

ANNUAL REPORT ON THE OPERATIONS OF MKT INTERNAL AUDIT DEPARTMENT FOR YEAR 2013

04th March, 2014



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SUMMARY

ANNUAL REPORT ON THE OPERATIONS OF THE IA DEPARTMENT FOR YEAR 2013

Purpose of the report

Pursuant to Law on Trade Companies in Macedonia, the Internal Audit Office shall be obliged to prepare annual report on operations.

16 audits were performed in 2013

by Internal Control System categories:

- compliance: 4 audits;
- finance: 6 audits;
- operation: 6 audits.

64 measures were defined

- 33 measures are already implemented;
- remaining measures will be completed latest 1.7.2015.

Implementation of measures will improve the efficiency and effectiveness of internal controls and audited business processes.

OVERVIEW OF PERFORMED AUDITS IN 2013

ICS^[1] CATEGORY: COMPLIANCE (1/2)

Introduction of Group Policies / Directives

Scope

The goal of the audit was to ensure that the Magyar Telekom's Group Policies/Directives are adopted at MKT.

Finding

The implementation process works appropriately in the practice, however it is suggested to shorten the implementation/updating time of the directives. The "Guideline for complying with the Group Policies/Directives" is not updated with internal organizational changes. Not all Group Policies/ Directives are issued and updated.

Assessment of the adequacy and efficiency of the internal control systems

The checked internal controls were appropriate.

Proposed measures and assessment of their implementation

Out of 4 measures, 4 are implemented.

Transparency of Consulting Contracts

Scope

The audit focuses on corruption risks out of consultancy contracts and contract compliance risks.

Finding

Corruption risk is mitigated. Management has to ensure that regulated processes are followed, contracting process is speeded up, documentation is improved.

Assessment of the adequacy and efficiency of the internal control systems

Internal controls will be strengthened, by implementing the measures.

Proposed measures and assessment of their implementation

Out of 5 measures, 4 are implemented. The remaining measures should be completed until 28.02.2014.

[1] Internal Control System

OVERVIEW OF PERFORMED AUDITS IN 2013

ICS^[1] CATEGORY: COMPLIANCE (2/2)

Controls in T-shops

Scope

The goal of the audit was to increase prevention and detection controls in T-Shops in order to avoid fraud/misuse and to have appropriately defined penalties/personal consequences and increased awareness of T-Shop employees regarding fraud consequences.

Finding

The processes for contracting of fix and mobile services are regulated. The established controls are not formalized. The misuse performed by the employees was sanctioned according the recommendation form Group Compliance Committee.

Assessment of the adequacy and efficiency of the internal control systems

Internal controls will be strengthened, by implementing the measures.

Proposed measures and assessment of their implementation

7 defined measures should be completed until 30.06.2014.

Procurement outside procurement

Scope

The audit focuses on evaluation which parts of spend/commodities are handled outside Procurement, review of rules, processes and controls which apply to these purchasing activities and assessment of operational effectiveness.

Finding

However budgets are monitored and payments are controlled, overview of volume purchased per type of exceptions can be improved.

Outside procurement procedures are supported with workflows, which ensure the minimum required controls.

Assessment of the adequacy and efficiency of the internal control systems

Internal controls will be strengthened, by implementing the measures.

Proposed measures and assessment of their implementation

3 defined measures should be completed until 30.04.2014.

[1] Internal Control System

OVERVIEW OF PERFORMED AUDITS IN 2013

ICS^[1] CATEGORY: FINANCE (1/3)

SAP Segregation of Duties

Scope

Scope of the audit was to assure that none of the Treasury SAP users own critical combinations of access rights which would allow the user to circumvent the internal control system.

Finding

Critical transactions combinations exist, but misuse was not identified from the logs check. Definition of compensating controls is needed.

Assessment of the adequacy and efficiency of the internal control systems

Internal controls will be strengthened, by implementing the measures.

Proposed measures and assessment of their implementation

Out of 2 measures, 2 are implemented.

Revenue Assurance in Wholesale

Scope

Purpose of the audit was to ensure that the revenue assurance processes and internal controls relevant for interconnection traffic (international and domestic termination) are established and functioning.

Finding

Revenue assurance controls are performed, but additional improvements are needed. Interconnect billing process and related responsibilities were not end to end harmonized.

Assessment of the adequacy and efficiency of the internal control systems

Internal controls will be strengthened, by implementing the measures.

Proposed measures and assessment of their implementation

Out of 8 measures, 6 are implemented. The remaining measures should be completed until 28.02.2014.

[1] Internal Control System

OVERVIEW OF PERFORMED AUDITS IN 2013

ICS^[1] CATEGORY: FINANCE (2/3)

Inventory and Warehouse Management

Scope

The scope of the audit was to review the process of receiving, storing and issuing goods to/from warehouse and its efficiency, the controls and compliance with regulations, dealing with obsolete and slow-moving.

Finding

Identified deficiencies in warehouse operations controls and in the process of handling with obsolete and slow moving inventory.

Assessment of the adequacy and efficiency of the internal control systems

With the implementation of the measures and the controls defined by Logistic dept, the internal controls will be improved.

Proposed measures and assessment of their implementation

Out of 8 measures, 8 are implemented.

Internal Control System Principles

Scope

To confirm the appropriateness of design and operating effectiveness of ICS^[1] requirements.

Finding

34 requirements were tested and evaluated as "efficient".

Assessment of the adequacy and efficiency of the internal control systems

Operation effectiveness of the controls is appropriate.

Proposed measures and assessment of their implementation

No measures were defined.

[1] Internal Control System

OVERVIEW OF PERFORMED AUDITS IN 2013

ICS^[1] CATEGORY: FINANCE (3/3)

Internal Control System Transaction Level Controls

Scope

To confirm the appropriateness of design and operating effectiveness of Internal Control System Transaction Level Controls.

Finding

12 of the tested controls are evaluated as effective.

Assessment of the adequacy and efficiency of the internal control systems

Operation effectiveness of the tested controls is appropriate.

Proposed measures and assessment of their implementation

No measures were defined.

OPEX Budget Planning & Controlling on Dpt Level

Scope

The scope of the audit is to review the process for development of annual budgets per area, to assess the process for allocation of resources and to check the adequacy of the monitoring process.

Finding

Budget for Y2013 was not approved on time to support achieving of company targets mainly because of changes in the top management position.

Allocation of available resources is appropriate.

Budget performance is appropriately monitored.

Saving measures are defined and agreed with the functional areas.

Assessment of the adequacy and efficiency of the internal control systems

Operation effectiveness of the controls is appropriate.

Proposed measures and assessment of their implementation

No measures were defined.

[1] Internal Control System

OVERVIEW OF PERFORMED AUDITS IN 2013

ICS^[1] CATEGORY: OPERATIONS (1/3)

Execution of Real Estate Project

Scope

Scope of the audit were to review of the contractual obligations, execution and compliance with contractual conditions, analysis of the process of engaging third parties and assessment of their performance during the Accommodation Plan project (construction of new Headquarter building).

Finding

Contractual conditions are fulfilled (except: Access road; Show room, ground floor). Process of engaging third parties is transparent and compliant. Contracts are not signed and approved for more than one year. Top management is well informed and involved in all decisions.

Assessment of the adequacy and efficiency of the internal control systems

Internal controls will be strengthened, by implementing the measure.

Proposed measures and assessment of their implementation

The measure is fulfilled.

IT Business Continuity / Disaster Recovery Mgmt.

Scope

The audit objective was to check if Business Continuity Management (BCM) and Disaster Recovery Management (DRM) framework is implemented in MKT, if the company is able to continue with the IT services in case of a disaster and whether business continuity (BC) / disaster recovery (DR) testing is performed, efficient and reliable.

Finding

BCM methodology is implemented and updated BC/DR plans exist. Improvements in BCM (owners, training, testing) and in DR tests are needed.

Assessment of the adequacy and efficiency of the internal control systems

Internal controls will be strengthened, by implementing the measures.

Proposed measures and assessment of their implementation

Out of 8 measures, 5 are implemented. The remaining measures should be completed until 30.08.2014.

[1] Internal Control System

OVERVIEW OF PERFORMED AUDITS IN 2013

ICS^[1] CATEGORY: OPERATIONS (2/3)

Effectiveness of HR Supporting Processes

Scope

The audit objective was to review the organizational change process: definition and regulation (including RACI Matrix), information flow between the areas and process Key Performans Indicators (KPI) (e.g. reaction time).

Finding

No clear defined process of Organizational changes. Planning phase, RACI Matrix and KPIs are missing. New organizational structure was not fully implemented in practice.

Assessment of the adequacy and efficiency of the internal control systems

Internal controls will be strengthened, by implementing the measures.

Proposed measures and assessment of their implementation

Out of 2 measures, 1 is implemented. The remaining measure should be completed until 14.03.2014.

IT Change management

Scope

The audit objective was to analyze the IT change management process and regulation, change requirements definition, status tracking and reporting and assess operational effectiveness of key IT change management controls.

Finding

Formal IT change management process (develop common process, workflow and better recording) can be improved. Change requests are in compliance with the procedures.

Assessment of the adequacy and efficiency of the internal control systems

Internal controls will be strengthened, by implementing the measures.

Proposed measures and assessment of their implementation

Out of 4 measures, 1 is implemented. The remaining measures should be completed until 31.03.2014.

[1] Internal Control System

OVERVIEW OF PERFORMED AUDITS IN 2013

ICS^[1] CATEGORY: OPERATIONS (3/3)

Business Customers Management

Scope

Goal of the audit is to increase effectiveness of corporate sales process and improve transparency of key account business customers.

Finding

Strategy and main objectives are defined. Processes and sub-processes should be redesigned to the new business structure. Sales processes are not supported with end-to-end IT tool.

Assessment of the adequacy and efficiency of the internal control systems

Internal controls will be strengthened, by implementing the measures.

Proposed measures and assessment of their implementation

Out of 9 measures, 1 is implemented. The remaining measures should be completed until 01.07.2015.

Follow Up on Technical vendor services

Scope

The audit analyzed, how the measures from Performance verification of technical Vendor Services (004/2011) were implemented and how they are followed in the daily practice.

Finding

Out of 6 measures, 5 are implemented. Tender (6th measure) should be performed to ensure competition and reduce the risk of favor. SAP and "Stela" are aligned.

Urgent order placing procedure is regulated.

Assessment of the adequacy and efficiency of the internal control systems

Internal controls will be strengthened, by implementing the measures.

Proposed measures and assessment of their implementation

3 defined measures should be completed until 30.03.2014.

[1] Internal Control System