

ANNUAL REPORT

ON THE OPERATIONS OF MKT INTERNAL AUDIT DEPARTMENT FOR YEAR 2017

13th March, 2018



LIFE IS FOR SHARING.

SUMMARY

Purpose of the report

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

18 audits were finished during the year 2017

by Internal Control System categories:

- Operation: 7 audits
- Compliance: 6 audits
- Finance: 5 audits

78 measures were defined

- 39 measures are implemented;
- remaining measures will be completed latest 31.12.2018.

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

OVERVIEW OF PERFORMED AUDITS IN 2017

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

Device management

Scope

To check the device management process, responsibilities and rights from planning to delivery.

Finding

KPIs not measured and reported. Summary reports used for following the status and location of CPE are no more available after implementation of CRM.

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 3 defined measures 3 are completed.

Product Portfolio Management

Scope

To review whether internal systems and processes support the complex product portfolio and check if product portfolio is designed according market attractiveness and provides planned revenue generation

Finding

The portfolio governance structure by regulation is well-founded for product / service proposals , while not supported with end-to-end systematized guideline and criteria for monitoring and escalating of actual products / services performance. .

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

Two defined measures are implemented.

[1] Internal Control System

OVERVIEW OF PERFORMED AUDITS IN 2017

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

Employee awareness and Social engineering

Scope

To review the effectiveness of current processes, training, and other key controls for the company to prevent social engineering attacks used to help unauthorized individuals gain system access.

Finding

Not defined process for preventing and responding to social engineering attacks.

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 3 defined measures all 3 are completed.

Approval process

Scope

Analysis on duration and efficiency of approval process and compliance with the CEO /COO resolution. Identification of obstacles and possible improvements of approval process.

Finding

Not properly completed contract dashboard inputs, no escalation and not regularly reporting of contract events which exceed deadline. Lack of properly structured control points and escalation in process of complains handling. Not imposed time constraints and escalation in recruitment process. Inefficient notification and escalation in SAP approval process for RFP.

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 defined measures 3 are completed. Remaining 7 measures should be completed until 01.07.2018.

[1] Internal Control System

OVERVIEW OF PERFORMED AUDITS IN 2017

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

IT/NT Security incident handling

Scope

To check the security incident management process and response plan assessing the proactive approach and reactive approach.

Finding

Security incident management framework is established, but outdated system inventories exist, response and recovery plans are not in place and not tested.

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 defined measures 3 are completed. Remaining 2 measures should be completed until 01.03.2018.

Vulnerability management

Scope

To identify if vulnerability management concept is in place, properly maintained and integrated to asset management system. To assess the effectiveness of preventive, detective, and mitigation measures against attacks or incidents.

Finding

Keeping excel based and manual inventory for assets and CMDB for the company IT/NT systems is not supporting the vulnerability management process properly and effectively. There are no regular vulnerability system scans performed, no reports are generated, no proper remediation measures defined, no timely implementation of measures and no central location of records keeping for documents related to vulnerability mgmt. process.

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 defined measures 1 is completed. Remaining 3 measures should be completed until 01.10.2018.

[1] Internal Control System

OVERVIEW OF PERFORMED AUDITS IN 2017

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

Major Network Outage

(ad-hoc)

Scope

To identify the reasons for the major Network Outage that occurred on 23.05.2017 and to assess power supply management process for core IT and NT systems.

Finding

Not sufficient preventive checks on PWS in TKC building. Not enough investments (CAPEX) for PWS system in the past years. Slow re-action during actual downtime. No available needed spare equipment

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 7 defined measures 1 is completed. Remaining 6 measures should be completed until 01.07.2018.

[1] Internal Control System

OVERVIEW OF PERFORMED AUDITS IN 2017

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

ICS Principles

Scope

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

Finding

All tested requirements (28) are evaluated as 'effective'.

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.

ICS Transaction level controls

Scope

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

Finding

All 7 controls tested are evaluated as effective. Two of them have recommendations for improvement.

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 2017

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

SME/ SOHO segment processes

Scope

To identify and evaluate the processes in SME / SOHO segment, review allocation of resources, value brought by new account managers and to assess existence and implementation of incentive program.

Finding

Internal regulations for Sales and delivery of mobile handsets not in line with current situation. Implementation of new system controls for customer contract management and customer credit check. Incentive program for employees in business sales to be reviewed and 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 7 defined measures 3 are completed. Remaining 4 measures should be completed until 15.09.2018

3th party risk management

(common)

Scope

Review of risk management process to assess whether controls are appropriately designed and are operating effectively to identify and manage significant risks related to key third parties in the on-boarding stage.

Finding

Decentralized process of 3rd party risk management. Process for harmonization and approval of contracts is same regardless of the risk, amount or importance of the Contract. One out of six sampled contracts was signed w/o anticorruption clause due to negligence.

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

1 defined measure should be implemented by 01.04.2018

[1] Internal Control System

OVERVIEW OF PERFORMED AUDITS IN 2017

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

Scrapping procedures of IT assets

(ad-hoc)

Scope

The audit scope includes how IT devices eligible for scrapping are handled within the company, if the necessary records generated during the scrapping procedure and if all the procedures serve the best interest of MKT.

Finding

Current policy sets the major process steps, however no proper regulation for every phase of IT asset lifecycle. There were cases found when the practice of managing unused IT assets deviated from the provisions of the policy.

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 3 defined measures 3 are completed.

Prepaid @ MKT (SIMRICH)

(ad-hoc)

Scope

Regarding prepaid SIM customer identification verification, to assess whether the compliance with the legal requirements is fully addressed and aligned with the established processes and controls and test effectiveness of control sets.

Finding

Inappropriate customer registrations are noted in both direct and indirect channel. Deficiencies are identified in system validation of data entries.

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 4 defined measures 3 are completed. Implementation of the one remaining measure is ongoing.

[1] Internal Control System

OVERVIEW OF PERFORMED AUDITS IN 2017

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

ICT & B2B processes

(joint)

Scope

To evaluate the processes of ICT & B2B businesses. To assess transparency, compliance and efficiency of contracting, partner selection, financial benefits.

Finding

The regulations/policies have not been adjusted to the recent process and organization changes. Record keeping is not transparent and not suitable for a sufficient support of the future planned business development.

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 7 defined measures 6 are completed. Remaining 1 measures should be completed until 01.05.2018.

Procure to pay

Scope

To evaluate established controls with regard to changes in the process and procurement policy; To assess transparency of vendor selection process and vendor management, evaluate payment authorization and controls in the process.

Finding

Overall Procure to pay process is well designed. Long term/frame contracts prolonged without retendering. Strengthen controls for double posted invoices.

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 3 defined measures 3 are completed.

[1] Internal Control System

OVERVIEW OF PERFORMED AUDITS IN 2017

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

Frame contract for civil works and external service provisioning

Scope

To check the implementation and control points in utilization of the frame contracts for civil works and external service provisioning in TA and to check process of handling NT materials outside warehouse by testing and evaluating how the measures from 008/2013 and 016/2014 audits were implemented and how they are followed in daily practice.

Finding

Old measures are in general implemented, with small deficiencies. Improvement is needed in on-site control and used material check.

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 defined measures 4 are completed. Remaining 1 measure should be completed until 01.04.2018.

Marketing strategy and utilization of budget

Scope

To assess development and implementation of marketing strategy and budget. To evaluate media plan and service delivery and service verifications.

Finding

Marketing internal regulation is too old. Service verification on costs paid to the marketing agency needs improvement. Media capacity of digital billboard is not used sufficiently.

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 defined measures 1 is completed. Remaining 3 measures should be completed until 01.07.2018.

[1] Internal Control System

OVERVIEW OF PERFORMED AUDITS IN 2017

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

Outsourced activities in TA

Scope

To evaluate the effectiveness of the Managed Service process. To check key controls and tools to manage user accounts and approval and withdrawal of access rights for outsourced employees.

Finding

Currently there is partial scope of preventive maintenance for in-scope-network. Missing governance model for third party suppliers. There is no official network size/demand to efficiently address network variability and associated MS cost.

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

10 defined measures should be implemented by 31.12.2018

[1] Internal Control System