

D2
F 6.2/3

ANNUAL REPORT
On the operation of the
INTERNAL AUDIT DEPARTMENT
For 2022

February 2023

Audit Distribution List

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

C O N T E N T S

1. Introduction
2. Overview of the performed regular and extraordinary audits
3. Other activities of the Internal Audit Service
4. Following the Corporate Governance Code in accordance with the amendments to the Law on Trade Companies
5. Findings and provided recommendations for overcoming the identified weaknesses, status and degree of implementation of the recommendations
6. Assessment of the adequacy of the internal control systems
7. Opinion with adequate conclusions and recommendations for improvement of the conditions

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 Service of GD Granit AD Skopje and the handed over and accepted Plan of the Internal Audit Service for 2022 No. 12-868 of February 14, 2022, approved and adopted by the Supervisory Board of GD Granit AD Skopje, the Internal Audit Service presents an Annual Report on its operation in 2022.

The Report includes the main activities of the Internal Audit Service 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 Service, 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 Service 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 Service 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 2022.

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 Service with No. 12-868 of February 14, 2022. The submitted plan is approved by the Supervisory Board with decision No. 12-3530 of 15.04.2022.

Upon the performed monitoring of the submitted audit reports for 2021, the degree of implementation of the recommendations, an Annual Report on the Service's operations for 2021 has been prepared and presented by the Internal Audit Service, and it has been accepted by the Supervisory Board under the No. 12-1037 of February 2, 2021. Upon the completion of the first six month period of 2022, a Semi-annual report on the operation of the Internal Audit Department was prepared and presented to the Company's Supervisory Board with no. 12-6511 of August 8 2022 and the same has been accepted by the the Supervisory Board.

Pursuant to the adopted Annual Plan during 2022 the Internal Audit Service has prepared and submitted the following Reports:

1. Report for clearance of materials on facilities that are finished from January 31, 2022.
2. Report for determination of the materials incorporated and the equipment in the mountain house Golak from 11.02.2022
3. 11 Reports for performed control of the salary orders in accordance to the Decision of the Management Board with no. 12-4113 of March 29, 2018

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 OU / WU/ Departments covered in the audit reports.

The performed audits and the submitted reports by the Internal Audit Service are presented in a tabular overview for 2022.

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 2022 were distributed.

Tabular overview of the performed audits during of 2022

No.	Report Description	Number	Date	Submitted to
1	Annual Audit Plan for 2022	12-868	14.02.2022	Supervisory Board of GD Granit AD Skopje
2	Annual Report on the operation of the Internal Audit Department for 2021	12-1073	22.02.2022	Supervisory Board of GD Granit AD Skopje
3	Salary Order Control Report for December 2021		25.01.2022	CEO`s Cabinet/ Operational Department
4	Salary Order Control Report for January 2022		17.02.2022	CEO`s Cabinet/ Operational Department
5	Report for clearance of the materials on completed facilities		31.01.2022	Operational Department, Accounting Department
6	Report for determination of the materials incorporated and the equipment in the mountain house Golak		11.02.2022	Operational Department
7	Salary Order Control Report for February 2022		16.03.2022	CEO`s Cabinet/ Operational Department
8	Salary Audit Control Report for April 2022		25.05.2022	CEO`s Cabinet/ Operational Department
9	Salary Audit Control Report for May 2022		23.06.2022	CEO`s Cabinet/ Operational Department

10	Salary Audit Control Report for June 2022		18.07.2022	CEO`s Cabinet/ Operational Department
11	Semi-annual report on the operation of the Internal Audit Department with No. 12-6511 of 08.08.2022	12-6511	08.08.2022	Supervisory Board of GD Granit AD Skopje
12	Salary Audit Control Report for July 2022		23.08.2022	CEO`s Cabinet/ Operational Department
13	Salary Audit Control Report for August 2022		20.09.2022	CEO`s Cabinet/ Operational Department
14	Salary Order Control Report for September 2022		20.10.2022	CEO`s Cabinet/ Operational Department
15	Salary Order Control Report for October 2022		22.11.2022	CEO`s Cabinet/ Operational Department
16	Salary Order Control Report for November 2022		15.12.2022	CEO`s Cabinet/ Operational Department

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 2022, 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 2022, 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 2022, the Internal Audit Department continuously monitored the compliance of the organization and the operation of the Company with the Corporate Governance Code. During 2022, 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**

Implementing the Corporate Governance Code pursuant to the changes in the Law on Trade Companies of 07.12.2022 and the Conclusion of the Supervisory Board of GD Granit AD Skopje, the Company fully conduct and applies the Corporate Governance Code and the most of the operations of the Company are in compliance with it.

The Company is respecting and fulfilling the Corporate Governance Code in its working and the same is published on the official web site of the Company.

During 2022, GD Granit AD Skopje regularly and transparently has published all the relevant information that are of interest of the shareholders on its web site, in order to practice the principle of transparency and guaranteeing the rights and interests of the shareholders, as well as informing the public.

The documentation for protection of the personal data, as well as all the forms under the new Law on Protection of Personal Data, are also available on the web site of the Company.

In accordance with all the above, all the principles under which inspections are conducted are supported with the proper documentation, activities and the responsible staff for performing the specific tasks.

With the performed inspections by the Internal Audit Service for respecting and applying of specific parts of the Corporate Governance Code of the Company, it is established that the Company is fully complied and continuously performing its working activities in accordance with the Corporate Governance Code.

In the future activities the Internal Audit Service will dedicate special attention and higher dedication during the inspection, as well as when assuring that all the principles of the Corporate Governance are correctly and continuously implemented.

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 2022 was focused on efficient and effective implementation of the planned audits. In 2022, 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, 2022 - December 31, 2022, 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.

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

/personal signature/

The round seal reads:

*Construction Company * Skopje*

GRANIT

AD

