

ANNUAL REPORT ON THE OPERATIONS OF MKT INTERNAL AUDIT DEPARTMENT FOR YEAR 2014

12th March, 2015



LIFE IS FOR SHARING.

SUMMARY

ANNUAL REPORT ON THE OPERATIONS OF INTERNAL AUDIT DEPARTMENT FOR YEAR 2014

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.

15 audits were performed in 2014

by Internal Control System categories:

- compliance: 4 audits;
- finance: 3 audits;
- operation: 8 audits.

79 measures were defined

- 38 measures are already implemented;
- remaining measures will be completed latest 31.12.2015.

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

OVERVIEW OF PERFORMED AUDITS IN 2014

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

Verification of maintenance services

Scope

To check if the vendors delivered the requested maintenance and support services in accordance with the terms and conditions of the service-level agreements, with special focus on penalties in case of minor service quality.

Finding

Service level agreements (SLA) with the vendors contain required conditions, but escalation procedure / contact persons are not always defined. Measurement and reporting of SLA targets should be 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

All 3 measures are implemented.

Customer data protection

Scope

To analyze which parts from customer data protection aspects are implemented and effective.

Finding

Aspects for customer data protection need improvement in proper users review and timely measures fulfillment.

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 10 measures, 9 are implemented. The remaining measures should be completed until 15.02.2015.

[1] Internal Control System

OVERVIEW OF PERFORMED AUDITS IN 2014

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

Usage of operational cars

Scope

To review if operational cars are used in adequate/optimal/cost efficient and compliant manner in the company.

Finding

Usage of operational cars was not optimized, not planned and misused. During the audit actions were taken and risks were reduced.

Assessment of the adequacy and efficiency of the internal control systems

With the implementation of the actions and controls defined by the management, the internal controls will be improved.

Proposed measures and assessment of their implementation

No measures were defined.

Controls in procurement process

Scope

To assess the degree of implementation, quality and effectiveness of the Internal Control Systems (ICS) Principles requirements within Procurement processes.

Finding

Procurement processes are covered with sufficient controls, but simplification and improvement can be done.

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

2 defined measures should be implemented by 31.08.2015.

[1] Internal Control System

OVERVIEW OF PERFORMED AUDITS IN 2014

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

Internal Control System - Principles

Scope

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

Finding

42 MKT 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

Internal Control System - TLC

Scope

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

Finding

Out of 8 controls tested in MKT, 7 are evaluated as effective, 1 as not effective and 3 controls are with recommendation for improvement.

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

One defined measure is implemented.

[1] Internal Control System

OVERVIEW OF PERFORMED AUDITS IN 2014

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

Effects on OPEX after headcount reduction

Scope

To review if the target for reducing OPEX as a result of headcount reduction is achieved and to check the existence of “hidden” employees.

Finding

Reduced TWM costs in MKT for 7%, in TMMK 18%, but reduced resources are compensated with external workforce.

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, 2 are implemented. The remaining measures should be completed until 30.03.2015.

[1] Internal Control System

OVERVIEW OF PERFORMED AUDITS IN 2014

ICS^[1] CATEGORY: OPERATIONS (1/4)

NT System Security

Scope

To assess the system vulnerability. Improve the control of access rights, hardening baseline, logging and check on the implementation status of all measures from audit "Billing – Prepaid System in TMMK' 012/2011".

Finding

Access right management, applied hardening baselines and logging should be improved. Controls are operated on a best-effort basis.

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 10 measures, 7 are implemented. The remaining measures should be completed until 30.06.2015.

Handover - Takeover

Scope

To was to review how handover-takeover procedure is performed in order to assure clear task distribution and segregation on duties that will give continuity of the daily operations.

Finding

Not defined process and content of information transfer. Not all of the relevant areas are informed if somebody leaves the **Assesment of the adequacy and efficiency of the internal control systems**

Internal controls will be strengthened, by implementing the measure.

Proposed measures and assesment of their implementation

One defined measure is implemented.

[1] Internal Control System

OVERVIEW OF PERFORMED AUDITS IN 2014

ICS^[1] CATEGORY: OPERATIONS (2/4)

Social Media Diagnostic

Scope

To evaluate and increase the awareness of social media management.

Finding

High risk of brand reputation and information leakage. No social media strategy on corporate level.

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, 7 are implemented. The remaining measure should be completed until 28.02.2015.

All IP

Scope

To evaluate the implementation status for the finished IP Transformation, towards business case and technological requirements.

Finding

Migration is finished, but control level is decreased due to not full traffic transfer.

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

Out of 10 measures, 3 are implemented. The remaining measures should be completed until 30.09.2015.

[1] Internal Control System

OVERVIEW OF PERFORMED AUDITS IN 2014

ICS^[1] CATEGORY: OPERATIONS (3/4)

Bypass of vendor supported investment projects

Scope

To review how and why the working order process was bypassed and investigation of potential fraud or misuse.

Finding

Bypassed procedures, uncontrolled materials, lack of awareness, ineffective quality control.

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, 3 are. The remaining measures should be completed until 15.08.2015.

Handling of provisioning and fault repair orders

Scope

To check the effectiveness and reasonableness of handling of customers' provisioning and fault repair orders.

Finding

Processes are established, targets are monitored and reported. Realization and analysis of targets need improvement.

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

6 defined measures should be completed until 31.12.2015.

[1] Internal Control System

OVERVIEW OF PERFORMED AUDITS IN 2014

ICS^[1] CATEGORY: OPERATIONS (4/4)

Time to market

Scope

To evaluate the duration of end to end operation of product launch process.

Finding

Time to market is not monitored. No demand prioritization and no standardized and effective project management.

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

9 defined measures should be completed until 30.06.2015.

User Account Management

Scope

To evaluate the processes and tools to manage the user accounts and access rights management of critical IT systems.

Finding

Policies are available, but process needs improvement. Segregation of duties required to be specified.

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

5 defined measures should be completed until 31.08.2015.

[1] Internal Control System