and the Independent Oversight Body ('IOB'). Criteria should also be established and applied for the escalation of complaints to the IOB.



Ref: A7	Type: Assurance	Rating: Low

Observation: Enhance the process for the preparation of the bi-annual Regulatory Compliance and Audit Report.

As part of the RGM, the Compliance & Equivalence ('C&E') Function committed to preparing a bi-annual Regulatory Compliance and Audit Report setting out progress made towards implementing the RGM. The report currently focuses on Access and Non-discrimination obligations. As set out in the report, the purpose and scope of the report is to:

- "Show progress on how the Regulatory Governance Model ('RGM') is being implemented;
- Highlight material and emerging risks and how these risks are going to be addressed to ensure a robust RGM going forward; and,
- Facilitate the Wholesale Reform Committee's ('WRC') oversight of the RGM against the objectives of building a stronger working relationship with ComReg/industry and Wholesale becoming a trusted Wholesale supplier".

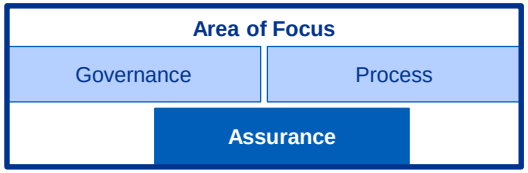
The Report covers the main strands of the RGM including details of external and internal led compliance reviews/investigations and requires approval by the WRC. We understand, based on discussions with management, aspects of the report are redacted prior to the report being issued to ComReg and the industry with regard to:

- Details of the approach to the review;
- The narrative to the WRC on their duty with regard to the report;
- Issues relating to Transparency and Pricing content as these compliance areas are not currently part of the RGM;
- Complaints that do not relate to Access and Non-discrimination obligations; and,
- Emerging risks.

Additionally, the version of the report to industry is also redacted with regard to reference to ongoing ComReg investigations.

However, we noted that:

- The current report preparation process is elongated, requiring several iterations of the report to be reviewed by the Group SMT prior to the report being issued to the WRC. This level of review contributed to the December 2015 report being published in May 2016. Potential reasons for such delays are:
  - There is a lack of formal process to confirm factual accuracy of findings with SMT members prior to report drafting and presentation of the report to the full Group SMT;
  - The Head of C&E maintains different versions of the report for each time it is updated. However, there is no clearly documented change log of updates made between each version; and,
  - There is no evidence of the Interim Head of Regulatory and Compliance performing a review of the report prior to submission to the Group SMT for factual accuracy, appropriateness and/or completeness.
- From review of the five bi-annual Regulatory Compliance and Audit reports prepared by C&E, we noted that the first report in November 2013 included more details on the status of equivalence issues than the subsequent versions. For example, the November 2013 report included details of the ageing of equivalence issues and the length of time to close them. Such information would be useful to provide the WRC with an indication of the length of time taken to close equivalence issues.



Ref: A7	Type: Assurance	Rating: Low

Observation: Enhance the process for the preparation of the bi-annual Regulatory Compliance and Audit Report. (*continued*)

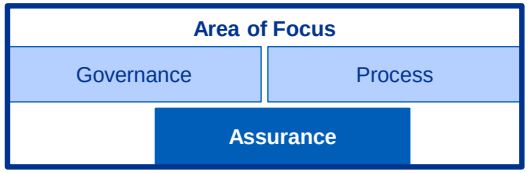
The bi-annual Regulatory Compliance and Audit Report contains information on the CoP, Equivalence issues, KPI's and both ComReg and internal investigations and breaches. From reviewing the process in gathering this information, we noted that:

Code of Practice

- There is no validation performed on the information received from eir Human Resources by the C&E Function to ensure that data on completion and pass rates are accurate;
- The CoP statistics only illustrate the number of passes, fails and cases in progress. It does not reflect the number of employees who have not yet commenced the training; and,
- CoP statistics are generated in accordance with who has completed the training by tagging functions as upstream, downstream or central services. Details are not provided on completion and pass rates by individual Business Units or by staff grade.

Equivalence log

- Based on our review of the Equivalence log, other issues in addition to equivalence were captured but not included in the report;
- There is also no reporting of aging of equivalence issues, differences between original and current target dates, length of time to close equivalence issues which is analysis performed by C&E within the Equivalence log;
- Some of the equivalence issues identified in the report do not have a corresponding control reference to the RACM, a target date set for remediation or a status update of the issue; and,
- It is difficult to reconcile the number of controls per Business Unit in the report to the RACM as a multitude of different names are used for the Business Units (including using "unknowns" and "Various"). For example, for Wholesale RAP & WCS Business Unit outlined in the report, the RACM contains the following names:
  - eWholesale RAP & WCS;
  - WCS;
  - RAP WCS;
  - Open eir RAP & WCS;
  - Open eir (RAP & WCS); and,
  - Wholesale S&M.



Ref: A7	Type: Assurance	Rating: Low

Observation: Enhance the process for the preparation of the bi-annual Regulatory Compliance and Audit Report. (*continued*)

Key Performance Indicators ('KPIs')

- While C&E perform a comparison of the KPIs achieved by Wholesale and Retail, they do not perform a review and comparison of the KPI's achieved and the KPI levels expected as set out in the SLA's. Their current task is to perform a comparison of the KPI's between Wholesale and Retail levels and follow up on any gaps identified; and,
- C&E do not validate the KPI information received to ensure that the information is accurate and prepared consistently.

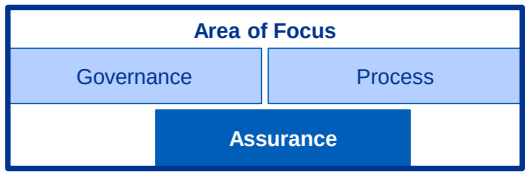
ComReg and internal breaches and investigations

- The format of the ComReg investigations and breaches within the bi-annual Regulatory Compliance and Audit Report do not follow the same format used for Equivalence issues, whereby extracts are taken directly from the logs and transported into the report. Alternatively, some investigations are in a table format with other cases being attributed a commentary on the investigation which is not consistently followed; and,
- There is no formal feedback loop to the C&E Function from the WRC on breaches and investigations identified.

Recommendations:

We recommend that Management should:

- Ensure that C&E Assurance enhance the preparation and reporting process for the bi-annual Regulatory Compliance and Audit report by:
  - Performing validation on the management information provided for inclusion in the report;
  - Including further detail on status of equivalence issues in the industry report;
  - Providing further details on the completion and pass rates associated with CoP training;
  - Maintaining working papers to reference the Key Performance Information in the bi-annual Regulatory Compliance and Audit report to supporting documentation;
  - Expanding the KPI review to include a comparison between the KPI's achieved and the KPI levels expected as set out in the SLAs;
  - Obtaining relevant approvals from the Wholesale Senior Management Team governance forum (see **Observation G2**) and the Independent Oversight Body ('IOB') prior to issuing of the report to ComReg and the industry; and,
  - Improving the format of the presentation of the information regarding ComReg and internal breaches and investigations to reduce the level of duplication in the report.



Ref: A8	Type: Assurance	Rating: Medium

Observation: Enhance the regulatory risk management process and linkages with the RGM.

eir's risk management framework is overseen by the Corporate Risk Committee ('CRC'). The Head of Risk Management is responsible for the generation of the Group Risk Profile. His role also includes coordinating the identification of operational and financial risks through the BU Risk and Control Questionnaire, in supporting the response to incidents and in monitoring implementation of remediating actions. The Head of Risk Management reports to the Audit and Risk Director who reports directly to the CFO.

The following processes support the reporting element of the risk management framework:

- **BU Risk and Control Questionnaire**: This is the bi-annual process for identification of operational, customer and financial risks at a Business Unit level. The results of this exercise are reviewed by the CRC, Group SMT and the Audit Committee and prioritisation of the top risks is completed by the Group SMT and reported to the Board in the annual 'Group Risk Profile' report;
- **Management Cycle Self Certification**: Each quarter senior managers self-certify the critical risks and controls for financial and operational risks only within key end to end business processes or cycles. This is a retained component of eir's SOx (Sarbanes Oxley) compliance programme; and,
- **Auditor Management Letter Point Tracking**: The External Auditor's recommendation are reviewed by the Risk Analyst quarterly to assess completion of planned remediation with progress reported to the CRC and Audit Committee.

A quarterly Risk and Controls Monitoring Report is prepared by the Head of Risk Management which is reviewed by the CRC prior to presentation to the Audit Committee. This report contains a summary of the issues arising from the above processes and also includes details of health and safety incidents, compensation claims and insurance, risk incidents, data protection breaches, technology risks and fraud incidents.

However, we noted that:

- The BU Risk and Control Questionnaire contains no questions relating to Regulatory Compliance or Regulatory Operations;
- Whilst Management has informed us that certain regulatory risks are discussed at the CRC and are also detailed in the regulatory risk section of eir's annual Bondholder report, there are no risks identified by Group Risk in respect to eir's regulatory obligations. As such, Group Risk has no responsibility assigned to them regarding monitoring of eir's risks in relation to its regulatory obligations;
- The RACM, which forms part of the RGM, is not clearly linked to the Group risk management framework. Changes to the RACM are reported to the WRC. However, it is unclear how the risks identified in the RACM are considered as part of the risk assessment process and the development of the Group Risk Profile;
- Whilst the Charter for the CRC, the Group Risk Profile Report and the BU Risk and Control Questionnaire documentation include reference to certain risk management activities, there is no formally documented:
  - Risk Management Framework or Policy outlining the roles and responsibilities within eir for Risk Management including the bottom up and top down risk assessment process;
  - Group risk appetite or regulatory risk appetite; or,
  - Mandate in place for the Group Risk Function to clearly demonstrate the scope of its work.
- The annual Group Risk Profile report does not identify risk owners; and,
- The review of the External Auditor's recommendation is based upon receipt of management comments on progress made towards implementing the recommendations and a desk top review by the Risk Analyst on a quarterly basis. Substantive testing is not performed to ascertain whether the required actions have been fully implemented.

Area of Focus	
Governance	Process
Assurance	

Ref: A8	Type: Assurance	Rating: Medium

Observation: Enhance the regulatory risk management process and linkages with the RGM. (*continued*)

Recommendation:

We recommend that Management should:

- Document the mandate of the Group Risk Function, which includes the following RGM advisory/support activities as described in **Observation A4**:
  - Coordinate and oversee the BUPC process;
  - Inclusion of questions relating to Regulatory Compliance and Regulatory Operations in the BU Risk and Control Questionnaire;
  - Develop and provide guidelines to the Business Units for the maintenance of the RACM;
  - Review and challenge the quarterly RACM self-certification process, including a review of the completeness of the risk assessment and the design of the controls identified to mitigate the risks;
  - Integrate the RACM appropriately into the Group Risk Profile for onward reporting to the Audit Committee;
  - Oversee the effective completion of the Business Access Reviews ('BAR') and Technical Systems Data Segregation ('TSDS') reviews; and,
  - Report to the Independent Oversight Body ('IOB') on the activities set out above (see **Observation G1** and **A1**).
- Ensure that appropriate resources are made available to deliver the mandate;
- Ensure that the Group Risk Function obtains updates on changes to controls within SoCs from the Wholesale Regulatory Operations Function. The Group Risk Function should assess the appropriateness of such changes in terms of the impact on the associated risk and request the business to update the RACM to reflect these changes;
- Based on the mandate, develop methodologies to support the RACM process including:
  - Guidelines to Business Units with respect to RACM maintenance, including the process for documenting and approving changes to controls, criteria for impact assessments, the quarterly sign off of the RACM by the Director of RAP and the escalation process when issues are noted; and,
  - The Group Risk Function's responsibilities in regard to the RACM as described in **Observation A1**. This should include Group Risk being responsible for reviewing and challenging the completeness of risk assessment and design of the controls within the RACM and following up control failures identified by the Business Units' self-certification of the RACM to ensure that the issues have been appropriately addressed.
- Document a formal Risk Management Framework or Policy including the definition and application of Group and Regulatory risk appetite and the integration of the RACM process with the Group Risk Profile and Group Risk Management Framework;
- Develop a mandate and Annual Plan for the function including more detailed 'deep dive' reviews of current and emerging risks, subject to review and approval by the CRC and Audit Committee; and,
- Formalise and enhance certain activities of the function from a methodology, approach and reporting perspective. This should include:
  - The reporting requirements regarding Regulatory risk;
  - The identification of, and definition of the role of, Risk Owners; and,
  - The requirement to perform substantive testing to validate closure of External Audit recommendations.

Area of Focus	
Governance	Process
Assurance	

Ref: A9	Type: Assurance	Rating: Medium

Observation: Enhance the scope and activities of Internal Audit with regard to the RGM.

The mandate of Internal Audit is set out in the Internal Audit Charter dated January 2016. An Internal Audit Process document is in place which is currently being reviewed by the Director of Internal Audit to ensure that it reflects current Internal Audit processes. The Internal Audit Plan for 2016 includes:

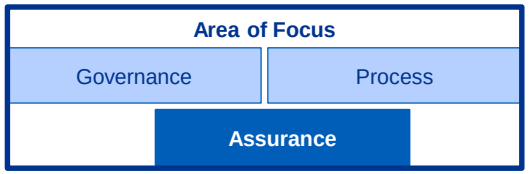
- 13 Internal Audit reviews across eir's core Business areas;
- Testing of the pilot phase of 'eirtight' which is focused on strengthening the Internal Control Framework over Financial Reporting within eir;
- Additional recurring activity, including:
  - An annual programme of Retail store audits; and,
  - A Wholesale Reform Programme compliance review and audit, which includes review of management compliance with the completion of the quarterly self-certification of the RACM.

Through discussion with the Director of Internal Audit, we understand that the scope of Internal Audit work includes the following RGM related activities:

- Provision of assurance over the completeness of the RACM self-certification process. This is a four phase process including:
  - Verification that all RACMs are completed and certified by the Business Units each quarter;
  - Review of the appropriateness of the control descriptions identified;
  - Bi-annual walk through testing of controls for a sample of Business Unit RACMs. The results of these reviews are reported directly to the Business Units and also to the WRC on a quarterly basis; and,
  - End to end reviews of Wholesale related functions. For example, in 2015 Internal Audit performed a review of the Managed Network Services function.
- Review of Business Case submissions to the Group Capex Committee where the value of the bid is less than €250k. These reviews include consideration of the regulatory compliance risks of the projects. The results of these reviews are reported in a memo form by the Director of Internal Audit to the Group Capex Committee on an exception basis.

However, we noted that:

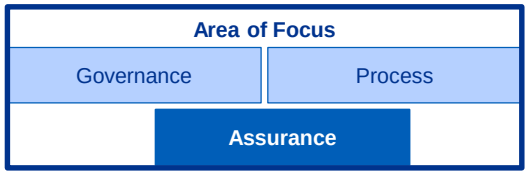
- The Internal Audit Planning process is resource driven rather than risk driven and a formal Audit Universe is not documented. The documentation of an Audit Universe would enable the Audit Committee to understand what risks are excluded from the Annual Internal Audit Plan due to resource constraints and prompt discussion on appropriate resource requirements for Internal Audit;
- The Audit scope documents produced at the start of an audit are high level and do not specifically state what aspects of processes under review are out of scope. For example, we understand that each audit considers data protection, fraud, business continuity planning and regulatory compliance related risks. However, these specific risks or controls are not specified in the scope;



Ref: A9	Type: Assurance	Rating: Medium

Observation: Enhance the scope and activities of Internal Audit with regard to the RGM (*continued*)

- Bi-annual BARs and TSDS reviews are coordinated by the IT Security Team whereby line managers and system owners review the access to systems and certify whether this is appropriate. For example, if a member of Wholesale is identified as having access to a Retail system, this access will be revoked. Internal Audit do not perform end to end assurance reviews of the effectiveness of the bi-annual BAR and TSDS review to ensure that Confidential Regulated Information and related access is appropriately segregated;
- There is a lack of clarity on the division of responsibilities between Compliance & Equivalence ('C&E') and Internal Audit with regard to providing assurance over the completeness of the risk assessment process and responsibilities to assess the design and operating effectiveness of controls documented in the RACM;
- Internal Audit has not performed the following reviews:
  - Functional reviews of the Regulatory Operations or the Risk Function to provide assurance to management and the Audit Committee that these functions are effective from both from a corporate and RGM perspective;
  - Reviews of the process for preparation of Statements of Compliance ('SoC'); or,
  - End to end reviews of the management of Confidential Regulated Information, pricing process or product development process which are key risk areas within the RGM.
- Internal Audit's role in review of the Capex projects under €250K is not documented in the Internal Audit Charter, the Internal Audit Plan or in the Group Capex Committee Terms of Reference. Additionally, the scope of these reviews are not formally defined or output structured, we understand that a memo is prepared by the Director of Internal Audit on the results of these reviews on an exceptions basis;
- Internal Audit Reports do not include an overall opinion on the control environment or an overall report rating to enable the Audit Committee to identify the level of risk associated with the processes reviewed;
- Recommendations raised during Internal Audit reviews are followed up by Internal Audit when the recommendation is due to be implemented by obtaining confirmation from management that the action has been taken and by performing a desk top review of available evidence. Formal substantive testing of the actions taken is not undertaken until the area is next subject to Internal Audit review; and,
- Progress updates on issues raised in previous Internal Audit reviews are provided in the HIA Summary Report to the Audit Committee in the form of a narrative against the report heading. There is no issue tracking analysis provided to the Audit Committee on the number of Internal Audit recommendations raised, closed and/or risk accepted in current period and ageing of open issues.



Ref: A9	Type: Assurance	Rating: Medium

Observation: Improvements required to the scope and activities of Internal Audit with regard to the RGM (*continued*)

Recommendations:

We recommend that management should:

- Enhance the risk based approach to Internal Audit planning to ensure that areas of the Business where assurance is not being provided are clearly communicated to the Audit Committee and considered in the context of resourcing of the Internal Audit Function;
- Require the Group Risk Function to be responsible for the review and challenge of the RACM from a completeness of risk assessment and adequacy of control design perspective. In addition, we suggest that Group Risk should report to the Independent Oversight Body ('IOB') on the effectiveness of the RACM within the Business and escalate any issues identified as described in **Observation A8**;
- Expand the coverage of Internal Audit in respect of the RGM. For example, Internal Audit should perform reviews of:
  - Functional reviews of the effectiveness of the 2nd Line of Defence functions such as the Wholesale Regulatory Operations Function and the Group Risk Function to provide assurance over all of the RGM related activities;
  - End to end reviews of the Wholesale Division including the pricing process, bespoke bid process and product development processes;
  - Effectiveness of BAR's and TSDS review; and,
  - End to end reviews of the management of Confidential Regulated Information including
    - Structured data access management;
    - Unstructured data access management;
    - Data Classification; and,
    - Data Handling.
- Ensure that there are appropriate budgeted resources assigned to the Wholesale and/or RGM related activities of Internal Audit and that these resources are ring-fenced to ensure appropriate priority is given to both scheduled Internal Audit reviews and any special reviews requested by the IOB. In addition, resources should be made available for commissioning external providers to support Internal Audit and on certain aspects of the RGM. For example, where certain activities require specialist skills, or where assurance is required on the effectiveness of the 3rd Line of Defence activities;
- Require Internal Audit to provide the IOB with the Annual Internal Audit Plan, to approve the RGM related aspects of the Plan. Internal Audit should also provide reports on the assurance reviews performed on RGM related processes to the IOB; and,
- Formalise and enhance certain activities of the function from a methodology, approach and reporting perspective for Internal Audit activities relating to the RGM. For example, the review of the Capex Business cases.

Appendix A- Detailed Current State Analysis

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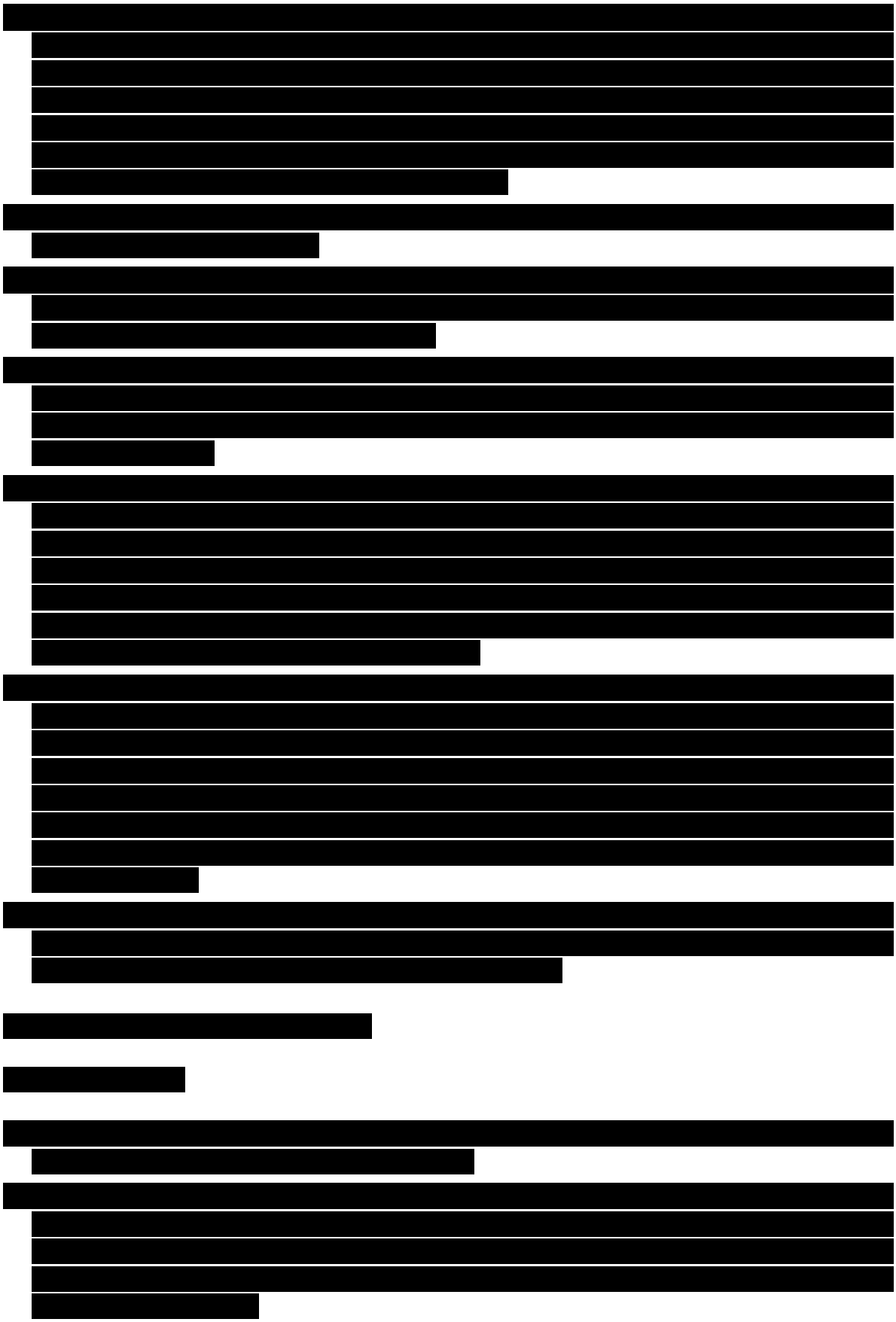

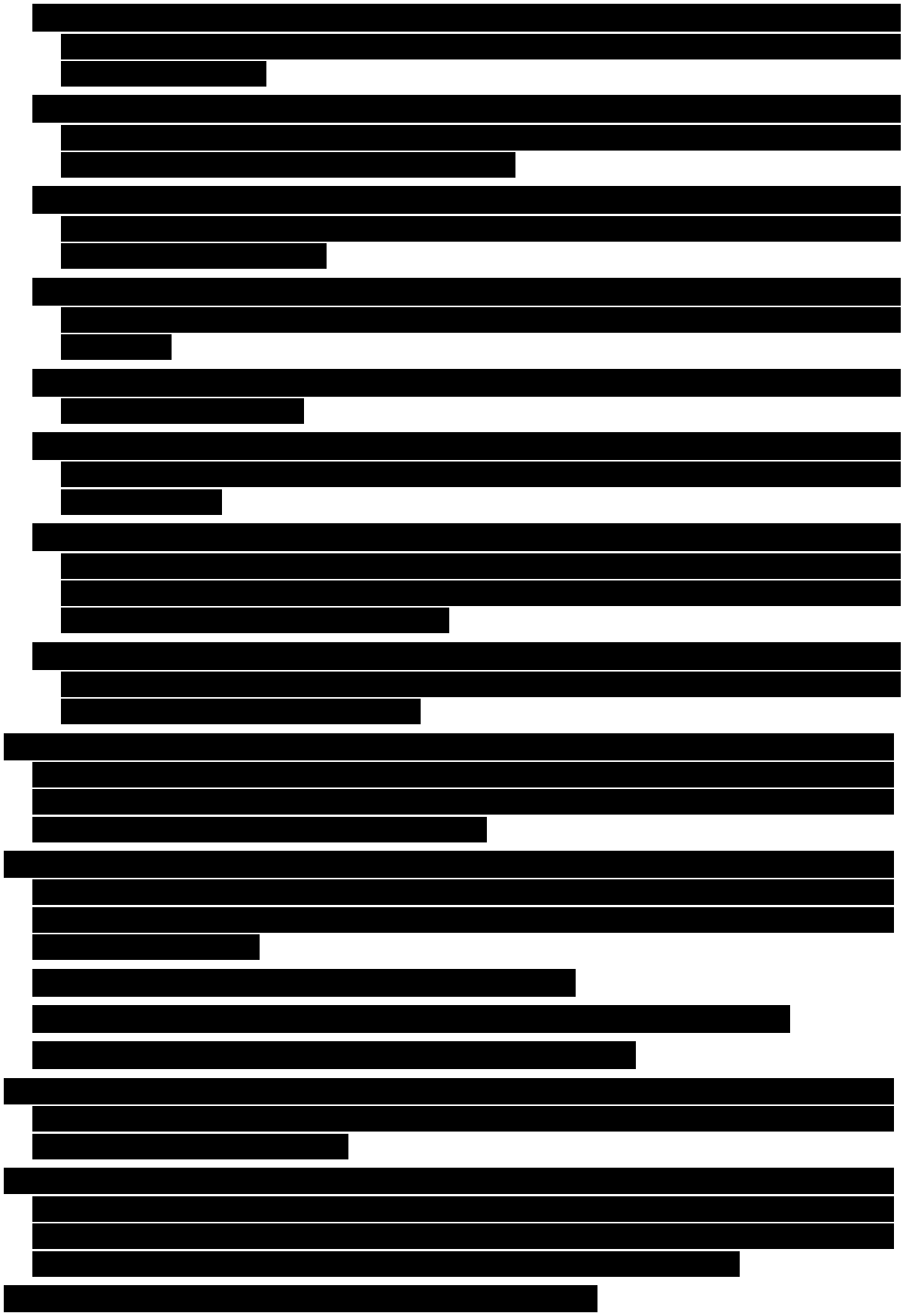

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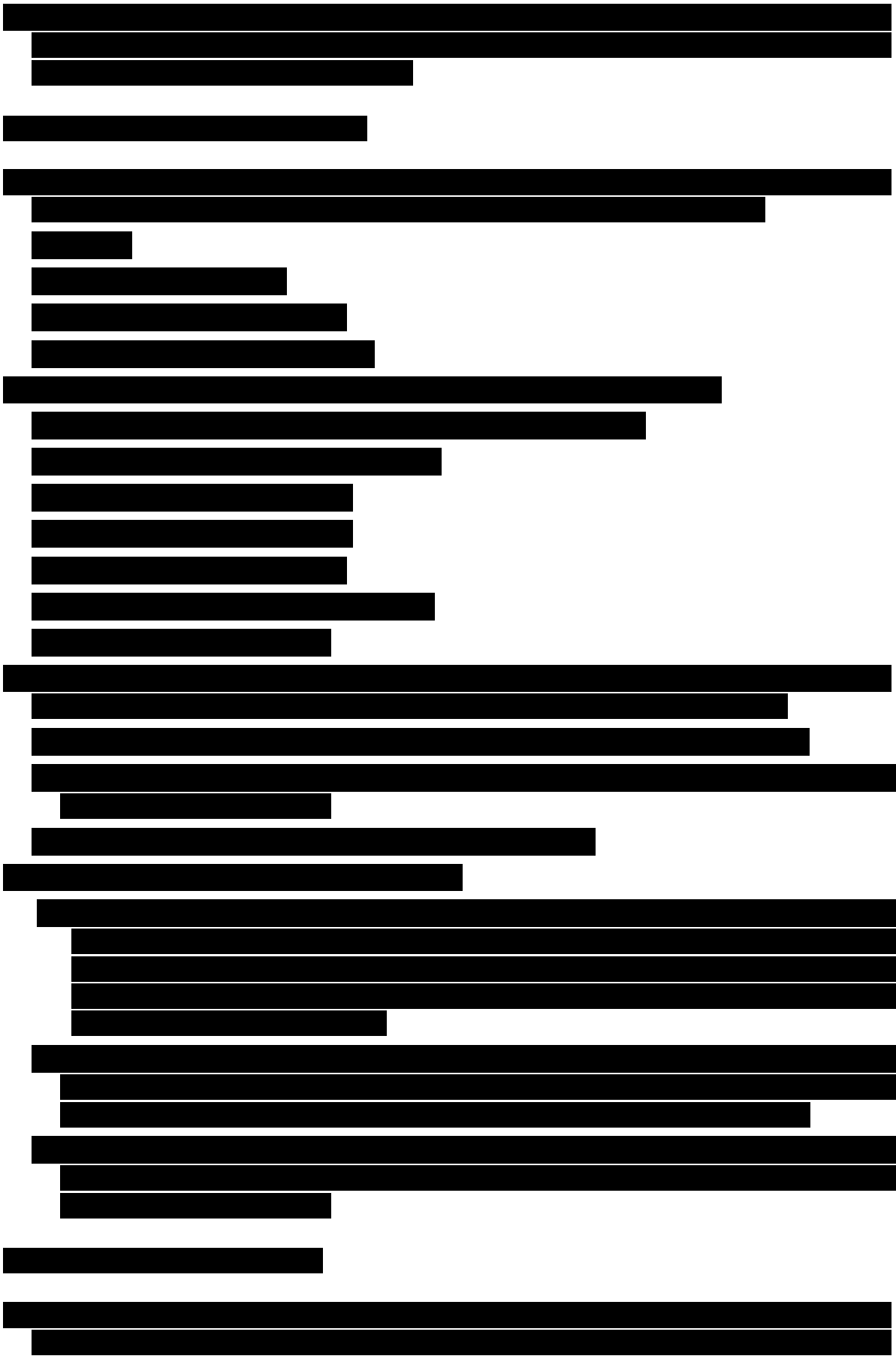

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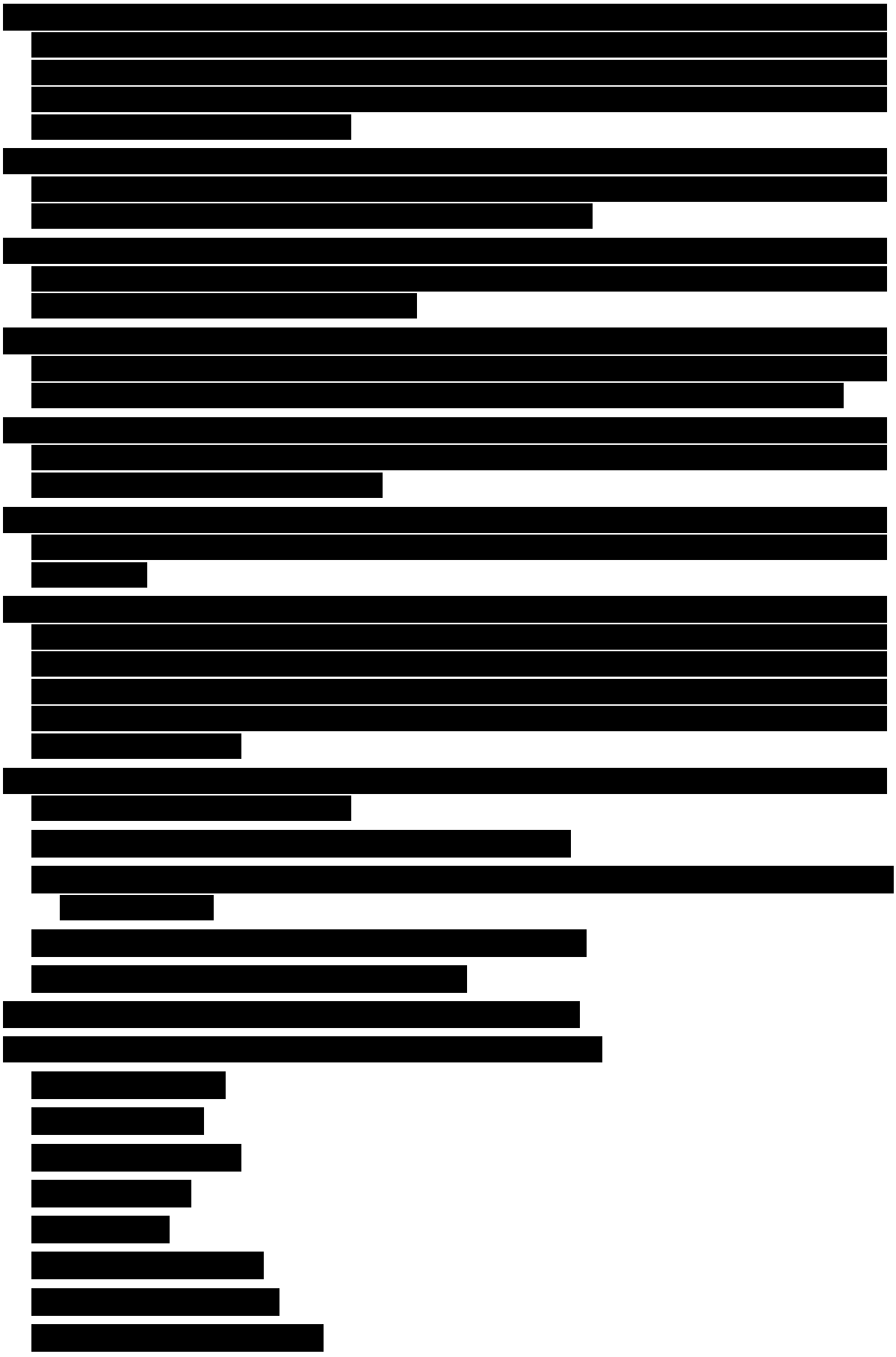

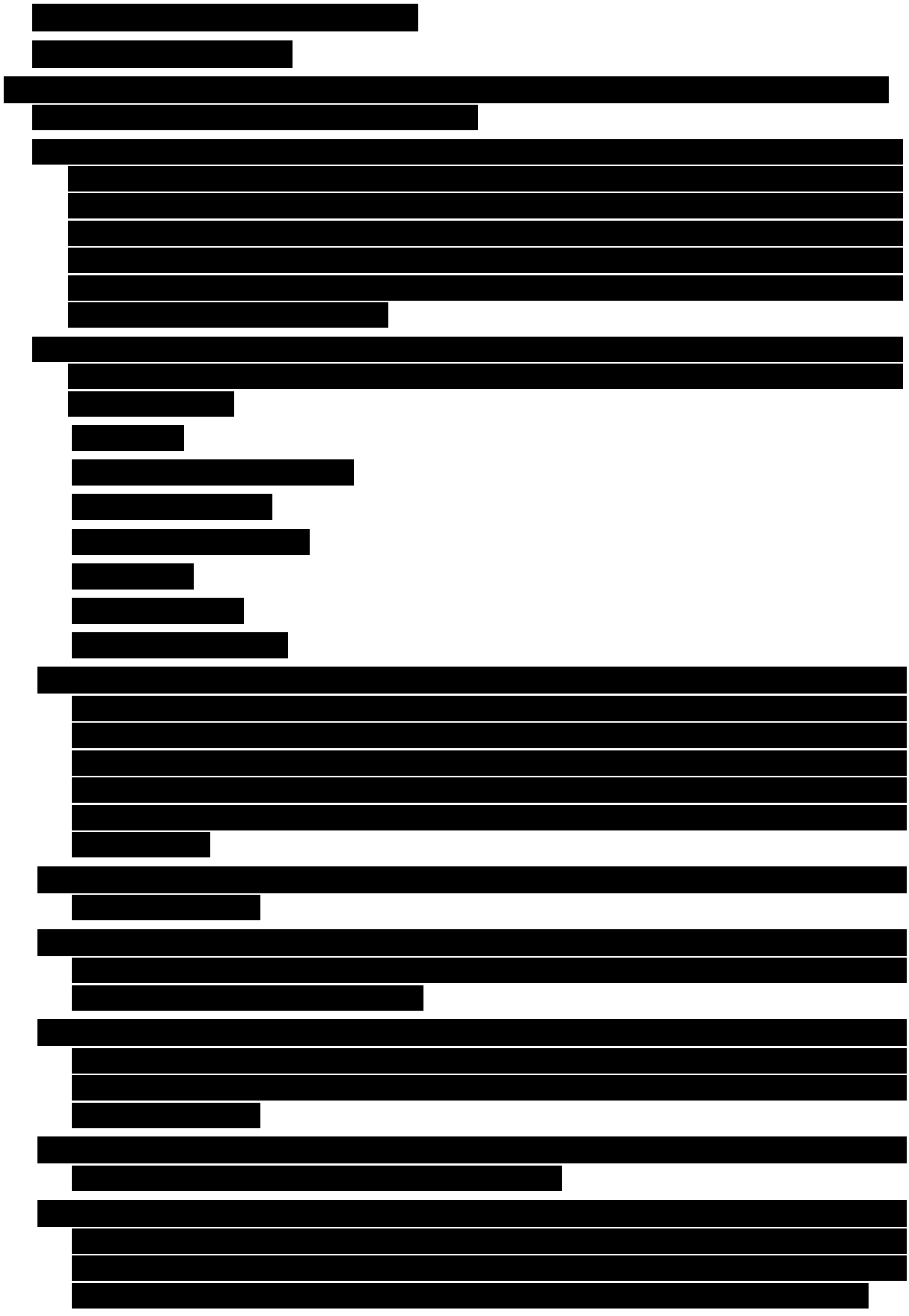

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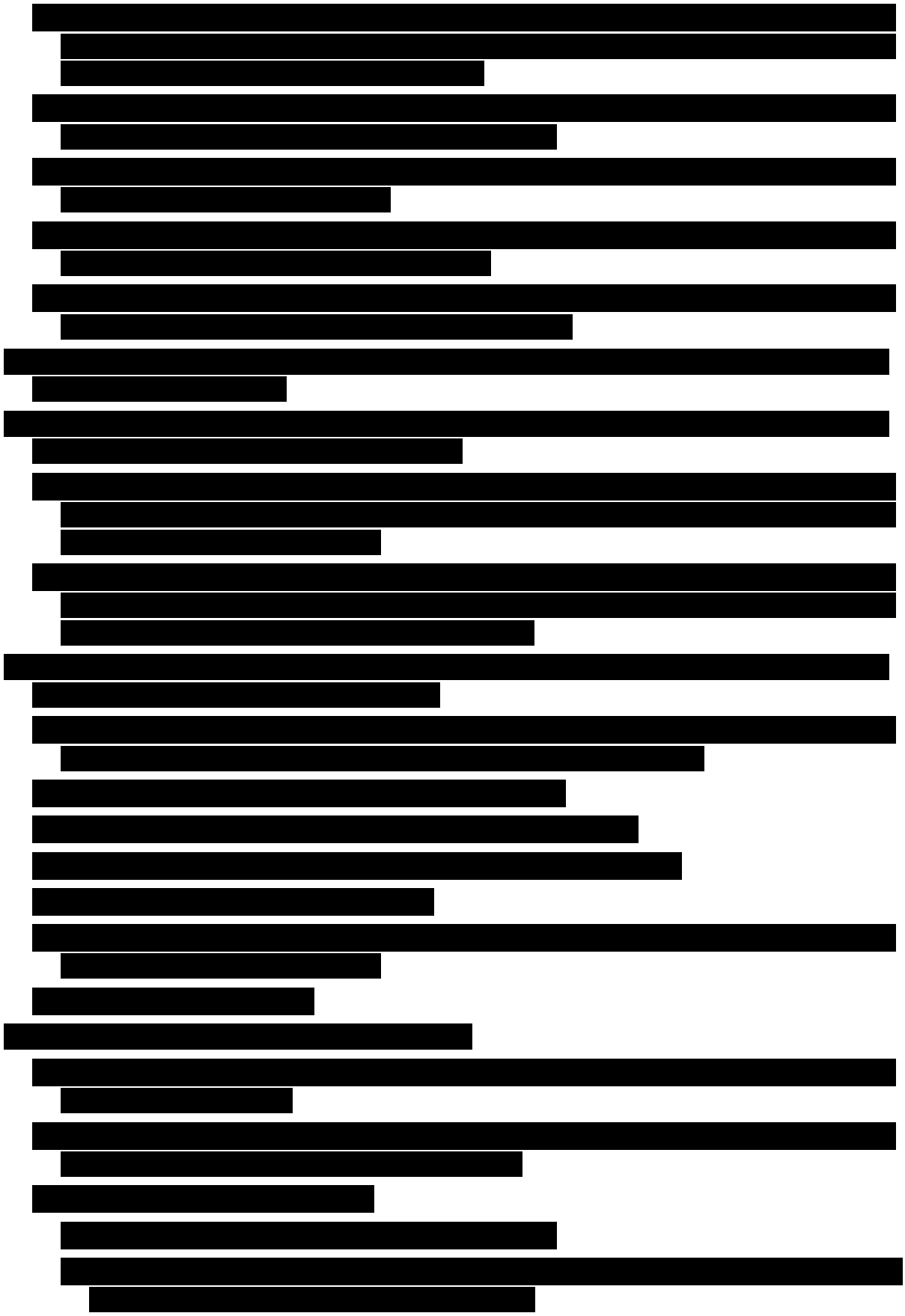

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Appendix B – Glossary of Terms

Abbreviation/Reference	Description
ALTO	Association of Licensed Telecommunications Operators
AMP - DSL	Accelerated Martis Provisioning - DSL
ANRM	Access Network Resource Management system
BAR	Business Access Review
BEREC	Body of European Regulators for Electronic Communications
BOOTS	Broadband Online Order Tracking System
BSS	Business Support Systems
BUPC	Business Unit Process Compliance
C&E	Compliance and Equivalence
CDW	Corporate Data Warehouse
CGA	Current Generation Access (Legacy Customer Access Products)
CoP	Code of Practice
CRC	Corporate Risk Committee
Confidential Regulated Information	Confidential Regulated Information as defined by eir is "unpublished technical or commercial information about a RAP offering which would be of value to a Downstream Business or a Wholesale customer in a Retail business, as well as information provided by wholesale customers to open eir".
EAB	Equal Access Board
eir Group	Eircom Holdings (Ireland) Limited
eirAM	eir Access Management System
FACO	Fixed Access call Origination
FHS	Fault Handling System
FIMS	Fibre Inventory Management System
FTTC	Fibre to the Cabinet
FTTH	Fibre to the Home
Functional Reporting Line	Typical responsibilities of a Functional Reporting Line include objective setting, appraisal and performance management, professional development and remuneration.
GCC	Group Capex Committee
HR	Human Resource
IA	Internal Audit
ISC	Information Security Council
ISDN	Integrated Services Digital Network (Customer Access Line)
KPI	Key Performance Indicator
LLU	Local Loop Unbundling

Abbreviation/Reference	Description
MNS	Management Network Services
NBP	National Broadband Plan
NGA	Next Generation Access (FTTC/H Customer Access Products)
NPS	Net Promoter Scores
OAO	Other Authorised Operators
OSS	Operational Support Systems
PB	Portfolio Board
PCRL	Product Change Request Log
PDC	Product Development Councils
PSTN	Public Switched Telephone Network (Customer Access Line)
RAP	Regulated Access Product
RGM	Regulatory Governance Model
RACM	Risk and Control Matrix
SMT	Senior Management Team
SAM	Systems Access Management
SoC	Statement of Compliance
SB-WLR	Single Billing - Wholesale Line Rental
TE&D	Technology Evolution and Development
TIS	Telecommunications Information System
TSDS	Technical System Data Segregation. Also, referred to as "Wholesale Access Reviews" within eir
UAM	User Access Management
UG	Unified Gateway
USO	Universal Service Obligation (Telecommunications)
WCS	Wholesale Customer Services
Wholesale Division	The Wholesale Division comprises of the Wholesale Business Unit and the Networks Business Units (Field Operations, Network Design).
WLR	Wholesale Line Rental

Appendix C – Grading Criteria

Detailed Observations in this report have been graded as follows:

High

Observations relate to eir's Regulatory Governance Model systems, processes, structures and/or controls which are currently deficient and which require immediate corrective action. Such deficiencies could result in one or more of the following:

- Significant governance issue;
- Significant process issue;
- Significant assurance issue;
- Significant breach of Policy, Legislation and/or Regulatory Guidelines;
- Substantial operational inefficiency / ineffectiveness i.e. significant systematic breaches of internal policies or procedures; and/or,
- Non-attainment of a key business objective.

Medium

Observations relate to eir's Regulatory Governance Model systems, processes, structures and/or controls which are currently deficient and which require corrective action as soon as possible. Such deficiencies could result in one or more of the following:

- Sizeable governance issue;
- Moderate process issue;
- Moderate assurance issue;
- Moderate/Minor breach of Policy, Legislation and/or Regulatory Guidelines;
- Moderate operational inefficiency / ineffectiveness; and/or,
- Non-attainment of an important business objective.

Low

Observations relate to eir's Regulatory Governance Model systems, processes, structures and/or controls which are currently deficient and which require corrective action. Deficiencies in this category are minor in nature. Such deficiencies may result in one or more of the following:

- Low impact governance issue;
- Low impact process issue;
- Low impact assurance issue;
- Minor operational inefficiency / ineffectiveness, possibly bad practice; and/or,
- Non-attainment of a secondary objective.

Appendix D – Meetings Held

KPMG held meetings with the following eir personnel during the project:

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Appendix E – Scope Reference

The scope of our review of eir's Regulatory Governance Model is set out below with a reference to the section of the report where we have documented the current state analysis:

Governance areas for assessment	Reference to Appendix A	Governance	Process	Assurance
a) eir's legal and management structure.	**A1.1**	✓		
b) The role of the main Board and senior management.	**A1.2**	✓		
c) The role, responsibilities, management and legal structure of eir's wholesale arm, open eir. An assessment of its operational and strategic independence.	**A1.3**	✓		
d) Governance arrangements regarding open eir.	**A1.1** **A1.2** **A1.3**	✓		
e) In the context of strategic decision making and major investment decisions, the relationship between open eir the rest of the eir Group.	**A1.1** **A1.2** **A1.3**	✓		
f) How decisions with regard to product development prioritisation are made.	**A2.1** **A2.2**		✓	

Governance areas for assessment	Reference to Appendix A	Governance	Process	Assurance
g) The status, quality and independence of oversight mechanisms.	**A3.1** **A3.2**			✓
h) The status of the group regulatory function.	**A3.1**			✓
i) An assessment of controls to ensure that pricing obligations are complied with, in particular, controls to ensure that sensitive information is handled appropriately and potential conflicts of interest are eliminated or otherwise dealt with appropriately.	**A2.3** **A2.6**		✓	
j) The degree to which senior management incentives are aligned with regulatory obligations.	**A1.3.6**	✓	✓	
k) The incentive and ability for Board and senior management to override internal governance and the RMCF as they pertain to regulatory obligations.	**A1.3.6**	✓		
l) The extent to which eir's governance arrangements are applied across the eir organisation.	**A1.1** **A1.2** **A1.3**	✓		
m) The adequacy of reporting and monitoring mechanisms.	**A3.1** **A3.2**		✓	✓
n) The adequacy of segregation of duties; identification of potential conflicts of interest and how these are managed.	**A1 and A2**	✓	✓	
o) The adequacy of HR arrangements including the role out of codes of practice, training and other relevant arrangements.	**A2.4**		✓	

Governance areas for assessment	Reference to Appendix A	Governance	Process	Assurance
p) How senior management ensures compliance with regulatory objectives while at the same time responding to investor demands and if there are conflicts between regulatory compliance and investor demands, how these are addressed.	**A1 and A2**	✓	✓	
q) Protocols regarding group decision making and information sharing at senior levels including but not limited to the preparation and submission of larger bespoke bids.	**A2.2** **A2.5**		✓	
r) The durability of any arrangements in place.	**Considered in all scope areas**	✓	✓	✓
s) Any other relevant material considerations.	**Considered in all scope areas**	✓	✓	✓

Produced by: KPMG's Creative Services. Publication Date: January 2017