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Construction Company
GRANIT AD
No. 12-1073
22.02.2022
SKOPJE*

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ANNUAL REPORT
On the operation of the
INTERNAL AUDIT DEPARTMENT
For 2021

February 2022

Audit Distribution List

Supervisory Board:
Ivana Milkovska - Simeva
Violeta Bozhinovska
Goran Markovski
Shareholders' Assembly

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1. Introduction

Pursuant to Article 415 a and Article 415 b and Article 415 of the Law on Trade Companies (Official Gazette 28/2004, 84/2005, 25/2007, 87/2008, 42/10, 48/10, 24/11, 166/12, 70/13, 119/13, 120/13, 187/13, 38/14, 41/14, 138/14, 88/15, 192/15, 6/16, 30/16, 61/16, 64/18, 120/18 and 290/2020), the Rulebook 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 2021 No. 12-1561 of February 14, 2020, the Internal Audit Department presents to the Supervisory Board of GD Granit AD Skopje an Annual Report on its operation in 2021.

The Report includes the main activities of the Internal Audit Department referring to:

1. Description of performed regular and extraordinary audits in the Company and its organizational units;
2. Description of other activities of the Internal Audit Department, implementation of the goals set by the Department, findings and given recommendations for overcoming the established weaknesses and degree of implementation of the recommendations, assessment of the adequacy of the systems of internal control and opinion with adequate conclusions for the improvement of the condition;
3. Pursuant to the Law on Amendments to the Law on Trade Companies - Official Gazette No. 290 of December 7, 2020, and the conclusion of the Supervisory Board No. 12-13206 of December 10, 2020 during 2021, the Internal Audit Department continuously monitors the compliance of the organization and the operation of the Company with the Corporate Governance Code. With the adoption of the new Code, the Internal Audit Department performed control and verification of the compliance of the amendments to the Code of GD Granit AD Skopje with the newly adopted Corporate Governance Code, prepared by the Macedonian Stock Exchange;
4. Assessment of the planned time in the control and deviations regarding the Plan set for 2021.

The Report shall also enclose the following:

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

2. Overview of performed regular and extraordinary audits

Pursuant to the rulebook of the Internal Audit Department and the Law on Trade Companies, the Department has prepared and submitted for approval to the Supervisory Board of the Company an annual operation plan of the Internal Audit Department with No. 12-1113 of February 12, 2021.

Upon the performed monitoring of the submitted audit reports for 2020, the degree of implementation of the recommendations, an Annual Report on the Department's operations for 2020 has been prepared and presented by the Internal Audit Service, and it has been accepted by the Supervisory Board under the No. 12-1868 of March 9, 2021.

Upon the completion of the first six month period of 2021, a Semi-annual report on the operation of the Internal Audit Department was prepared and presented to the Company's Supervisory Board. The presented Semi-annual report has been approved by the Supervisory Board under the conclusion number 12-8496 of October 4, 2021.

According to the accepted annual plan during 2021, the following reports and procedures have been prepared and submitted by the Internal Audit Department:

1. Report on preparation and submission of invoices for water and utility costs No. 12-1707 of March 2, 2021.
2. 11 Reports on performed control of salary orders in accordance with the Decision of the Management Board No. 12-4113 of March 29, 2018.
3. Report on a theft at the concrete base building "Orizari" in Stopanski Dvor Orizari-Kochani with No. 23-2995 from April 13, 2021.
4. Annual review of the integrated standards management system for 2020 with No. 12-6752 of July 28, 2021.
5. Report on the utilization of construction machinery and means of transport on non-working days and national holidays No. 12-8903 of July 5, 2021.
6. Report on the method of calculation and preparation of invoices for lessees who have lease agreements for business premises No. 12-8831 of October 14, 2021.

7. Recommendation on how to prepare a request for MIS 1 and MIS (opinion on a derived degree of mechanical resistance, stability and seismic protection during construction and after the completion of the load-bearing structure) for facilities of line infrastructure road facilities and facilities under construction with No. 12-9244 of October 28, 2021.

All prepared documents are submitted to the relevant management bodies of the Company, the Supervisory Board of the Company, the Sector for Legal, Personnel and General Affairs, and to the EE / RE / Sectors covered in the audit reports.

The performed audits and the submitted reports by the Internal Audit Department are presented in a tabular overview for 2021.

The prepared tabular overview clearly states the performed audits, the time period in which they were prepared and the bodies to which the appropriate audit reports for 2021 were distributed.

Tabular overview of the performed audits during of 2021

No.	Report Description	Number	Date	Submitted to
1	Annual Audit Plan for 2021	12-1113	12.02.2021	Supervisory Board of GD Granit AD Skopje
2	Annual Report on the operation of the Internal Audit Department for 2020	12-1868	09.03.2021	Supervisory Board of GD Granit AD Skopje
3	Salary Order Control Report for December 2020		21.01.2021	General Manager's Office/ Operations Sector
4	Salary Order Control Report for January 2021		15.02.2021	General Manager's Office/ Operations Sector
5	Report on preparation and submission of invoices for water and utility costs No. 12-1707 of March 2, 2021	12-1707	02.03.2021	Supervisory Board, Accounting Sector, Financial Sector, Sector for Legal, Personnel and General Affairs
6	Salary Order Control Report for February 2021		16.03.2021	General Manager's Office/ Operations Sector
7	Report on a theft at the concrete base building "Orizari" in Stopanski Dvor Orizari-Kochani	23-2995	14.04.2021	Supervisory Board, Accounting Sector, Financial Sector, Sector for Legal, Personnel and General Affairs
8	Salary Audit Control Report for March 2021		16.04.2021	General Manager's Office/ Operations Sector

9	Annual overview of an integrated standards management system for 2020	12-6752	28.07.2021	Management Board of GD Granit AD Skopje
10	Salary Order Control Report for May 2021		16.06.2021	General Manager's Office/ Operations Sector
11	Report on utilization of construction machinery and means of transport on non-working days and national holidays	12-8903	05.07.2021	Operations Sector
12	Semi-annual report on the operation of the Internal Audit Department with No. 12-6413 of July 20, 2021	12-6413	20.07.2021	Supervisory Board of GD Granit AD Skopje
13	Salary Order Control Report for June 2021		16.07.2021	General Manager's Office/ Operations Sector
14	Salary Order Control Report for July 2021		18.08.2021	General Manager's Office/ Operations Sector
15	Report on the method of calculation and preparation of invoices for lessees who have lease agreements for business premises	12-8831	14.10.2021	Supervisory Board, Accounting Sector, Sector for Legal, Personnel and General Affairs
16	Salary Order Control Report for August 2021		15.10.2021	General Manager's Office/ Operations Sector
17	Salary Order Control Report for September 2021		21.10.2021	General Manager's Office/ Operations Sector
19	Recommendation on how to prepare a request for MIS 1 and MIS (opinion on a derived degree of mechanical resistance, stability and seismic protection during construction and after the completion of the load-bearing structure) for facilities of line infrastructure road facilities and facilities under construction with No. 12-9244 of October 28, 2021	12-9244	28.10.2021	Operations Sector
20	Salary Order Control Report for October 2021		19.11.2021	General Manager's Office/ Operations Sector
21	Salary Order Control Report for November 2021		16.12.2021	General Manager's Office/ Operations Sector

The reports on the performed audits and controls have been presented to the relevant organizational units and sectors, the Management Board and the Supervisory Board of GD Granit AD Skopje. The prepared reports from the performed audits and controls identify certain inconsistencies and weaknesses in the operation, and, in coordination with the Management, the Organizational Units, Sectors and departments, appropriate recommendations and specific corrective measures are adopted to solve the identified problems and shortcomings with set deadlines and dynamics of their implementation.

3. Other activities of the Internal Audit Department

In relation with the audits performed in the course of 2021, accepted and approved by the Supervisory and Management Board, the Department performed monitoring of the degree of implementation of the given recommendations, adopted opinions on overcoming the established irregularities and implemented the adopted conclusions.

The working staff of the Department has made a maximum effort to implement and consistently apply all recommendations, by monitoring the field, attending work meetings, giving expert opinions and implementing the given recommendations and conclusions.

In 2021, with regard to certain professional issues, consultations have been performed and opinions, advice and instructions have been provided to the employees and executive personnel of the Company.

For a more 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 performed. The Director 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 are implemented in the operation of the Internal Audit Department of GD Granit AD Skopje.

4. Following the Corporate Governance Code in accordance with the amendments to the Law on Trade Companies

According to the Law on Amending the Law on Trade Companies - Official Gazette No. 290 of December 7, 2020 and the conclusion of the Supervisory Board No. 12-13206 of December 10, 2020 during 2021, the Internal Audit Department continuously monitored the compliance of the organization and the operation of the Company with the Corporate Governance Code. During 2021, the Internal Audit Department performed observations and made appropriate controls to determine whether the Corporate Governance Code of GD Granit AD Skopje is observed and properly applied. Appropriate checks and observations have been performed, including the manner in which the following management principles are implemented:

1. Principle of guaranteeing the rights and interests of shareholders

2. Principle of transparency

3. Principle of guaranteeing the rights and interests of shareholders

4. Supervision and audit of the operation of the Company

5. Principle of preventing corruption

6. Principle of personal data protection

7. Informing the public

With the entry into force of the new Corporate Governance Code, the Company conducted an analysis of the innovations introduced by it and the analysis showed that the Company has largely complied with the newly adopted Corporate Governance Code by the Macedonian Stock Exchange. By applying the good corporate practices that are established and practiced even before the adoption of the Corporate Governance Code in terms of existence of procedures for reporting a conflict of interests, publishing all materials and decisions adopted by the Shareholders' Assembly on the official website of the Company, publishing the internal acts on the official website of the Company, it is concluded that a large part of the activities in the Code have been implemented. This conclusion is a result of the already existing internal Corporate Governance Code and its practical application in all segments of the Company's operations.

Namely, the Company harmonized the existing internal Corporate Governance Code with the new Code adopted by the Macedonian Stock Exchange and published it on its website. The Company has so far regularly and transparently published all relevant information of interest to the shareholders on its website, in order to apply the principle of transparency and guarantee the rights and interests of the shareholders, as well as to inform the public.

Documentation in the field of personal data protection, as well as all forms provided by the new Law on Personal Data Protection, are also available on the website of the Company.

In accordance with the above, all the principles according to which the checks were performed are accompanied by appropriate documents, activities and appropriately appointed staff to perform the assigned tasks.

With the inspections performed by the Department for compliance and application of certain segments of the Corporate Governance Code of GD Granit, it was concluded that the Company complies with and continuously performs its business activities in accordance with the internal Corporate Governance Code.

In future operations, the Internal Audit Department will pay special attention and greater commitment to performing regular inspections in order to ensure that all principles of corporate governance are applied and practiced consistently and continuously.

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

The internal audit of the implementation of the Annual Plan for 2021 was focused on efficient and effective implementation of the planned audits. In 2021, most of the planned activities in accordance with the submitted and accepted Annual Plan of the Internal Audit Department have been implemented.

The Internal Audit Department continuously performed controls related to the overall operation of the Company, which covered the planned segments and business processes, assessed by the Department as a priority.

The findings and procedures established in this way contribute to the reduction of the risks in the operation, i.e., they set standards for quality, economical and efficient operation of the Company.

A summary report on the findings, the recommendations and the status of their implementation is presented in an overview attached to this Report (Annex 1 - Tabular overview of findings and recommendations from audit reports and the degree of their implementation). They are presented and submitted to the relevant management structures of the Company, for the purpose of regular monitoring of the implementation thereof.

The Internal Audit Department, as a result of monitoring the implementation of the given recommendations, generally indicates that the given recommendations are respected and implemented with certain exceptions. It is recommended that the given opinions, findings and recommendations ascertained by the Internal Audit Department during the performed audits and controls, are fully accepted and implemented in the future operations of the Organizational Units, Sectors and Departments.

6. Assessment of the adequacy and efficiency of the internal control systems and opinion

For a more successful operation and achievement of the set annual goals of the Department, i.e., their continuous, accurate and complete execution, the system of operations and activities of the Department is constantly changing and adapting to the changes in the Legal Regulation, the need to revise certain operating processes in the Company and the adopted acts of the Company.

The findings and recommendations from the performed controls and audits show that there are certain omissions in the controlled processes and indicate that attention should be paid to their resolution, i.e., the identified shortcomings and irregularities should be removed in a timely manner and not repeated.

The internal audit considers that most of the controls that are necessary to identify the risks in the operation of the Company are established and functioning, with a recommendation for more frequent control and efficient application of the recommendations by the employees of the Company.

7. Opinion on appropriate conclusions and recommendations for improving the conditions

Pursuant to the performed audits in the period from January 1, 2021 - December 31, 2021, in the reports submitted to the relevant bodies of the Company, recommendations and appropriate measures with certain time periods are given for the removal of all observed inconsistencies and deviations. Pursuant to the prepared overview of the findings, recommendations and degree of implementation of the given recommendations, presented and submitted to the relevant structures of the Company, the Department recommends implementation of all given recommendations. Continuous monitoring of the audit reports was performed and measures and activities were undertaken for their consistent application in removing certain inconsistencies related to construction and other standards related to the activity of the Company.

The thus established way of operation of the Internal Audit Department contributes to the reduction of the risks, whereby standards for quality, economical and efficient operation of the Company are established.

The Internal Audit Department, in coordination with the Management Structures and Bodies of the Company, will pay special attention to the assessment of the significant risks in the operation of the Company in the future, propose specific measures and activities for timely elimination of these risks in the operations of all organizational parts in the Company.

8. Annexes

- Annex 1-Tabular overview of the findings and recommendations from audit reports and the degree of their implementation
- Annex 2-Table for performed control of salary orders

Manager of the Internal Audit Department
Todor Shendov, Bachelor of Science in Civil Engineering

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ANNEX 1

OVERVIEW OF FINDINGS AND RECOMMENDATIONS OF THE AUDIT REPORTS FOR THE PERIOD FROM 01.01.-31.12.2021

No.	Report name	Report date	Submitted to	Finding-short description	Recommendation-short description	Implementation deadline	Status of implementation	Percentage of implementation
1	Report on preparation and submission of invoices for water and utility costs number	02.03.2021	Supervisory Board, Accounting and Finance Sector, Sector for Legal, Personnel and General Affairs	Submitted methodology, manner and time terms for preparation of invoices to lessees of business premises owned by the Company	Recommendation for overcoming the observed improprieties and irregularities	Immediately	Completely implemented	100%
2	Report on the theft of a concrete base building "Orizari" in Stopanski Dvor Orizari-Kocani	14.04.2021	Supervisory Board, Accounting and Finance Sector, Sector for Legal, Personnel and General Affairs	Identified omissions in the manner of recording materials and equipment and the manner of performing security	Recommendation for overcoming the observed improprieties and irregularities with appropriate borrowing and recording of materials and equipment and improvement in performing security	Immediately	Completely implemented	100%
3	Annual review of the integrated standards management system for 2020	28.07.2021	Management Board of GD Granit AD Skopje	Performed control of the implementation of the management system	Completely fulfilled and implemented activities	Immediately	Completely implemented	100%
4	Report on utilization of construction machinery and means of transport on non-working days and national holidays	05.07.2021	Operations Sector	Identified irregularities in the preparation of monthly salary orders	Recommendation for overcoming the observed improprieties and irregularities	Immediately	Partly implemented	50%
5	Report on the method of calculation and preparation of invoices for tenants who have lease agreements for business premises	14.10.2021	Supervisory Board, Accounting and Finance Sector, Sector for Legal, Personnel and General Affairs	Identified omissions in the preparation of monthly invoices for lessees of business premises at the level of GD Granit	Submitted methodology for a manner of issuing an invoice for water and utility costs and designated appropriate persons for providing data	Immediately	Partly implemented	50%
6	Recommendation on how to prepare a request for MIS 1 and MIS (opinion on a derived degree of mechanical resistance, stability and seismic protection during construction and after the completion of the load-bearing structure) for facilities of line infrastructure road facilities and facilities under construction with No. 12-9244 of October 28, 2021.	28.10.2021	Operations Sector	Request on part of the Supervisory Engineers who supervise the buildings performed by the Company for a unified manner of submission and presentation of opinions	Appropriate way of preparing and submission of MIS 1 and MIS 2	Immediately	Completely implemented	100%

ANNEX 2

**OVERVIEW OF REPORTS OF SALARY CONTROL
FOR THE PERIOD FROM 01.01.2021 TO 31.12.2021**

No.	Report name	Number and date of Report	Submitted to	Finding - short description
1	Salary Order Control Report for December 2020	21.01.2021	Management Board of GD Granit AD Skopje/ Operations Sector	Continuous inspections were performed and a unified methodology for calculation of salaries was established, recommendations were given for increased utilization of the construction and transport machinery, adjustments and additions to the existing construction norms were made
2	Salary Order Control Report for January 2021	15.02.2021	Management Board of GD Granit AD Skopje/ Operations Sector	
3	Salary Order Control Report for February 2021	16.03.2021	Management Board of GD Granit AD Skopje/ Operations Sector	
4	Salary Order Control Report for March 2021	16.04.2021		
5	Salary Order Control Report for May 2021	16.06.2021	Management Board of GD Granit AD Skopje/ Operations Sector	
6	Salary Order Control Report for June 2021	16.07.2021	Management Board of GD Granit AD Skopje/ Operations Sector	
7	Salary Order Control Report for July 2021	18.08.2021	Management Board of GD Granit AD Skopje/ Operations Sector	
8	Salary Order Control Report for August 2021	15.10.2021	Management Board of GD Granit AD Skopje/ Operations Sector	
9	Salary Order Control Report for September 2021	21.10.2021	Management Board of GD Granit AD Skopje/ Operations Sector	
10	Salary Order Control Report for October 2021	19.11.2021	Management Board of GD Granit AD Skopje/ Operations Sector	
11	Salary Order Control Report for November 2021	16.12.2021	Management Board of GD Granit AD Skopje/ Operations Sector	