

ANNUAL REPORT
On the operation of the
INTERNAL AUDIT DEPARTMENT
For 2017

March 2018

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1. Introduction

On the basis of the Companies Act (Official Gazette 28/2004) article 415 a and article 415 b, the Regulations on the operation of the Internal Audit Department of GD Granit AD Skopje and the handed over and accepted Plan of the Internal Audit Department for 2017 No. 12-2387 of February 10, 2017, the Internal Audit Department present to the Supervisory Board of GD Granit AD Skopje an Annual Report on its operation in 2017.

Such report includes the main activities of the Internal Audit Department referring to:

1. Conducted regular and extraordinary audits in the Company and its organizational units;
2. Other activities of the Internal Audit Department, achievement of the goals set by the department, findings and given recommendations for overcoming the established weaknesses and degree of implementation of such recommendations, assessment of the adequacy of the internal control systems and opinion with adequate conclusions for the improvement of the condition;
3. Assessment of the planned time in the control and deviations regarding the Plan set for 2017.
4. Overview of the financial costs of the Internal Audit Department for 2017.

The Report shall also enclose the following:

- Tabular presentation of findings and recommendations in the audit reports and the degree of their implementation and

2. Overview of the conducted regular and extraordinary audits

Upon the conducted monitoring for 2016 of the presented audit reports, the degree of implementation of the recommendations provided by the Internal Audit Department, there has been prepared and presented the Annual Report on the Department's Operation for 2016 to the Supervisory Board of the Company. The presented report has been accepted by the Supervisory Board under the conclusion No. 12-7470 of 16.05.2017.

Upon the completion of the first six month period of 2017, there was prepared and presented Semi-annual report on the operation of the Internal Audit Department to the Company's Supervisory Board. The presented semi-annual report has been approved by the Supervisory Board under the conclusion number 12-12613 of 29.08.2017.

In 2017 there were prepared 18 reports upon the completed audits, there were presented the Annual Report on the operation of the Internal Audit Department for 2016 and the Semi-annual report for 2017, Plan for the revision of the Internal Audit Department for 2017, 2 notices, 2 instructions, Protection and Saving Plan, Assessment of threats from hazards and Regulations on fire and explosion protection. The proposal regulations on the use and maintenance of weighbridges has been adopted and in a form of instructions it was been presented to be implemented by all OU/RU on 20.02.2017.

All prepared documents have been presented to the relevant authorities competent for the company's management, to the Sector for Legal, Personnel and General Affairs and to the OU/RU/Sectors covered by the audit reports.

Under the Report on the degree of implementation of the instruction, recommendations and conclusions of the Internal Audit Department No. 12-16593 of 17.11.2017 submitted and approved by the Supervisory Board, inspection and monitoring of the implementation of the conclusions and recommendations made under the presented reports.

The prepared tabular presentation clearly states the findings, given recommendations and the degree of implementation of the respective reports on the audits performed in the course of 2017.

Annex 1: Tabular presentation of the audits performed in the course of 2017

No.	Report Description	Number	Date	Submitted to
1	Annual Report of IAD for 2016	12-3937	01.03.2017	Supervisory Board/Managing Board
2	Report on the condition of the transformer stations property of GD Granit AD Skopje	12-2217	08.02.2018	Managing Board
3	Waste Management Report for 2017	12-1027	31.01.2017	Ministry of Environment and Spatial Planning
4	Annual Audit Plan for 2017	12-2387	10.02.2017	Supervisory Board
5	Instructions for placing weighbridges	12-3237	20.02.2017	Submitted to all OU/RU on 20.02.2017
6	Instructions for the use of boards for measurement of the quantity of fuel from the oil cisterns, extra light fuel and crude oil	12-2760	15.02.2017	OU/RU holding A integrated environmental licenses
7	Report on established irregularities when preparing the salaries in the OU Mechanization	12-4476	06.03.2017	Sector for legal, personnel and general affairs
8	Report on violating the Labor Law at the facility Vodno Tower	/	21.03.2017	Sector for legal, personnel and general affairs
9	Information on a committed theft – burglary into the facility “Viaduct at km 7+420”	12-54444	30.03.2017	Sector for legal, personnel and general affairs
10	Report on the condition of houses in the village of Mlado Nagorichane near the quarry of Zebrnjak	12-5589	04.04.2017	OU Quarry, Operations Sector, Sector for legal, personnel and general affairs
12	Report on the conditions of the machine equipment and parts of the equipment in the quarry Suvodol, Makedonski Brod	12-8644	12.06.2017	Sector for financial and accounting affairs

13	Report on the condition of the materials in the warehouse for formwork and scaffold as part of the OU Building Construction.	12-8933	16.06.2017	Managing Board
14	Semi-annual report of the Internal Audit Department for 2017	12-10165	10.07.2017	Supervisory Board
15	Report on the condition of the company vehicles at the facilities RU Motorway Kichevo-Ohrid and RU Motorway Sveti Nikole- Shtip	12-11227	28.07.2017	Supervisory Board/ Sector for legal, personnel and general affairs/Operations Sector
16	Report on the established risk when implementing contracts for transport of construction and other materials with external companies	12-11779	11.08.2017	Supervisory Board
17	Report on committed theft of a generator set make "FQ WILSON" K8-1 with inventory number 13619, in the project Gas Pipeline Lot 2 Negotino (Kavadarci)-Bitola	12-13439	18.09.2017	Sector for legal, personnel and general affairs
18	Report on conducted drunkometer for part of the employees in the OU Mechanization	12-13934	25.09.2017	Sector for legal, personnel and general affairs
19	Report on the condition of the business facility Mountain house Golak, Delchevo	12-15802	02.11.2017	Sector for legal, personnel and general affairs
20	Information- Burglary into the warehouse at the facility "Viaduct at km 7+420"	12-5444	30.03.2017	Sector for legal, personnel and general affairs
21	Report on the theft of manual grinder Stanley FME 841	12-16317	13.11.2017	Sector for legal, personnel and general affairs/OU Civil Engineering East
22	Report on a lack of oil in the generator set Vilson with inventory number 11894 Tatarli Cuka	12-16423	14.11.2017	OU Quarries
23	Report on the degree of implementation of instructions, recommendations and conclusions of the Internal Audit Department	12-16593	17.11.2017	Supervisory Board
24	Report on the measures and activities related to the Cadastre of environmental polluters for 2016 and part of 2017	12-16762	21.11.2017	Supervisory Board
25	Report on the current control and monitoring of the fuel condition	12-18613	12.12.2017	Managing Board/Accounting

				Sector
26	Plan for protection and saving, Assessment of threat from hazards and Regulations for fire and explosion protection	12-16094	07.11.2017	Managing Board

The Reports on the conducted audits have been presented to the Company's Supervisory Board which, upon reviewing them, adopted its opinions, conclusions, recommendations and decisions. On the basis of the submitted reports to the Internal Audit Department, the Supervisory Board identified the weaknesses in the operation, proposed deadlines and manners of removing thereof, and the Supervisory Board issued conclusions, decisions, recommendations and opinions.

3. Other activities of the Internal Audit Department

In relation with the conducted audits for 2017, accepted and approved by the Supervisory and Managing Board, the Department carried out monitoring of the degree of implementation of the given recommendations, opinions for overcoming the established irregularities and implementation of the adopted conclusions.

In 2017, with regard to certain professional issues, consultations have been carried out and opinions and instructions have been provided to the company's employees and executive personnel.

For the successful implementation of the plans and audits, additional measures are being taken, the established standards are being implemented and continuous professional qualification of the personnel employed in the Department is being conducted. In order to meet such purposes, the Internal Audit Department attended events organized by authorized internal auditors and institutions authorized for organizing training in the field of occupational health and safety and environmental protection. The manager of the Internal Audit Department from 2016 is a member of the Association of Internal Auditors of Macedonia, which ensures that all the changes in the legislation and the latest achievements in the field of internal audit shall be implemented in the operation of the Internal Audit Department of GD Granit AD Skopje.

For the purpose of successful transition of the Quality, Environment, Occupational Health and Safety Management System, on the day of 30.10.2017 the Internal Audit Department established a team for transition and updating the Integrated Management System within GD Granit AD Skopje in accordance with the requirements of ISO 9001:2015, ISO 14001:2015 and OHSAS 18001:2007.

4. Overview of financial costs of the Department for 2017

On the basis of the submitted Plan for the operation of the Internal Audit Department for 2017, there was prepared an overview of financial costs for 2017 (Annex 1) The financial funds spent for 2017 are within the scope of the submitted plan for the financial costs for 2017.

5. Findings and recommendations for overcoming the established weaknesses, status and degree of recommendations implementation.

In the annual plan for 2017, the Internal Audit was focused on efficient and effective implementation of the planned audits within the frames of the time available and the human resources provided by the Supervisory and Managing Boards. In 2017, due to the imposed additional audits and tasks assigned by the Supervisory and Managing Boards, change has been made of the submitted and approved Operations Plan of the Department for 2017.

18 separate audits have been carried out, as well as an Audit Plan for the Internal Audit Department for 2017 has been implemented, the submitted proposal- regulations for use and maintenance of weighbridges and the proposal-instructions for use of boards for measuring the fuel quantity of the cisterns for oil, extra light fuel and crude oil have been accepted and approved by the Managing board of GD Granit AD Skopje. Controls related to the overall operation of the company have been carried out in continuity, which covered the planned segments and business processes, classified as of high propriety by the Department.

Such findings and procedures contribute for the reduction of the operational risks, i.e. they set the standards for the good quality, cost efficient and efficient operation of the Company.

Summary report on the findings, recommendations and the status of their implementation is presented in the summary enclosed with this Report (Annex 2- Tabular presentation of findings and recommendations of the audit reports and the degree of their implementation). They have been presented and submitted to the respective managing structures of the Company, for the purpose of regular monitoring of their implementation.

The Internal Audit Department, as a result of monitoring the implementation of the given recommendations, generally indicates that the given recommendations have been observed and implemented with certain exclusions. There imposes the need that all Organizational Units, Sectors and Departments, to fully implement the recommendations given by the Company's managing authorities in the period to come.

6. Assessment of the adequacy and efficiency of the internal audit systems and an opinion

For the purpose of achieving more successful operation and implementing the annual goals set by the Department i.e. their continuous, proper and full achievement, the Company's system of operations and activities has been constantly changing and adapting to the changes in the legislation, the need of audit of certain processes in the Company's operation and the acts adopted by the Company.

The findings and recommendations of the carried out controls and audits indicate that there are certain omissions in the controlled processes and indicate that attention should be paid to their resolving, i.e. to eliminate in a timely manner the indicated omissions and irregularities so that do not reoccur.

The internal audit considers that the biggest part of the controls which are necessary to identify the risks of the Company's operation have been established and they function, with an opinion that there is a need of higher degree of engagement and efficiency in the implementation of the given recommendations by the Management and the company's employees.

7. Opinion on respective conclusions and recommendations for the purpose of improving the conditions

On the basis of the carried out audits in the period from 01.01.2017-31.12.2017 the reports submitted by the Company's Supervisory board, all detected irregularities have been submitted, recommendations were given with certain time periods to eliminate the irregularities, conclusions have been made, which have been presented clearly and unambiguously in the given tabular presentation of findings and recommendations of the audit reports prepared by the Department. The audit reports have been continuously monitored, measures and activities have been taken for their consistent application in the elimination of certain irregularities related to construction and other standards within the scope of the company's activity.

On the basis of the prepared overview of findings, recommendations and the degree of implementation of the given recommendations amounting to 18 in total, presented and handed over to the Company's appropriate structures, the Department recommends implementation of all the recommendations given.

In the part of the Company's information system, no specific audit has been carried out, yet its control has been covered by the separate carried out audits within the organizational units and sectors of the company. The conclusions made by the department in relation with upgrading and improvement of the existing information system have been presented in separate reports of the audit. Part of the decisions made by the Managing board of GD Granit impose amendments and finishing of certain programs, which would ensure quick transfer and insight in the respective necessary documents.

The audit established that there is an adequate organized information system, its application in practice does not give satisfactory results, which is due to the changes in the organization and systematization of the company, meeting the obligations arising from the newly signed agreements, application of new technologies etc. There imposes the need of upgrading and adapting the new information system to the newly arisen circumstances, with an additional effort to provide internet connection for all the facilities built by the company, which would achieve system operation and quick transfer of all data.

Such established information system will contribute for reduction of operational risks and will additionally establish standards for good quality, cost efficient and efficient company's operation. The Internal Audit Department in coordination with the Managing structures and the company's authorities, in the future period will pay special attention to the assessment of significant risks in the company's operation, will propose concrete measures and activities for timely elimination of such operational risks in all the company's organizational parts.

Skopje, March 2018

Director of the Internal Audit Department
Todor Shendov, signed
Official round seal of GD Granit AD

ANNEX 1

OVERVIEW
Of costs from 01.01.2017 to 31.12.2017

No.	Account	Cost description	Amount
1	400	Raw materials and materials spent	MKD 386,00
2	401	Office supplies spent	MKD 30.133,00
3	403	Fuel (gasoline) for passenger cars spent	MKD 107.000,00
4	408	Costs for petty inventory (write off of tires)	MKD 31.907,00
5	412	External services for manufacture of goods	MKD 13.141,00
6	415	Utility services	MKD 605,00
7	419	Other services (registration, copying, carwash, pay toll)	MKD 54.630,00
8	421	Calculated salaries	MKD 4.178.753,00
9	441	Compensations for costs for employees (professional education, medical examinations)	MKD 68.800,00
10	441	Entertainment costs	MKD 26.596,00
11	445	Insurance costs	MKD 8.713,00
12	447	Taxes that do not depend on the result (membership fees)	MKD 14.500,00
13	449	Other operational costs (recertification ISO Standards)	MKD 310.470,00
14	513	Maintenance and protection services (current maintenance)	MKD 3.700,00
		TOTAL COSTS	MKD 4.849.334,00

ANNEX 2

OVERVIEW OF FINDINGS AND RECOMMENDATIONS OF THE AUDIT REPORTS FOR THE PERIOD FROM 01.01-31.12.2017

No.	Report name	Report date	Submitted to	Finding-short description	Recommendation-short description	Implementation deadline	Status of implementation	Percentage of implementation
1	Report on the condition of the transformer stations property of GD Granit AD Skopje	08.02.2017	Managing board	Inspection was made in the connections to the transformer stations (high voltage-low voltage side)	To perform re-categorization of the connections to the high voltage side thereby enabling certain financial savings annually	Immediately	Not implemented	0%
2	Report on established irregularities when preparing the salaries in the OU Mechanization	06.03.2017	Legal, Personnel and General Affairs Sector	Established irregularities in the preparation of the monthly salaries for 2016	Establishing a system for additional control for accurate records of tours and time spent, additional control during verification of monthly salary	Immediately	Fully implemented	100%
3	Report on violating the Labor Law at the facility Vodno Tower	21.03.2017	Legal, Personnel and General Affairs Sector	Failure to observe the Labor Law and the hierarchical organization in the company	Complete failure to observe the laws and by-laws and observing the notice period for leaving the job position	Immediately	Fully implemented	100%
4	Information on a committed theft – burglary into the facility “Viaduct at km 7+420”	30.03.2017	Legal, Personnel and General Affairs Sector	Failure to observe the instructions adopted by the Legal, Personnel and General Affairs Sector	To observe all instructions passed by the Legal, Personnel and General Affairs Sector	Immediately	The damage suffered by the company has not been settled	50%
5	Report on the condition	04.04.2017	OU Quarry,	Inspection of the	To bring into		Fully	100%

	of houses in the village of Mlado Nagorichane near the quarry of Zebrnjak		Legal, Operations Department, Legal, Personnel and General Affairs Sector	possible degree of damage of residential houses near the quarry	satisfactory condition the local road passing next to the quarry to the inhabited place.	Immediately	implemented	
6	Report on the conditions of the machine equipment and parts of the equipment in the quarry Suvodol, Makedonski Brod	12.06.2017	Sector for financial and accounting affairs	Inspection in the equipment of the quarry Suvodol	To sell the equipment which has been completely put out of use	Immediately	Fully implemented	100%
7	Report on the condition of the materials in the warehouse for formwork and scaffold as part of the OU Building Construction.	16.06.2017	Managing board	Inspection in the condition of the warehouse for formwork and scaffolding	Harmonizing the existing codes and deletion of a certain number of codes which exist. Disassembly of formwork recorded as sets and opening new codes, harmonizing the records of the warehouse for formwork and scaffolding and the facility Antenna system Vidno tower. Internet connection and introducing GRAMAK software in the warehouse and connection with the accounting	Before May 2018	In progress	60%

					sector.			
8	Report on the condition of the company vehicles at the facilities RU Motorway Kichevo-Ohrid and RU Motorway Sveti Nikole- Shtip	28.07.2017	Supervisory board/PKOR/ Operations Sector	Inspection in the condition of the company vehicles of RU Kichevo –Ohrid and RU Sveti Nikole- Shtip	Keeping regular records of the condition of the used vehicles, presentation of monthly reports to the GPS department, regular service and hygiene maintenance of the used vehicles.	Immediately	Partially implemented	80%
9	Report on the established risk when implementing contracts for transport of construction and other materials with external companies	11.08.2017	Supervisory board	Lack of extension of the existing contracts of temporary character. Failure to perform revision-comparison of the agreed prices to the real market prices.	Timely extension of the contracts of temporary character, regular revision of prices, prohibition for effecting payment for the provided services without having a valid contract.	Immediately	Partially implemented	70%
10	Report on committed theft of a generator set make “FQ WILSON” K8-1 with inventory number 13619, in the project Gas Pipeline Lot 2 Negotino (Kavadarci)- Bitola	18.09.2017	Legal, Personnel and General Affairs Sector	Failure to observe the assigned work assignments, failure to take care of the fixed working assets.	To establish a safe manner of securing the fixed assets and if necessary to open points for securing the equipment.	Immediately	Not fully implemented. The damage suffered by the company has not been compensated.	60%
11	Report on conducted drunkometer for part of the employees in the OU Mechanization	25.09.2017	Legal, Personnel and General Affairs Sector	There was detected unauthorized alcohol consumption during working hours.	Additional controls by the executive personnel.	Immediately	Fully implemented	100%
12	Report on the condition	02.11.2017	Legal,	Inspection in the	Extending the	Immediately	Fully	100%

	of the business facility Mountain house Golak, Delchevo		Personnel and General Affairs Sector	condition of the mountain house Golak	contract with the tenant		implemented	
13	Report on the theft of manual grinder Stanley FME 841, fan coil unit and steel hinge	13.11.2017	Legal, Personnel and General Affairs Sector, OU Civil Construction East	There has been established that a manual grinder, fan coil unit and a steel hinge are missing.	The petty fixed assets shall be entrusted in compliance with the Regulations on the operation and movement of petty fixed assets of GD Granit AD Skopje No. 12-4034 of 14.03.2014	Immediately	Not fully implemented. The financial damage suffered by the company has not been compensated.	60%
14	Report on a lack of oil in the generator set Vilson with inventory number 11894 Tatarli Cuka	14.11.2017	OU Quarries, Legal, Personnel and General Affairs Sector	Petroleum shortage has been established	To provide professional security of the building or to lease the quarry – concession to external user.	Before May 2018	In progress	40%
15	Report on the degree of implementation of instructions, recommendations and conclusions of the Internal Audit Department	17.11.2017	Supervisory board	Report on the degree of implementation of instructions, recommendations and conclusions of the Internal Audit Department	The given instructions and recommendations to be implemented within the entire company	Immediately	In progress	80%
16	Report on the measures and activities related to the Cadastre of environmental polluters for 2016 and part of 2017	21.11.2017	Supervisory board	Inspection in the A and B integrated environmental licenses held by the company	Continuous maintenance of the obtained licenses in compliance with the measures provided for therein.	Immediately	Fully implemented	100%
17	Report on the	12.12.2017	Managing	Report on the	Full	Before June	In progress	30%

	current control and monitoring of the fuel condition		board/ Accounting sector	current operations of the established commission	implementation of the electronic follow-up of debiting and crediting fuel in mobile cisterns. Placing flow meters in the asphalt plants in the company's ownership.	2018		
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