

# ANNUAL REPORT ON THE OPERATIONS OF MKT INTERNAL AUDIT DEPARTMENT FOR YEAR 2021

23 March 2022



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# SUMMARY

## **Purpose of the report**

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

## **11 audits were finished during the year 2021**

by Internal Control System categories:

- Operation: 6 audits;
- Compliance: 2 audits;
- Finance: 3 audits.

## **58 measures were defined**

- 20 measures are implemented
- 38 remaining measures will be completed latest at 15.10.2022.

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

# OVERVIEW OF PERFORMED AUDITS IN 2021

1/3

## ICS<sup>[1]</sup> CATEGORY: OPERATION

### Review of KIOSK platform for Top Up vouchers and SIM cards

#### Scope

Assessment of the effectiveness and efficiency of Indirect sales governance process and internal controls within prepaid services and the tools or/and technical solutions which support the process with special focus on the KIOSK platform.

#### Finding

The processes related to sales of top up vouchers and SIM cards supported by the KIOSK platform with web and mobile applications for distribution network of indirect sales in the prepaid segment are generally well established and monitored. It is obvious that the migration to the new platform is generally successful, based on the provided evidence.

Nevertheless, according to IA's<sup>[2]</sup> assessment there are still areas for improvement. Documented internal regulation and not defined segregation of duties does not reflect the process in practice. Further automation in the prepaid top up vouchers process will improve process efficiency and will decrease the risk of human errors. Sample analysis revealed that more comprehensive implementation of controls over sale and reconciliation of vouchers and SIM cards are necessary. Follow-up of security recommendations and requirements are not sufficiently addressed.

#### 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 measures were defined and implemented.

### Business Sales & Fraud Detection Process (ad hoc)

#### Scope

Review of the existing business sales processes, the efficiency of credit check controls on business sales, the effectiveness and efficiency of fraud detection system, and the interdependencies and possible better information sharing and notifications between business sales and fraud management.

#### Finding

Internal Audit department identified several issues and areas for improvement with regard to compliance with the regulations:

- Sales documentation is not always complete. Requirements from General Contract Terms are not followed.

- Credit Check procedures are not followed completely.

Storing of documentation provided by the customer is not regulated and it is hard to trace evidence of what was requested and/or received from the customer, including the Credit Check performed (if any) by the sales person.

This audit's rating of "High" is mainly driven by above mentioned issues in combination of lack of post contractual control which in some cases can potentially lead to providing services to customers with fraudulent intentions. In addition, interdepartmental cooperation with fraud department should be strengthened in order to prevent or early detect fraudulent activities.

#### 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 measures were defined and implemented.

[1] Internal Control System

[2] Internal Audit



# OVERVIEW OF PERFORMED AUDITS IN 2021

2/3

## ICS<sup>[1]</sup> CATEGORY: OPERATION

### IT Managed Services – CRM domain

#### Scope

To determine whether the relationship (contract) with the service provider for CRM<sup>[2]</sup> domain has adequate governance and oversight. To evaluate the effectiveness of the Managed Service process (controls, KPIs<sup>[3]</sup>, monitoring, reporting), and the implemented controls related to business continuity and logical access. To assess the transparency and completeness of the transferred activities.

#### Finding

Internal Audit discovered several issues and areas for improvement regarding:

- PBR<sup>[4]</sup> revision to be finished;
- Change management process is not fully transparent and automated;
- Weaknesses in the Patch Management process allow delays in patching of critical vulnerabilities and show gaps in the management with respect to end of patch life components;
- WLA<sup>[5]</sup> for MSA<sup>[6]</sup> in-scope services is not complete;
- User Account Management not effectively implemented for Online Sales system. Reporting on Audit logging options for all systems in the CRM domain was not performed for H1 2021.
- Program of continuous improvement that shall contain tangible and measurable benefits to MKT in relation to new technology, operational improvements and trends is missing.

#### 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 measures are implemented. Other 10 measures should be completed until 10.07.2022.

### B2B Sales Incentive

#### Scope

Assessment of the effectiveness and efficiency of the governance process and internal controls which support B2B<sup>[7]</sup> sales incentive compensation process with focus on accuracy of calculations, transparency of the sales targets and whether sales transactions from contract to invoicing are correctly accounted to ensure correct baseline for the incentive compensation.

#### Finding

Identified risks caused by the gaps in governance structure and incorrect incentive calculations are not mitigated.

Automatization of the B2B sales channel incentive process is partial at low-value customers, which however generate majority of B2B revenues and missing at high-value generating customers.

Current B2B incentive regulation does not describe E2E<sup>[8]</sup> all process steps.

List of incentive point values per products are not regularly updated and not applied properly in further calculations.

The process of calculation and payment of the incentive remuneration is not conducted in accordance with the methodology defined in the regulation and directions of the CEO resolution.

Incorrect incentive calculation and allocation process when Project Manager' activities are overlapping.

#### 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

4 measures are implemented. Other 11 measures should be completed until 01.09.2022.

[1] Internal Control System

[2] Customer Relationship Management

[3] Key Performance Indicators

[4] Performance Based Remedies

[5] Working Level Agreement

[6] Managed Services Agreement

[7] Business to Business

[8] End to End



# OVERVIEW OF PERFORMED AUDITS IN 2021

3/3

## ICS<sup>[1]</sup> CATEGORY: OPERATION

### B2B Procurement Mandate

#### Scope

Assessment of design and operational effectiveness of the delegated procurement process and internal controls for B2B ICT<sup>[2]</sup> deals. To analyze whether procurement transactions from procure to pay process are executed with intention to ensure economical benefits (e.g. quality at the lowest price).

#### Finding

Some improvements need to be considered in order to have monitoring of KPIs<sup>[3]</sup> through mandated process and transparent understanding when financial justification of ICT deals should be performed. Due diligence documents are obtained, but afterwards (i.e. signed vendors binding letter and/or contract). MKT participation on public tender bids (i.e. ICT deals) are partially covered with vendors obligation to the terms of the tenders. Training for employees outside core B2B Mandate team which are involved in vendor sourcing is partially missing. Not utilized partnership with strategic vendors (e.g. Cisco). Vendor post-evaluation is missing.

#### 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

5 measures were defined and should be completed until 15.09.2022.

### Management of Software Licensing Costs (ad hoc)

#### Scope

To review the project related to software license restructuring and the process of ordering, choosing, contracting software vendor for extended Oracle software licensing. To check the elements of the contract, compare them with delivered software & hardware solution and possible differences in software licensing. To check the costs, invoices and payments, and possible differences in planned and delivered solution.

#### Finding

Internal Audit identified potential risk with Oracle SW licenses from DT LMO&DLM<sup>[4]</sup> perspective, due to VmWare software upgrade, locally mitigated with License Fortress services with local level/contract. Additionally, several weaknesses were revealed related to: project management, subcontractor identification, accounting treatment, payment in advance, LM<sup>[5]</sup> involvement, business continuity and regulations.

#### 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 measure is implemented. Other 9 measures should be completed until 15.10.2022.

[1] Internal Control System

[2] Business to Business Information Communication Technology

[3] Key Performance Indicators

[4] DT Leadhouse Manager Oracle & Divisional License Manager

[5] License Manager

# OVERVIEW OF PERFORMED AUDITS IN 2021

## ICS<sup>[1]</sup> CATEGORY: COMPLIANCE

### ICS Principles

#### Scope

To confirm the appropriateness of design and operating effectiveness of ICS<sup>[1]</sup> requirements.

#### Finding

25 requirements were tested and 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. Internal Audit recommended 1 proposal for improving the controls.

### ICS Transaction Level Controls

#### Scope

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

#### Finding

6 controls tested. 1 is evaluated as "not effective", other 5 controls 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

1 measure was defined and implemented.

[1] Internal Control System

# OVERVIEW OF PERFORMED AUDITS IN 2021

1/2

## ICS<sup>[1]</sup> CATEGORY: FINANCE

### No Touch Orders

#### Scope

Assessment of the effectiveness and efficiency of the existing processes, workflow and responsibility regarding no touch order processing.

#### Finding

During the audit it was discovered by IA<sup>[2]</sup> that no touch orders under 5000EUR are not part of the DT<sup>[3]</sup> monthly reporting. However, this was noticed by PLRE<sup>[4]</sup> department and revised report for period January-December 2020 was sent to DT<sup>[3]</sup> in January 2021.

Audit acknowledges that there is no price differences in the Frame contracts with the vendors. Product and service prices are same in the Frame Contracts, and also in the system.

The audit rating is “Low” since the identified issues are with low risk or remediate actions are already taken by the 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

No measures were defined.

### Fixed Assets Monitoring Process

#### Scope

Assessment of the existence, design and effectiveness of processes and controls with regard to the Fixed Assets Monitoring process.

#### Finding

Internal Audit identified several issues mainly related to the disposal and treatment of disposed fixed assets.

In the past three years there were no regular activities for physical removing of disposed assets from MKT premises.

No regular review and reporting on disposed assets and proposals for their further treatment.

There is no available data in the Company for exact location and condition of all disposed assets.

Procedure for activation of fixed assets needs update since it does not reflect the current process applied with ONE.ERP.

#### 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 measures were defined and should be completed until 15.07.2022.

[1] Internal Control System

[2] Internal Audit

[3] Deutsche Telekom

[4] Procurement Logistics and Real Estate Department



# OVERVIEW OF PERFORMED AUDITS IN 2021

2/2

## ICS<sup>[1]</sup> CATEGORY: FINANCE

### FUP<sup>[2]</sup> on Customer Credit Check Process

#### Scope

Check and evaluate how the measures from “Customer Credit Check Process” audit (003/2020) were implemented and how they are followed in the daily practice.

#### Finding

Internal Audit identified issues and areas for improvement regarding required and stored documentation.

Mandatory documents regarding credit check are missing for both residential and business customers.

No regular checks on existence of signed MCB<sup>[3]</sup> consent for residential customers, and no regular checks on the stored/archived documents for business customers.

#### 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 measure was defined and should be completed until 01.04.2022.

[1] Internal Control System

[3] Macedonian Credit Bureau

[2] Follow-up

