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Скопје 1

ANNUAL REPORT
for the work of the Division for Internal Audit in 2013

OKTA AD – Skopje
Division for Internal Audit
February 2014

Introduction

Based on the article 415-v of the Law on the Trade companies, the Division for Internal Audit of OKTA AD-Skopje, ("The Division") herein submits the Annual Report for its work in 2013.

In compliance with the provisions of the corresponding acts, the Annual Report of the Division contains the following information:

- Description of performed audits in the company;
- Evaluation of the adequacy and efficiency of the systems for internal control;
- Findings and recommendations of performed audit;
- Evaluation of the implementation of the recommendations given by the Division for Internal Audit;
- Evaluation of the realization of the goals set in the Annual Plan;
- Information about other performed activities

Description of performed audit in the company

In 2013th, the Division realized the activities following the Annual Plan for its work. Planned segments and business processes have been checked by performing 27 separate audits, focusing on the control of specified processes in each department separately, and the primary objective of the Division that is verification of procedures in the company. The activities of the Division have been carried out by 2 executors.

Evaluation of the adequacy and efficiency of the systems for internal control

The internal audit is a continuous process carried out at all levels in the company, providing reasonable assurance in achieving the following objectives: increasing of the efficiency of the company's work; improvement of the efficiency of the management processes; and compliance of the internal policies of the company to the legislation.

In the evaluation of the adequacy and efficiency of the system for internal control, the Division was guided by the following components and objectives:

- Are the processes and activities, which were subject of audit, regulated with internal policies and procedures and whether the same are in compliance with the legislation;
- Is there proper division of authorities and responsibilities within the processes and activities that were subject of audit;
- Are the processes and the activities adequately supported by the IT system;
- Are the system applications secure and safe enough to prevent intentional and accidental mistakes and effective enough to minimize the risks in the work
- Are the possible risks upon the company's work recognized by the systems for internal control

Findings of performed audit

As a result of the 27 performed separate audits, including the identified inherent risks, we observed implementation of improvements in certain processes and appropriate recommendations for improvement of the system of internal control for 17 findings were given.

Evaluation of the implementation of the recommendations given by the Division for Internal Audit

As a result of the realization of its activities, the Division for Internal Audit found the following:

In larger part, procedures for regulating the activities are established and at the same time the legislation is obeyed. Specific identified omissions related to nonexistence of written procedures or no update of procedures to follow the development of the activities in certain sectors; were fully accepted by the responsible persons in all the departments. The process of preparing suitable procedures already commenced in all areas where a lot of written procedures was identified.

The target of finalising the update of procedures until the end of 2013 was not met due to objective reasons. Namely, because of changes and structural reorganization of the company, it is necessary the started process of transformation of the company to be finished. Consequently, the procedures in the involved Organizational units shall be additionally revised and set in accordance with the new organizational structure. This process shall continuously be a subject of audit in the further work of the Division for Internal Audit.

Other recommendations referring to findings in certain processes remain a subject of taking adequate activities until final resolving.

Evaluation of the realization of the targets set in the Annual plan

Within the available time and resources, the Division for Internal Audit completely realized its targets set with the Annual plan.

Information about other performed activities

Aside of the planned regular audits, during 2013 the Division performed three additional extra-ordinary audits on CEO request and one additional audit pursuant to the legislation.

During the year, the Division for Internal Audit actively participated by giving opinion and proposals during preparation and update of procedures in many organizational units in the company.

At the end of the year, on Group's invitation, we took part in one-week training for internal audit, held at the Group's Headquarters, for the purpose of compatibility of activities and goals.

Opinion:

Based on the performed audit, we reasonably believe that the company has identified possible risks and that the larger part of the controls necessary to mitigate the key risks in the controlled processes in the company is established.

The discrepancies identified in the tested areas are not of a high level of risk and the recommendations were accepted. The actions to be taken for their solving shall be a subject of further control.

Our recommendations are in direction of improvement of the system of internal control so as to provide efficient company operation, giving also support to the company in achieving its objectives.

February 2014



Division for Internal Audit
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