

О К Т А Рафинерија на нафта
Акционерско друштво

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Скопје 1

ANNUAL REPORT
for the work of the Division for Internal Audit in 2014

OKTA AD – Skopje
Division for Internal Audit
March 2015

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 2014.

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

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

Description of performed audits in the company

In 2014, the Division realized the activities foreseen in the Annual Plan for its work. Planned segments and business processes have been checked by performing 11 separate audits, focusing on the control of specified processes in each department separately and on our primary objective that is verification of procedures in the company. Furthermore we made follow up of the recommendations given by the Division to the findings identified in 2013 and in the first semester of 2014. The activities of the Division have been carried out by 3 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: a) increasing the efficiency of the company's work; b) improvement of the efficiency of the management processes; c) compliance of the company's operation to the internal policies and to the legislation as well.

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

- Are the processes and activities, which were subject to audit, regulated with internal policies and procedures and are they in compliance with the legislation;
- Is there proper segregation of authorities and duties within the processes and activities that were subject to 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/or accidental mistakes and are they effective enough to mitigate 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 performed audits in 2014, including the identified risks, we observed implementation of improvements in certain processes, and notified 10 findings and 22 nonconformities, or 32 in total, for which appropriate recommendations were given. The findings do not directly disturb the processes, but are identified as deficiencies, the resolving of which will improve the processes and decrease the risks. Consequently, implementation of the given recommendations shall be a subject of further audits.

Evaluation of the implementation of the recommendations given by the Division

During the realization of our activities, i.e. during performing follow up within the set terms of the 24 given recommendations in the first semester of 2014, we may conclude that they are partially fulfilled and some of them are still outstanding to be solved latest by closing of our next Report. Some refers to the not completed recommendations from 2013, to remain a subject of continuous audit until closing and will be reported in the same Report.

Evaluation of the realization of the goals set in the Annual Plan

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

Information about other performed activities

Aside of the planned regular audits, during 2014 the Division performed five additional ad-hoc audits at the request of the CEO and one additional audit pursuant to the legislation.

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

Additionally, the Division provided support to the implementation of the Quality Management System, during the preparation of the required documentation.

At the end of the year, all employees of the Division have passed tailored training program for internal audit, held by PwC Skopje, for the purpose of further improving the knowledge and quality of the Internal Audit function.

Conclusion:

In the process of the company transformation and in parallel with the execution of a Voluntary Retirement program, we may conclude that the company has successfully fulfilled both, with no interruptions in the work. During the year 2014 the Company was obliged to revise a large number of procedures and implement new ones, mainly due to the projects of implementing SAP system and ISO 9001/14001. This had an impact on the implementation of our recommendations within the set due dates. Thus, the late remain to be a subject of our further follow up.

The discrepancies identified in the tested areas do not create high-level risks for the company's operation. The recommendations were accepted by responsible managers, action plans were agreed and due dates were set. Our recommendations are in the direction of improving the system of internal controls so as to provide efficient company operation, giving also support to the company in achieving its objectives.

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 is established.

March 2015

Division for Internal Audit

Tatjana Lazarevska

Manager

