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Скопје 1

ANNUAL REPORT
for the work of the Division for Internal Audit in 2017

OKTA AD - Skopje
Division for Internal Audit
March 2018

Introduction

Based on 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 2017.

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 system 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 2017, the Division realized the activities foreseen in the Annual Plan for its work. Planned segments and business processes have been checked by performing 5 separate audits, focusing on the control of specified processes in each department separately and on our primary objective that is verification of company's procedures. In addition, the Division conducted 2 ad-hoc audits, on a request of the Chief Executive Officer and by our judgment. Pursuant to the legislation, the Division conducted separate audit on the process of personal data protection in the company. Also, starting from this year, the Division conducts periodical audits on monthly business related expenses. Besides the audits, the Division made follow up on the recommendations given to the findings identified in 2015, 2016 and in H1 of 2017. The activities of the Division have been carried out by 3 executors.

Evaluation of the adequacy and efficiency of the system 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 the efficiency of company's work; compliance of company's operation with the internal policies and with the legislation and improvement of the efficiency of the management processes.

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

- The audited processes and activities to be regulated with internal policies and procedures and in compliance with the legislation;
- Proper segregation of authorities and duties within the processes and activities;
- Adequate support by the IT system of the processes and the activities;
- Secure and safe system applications in order to prevent intentional and/or accidental mistakes and effective enough to mitigate the risks;
- The system for internal control to recognize the possible risks upon the company's work

Findings and recommendations of the performed audits

As a result of the performed audits in 2017, including the recognized risks, we observed implementation of improvements in certain processes, but also identified **40 findings/nonconformities** in total, for which appropriate recommendations were given. Hereby, we may say that the identified findings are recognized as deficiencies or weak control points in the processes. Therefore, implementation of the given recommendations shall be a subject of our further audits. All identified findings, for which resolving the due dates are immediate actions or actions in short terms, are correspondingly followed up by the Division, but information for same shall be given in the next Division's Report.

Evaluation of the implementation of the recommendations given by the Division

Regarding the recommendations given to findings identified in 2015 and 2016, that in previous reports had status of ongoing or pending issues, we hereby inform that after made follow up, they are considered as resolved. Concerning performed follow up of the recommendations for the findings identified in H1 of 2017, which due dates were within the period of audit and until closing of this Report, we inform that they are mostly implemented. Those recommendations that are still on-going or pending, remain to be a subject of further follow up until their final resolving. The results shall be given in our next Report.

Evaluation of the realization of the goals, set in the Annual plan for 2017

The Division, fully realized the goals set with the Annual plan, within the available time and resources.

Information about other performed activities

Along with the regular audits, in 2017 the Division performed two (2) additional ad-hoc audits, at the request of the CEO and by our own judgement and one (1) additional audit, pursuant to the legislation, or three (3) in total. Further to newly adopted procedures, the Division performs periodical audits on monthly business related expenses. During the year, the Division actively participated in preparation and update of procedures in many organizational units in the company. Our contribution refers to giving opinion and proposals and acting preventively, before finalization and acceptance of same. All employees participated various trainings, organized by the IIARM, whereat the Division is an active member, for the purpose of continuous improvement of our knowledge and quality of the internal audit function as a service provided. On ELPE IA invitation, the Division participated on a successful and useful workshop in Athens, for sharing experiences and best practices, discussing the possible aligning and further cooperation.

Opinion:

After conducted audits and analysis of the documentation supporting the activities in the segments that were a subject of our audits, taking into consideration the relevant legislation also, we may state satisfactory level of compliance and minimal risk of penalties or incidents occurrence. The discrepancies identified in the tested areas of the company's operation are of various nature. The responsible managers accepted recommendations given and agreed on action plans and set due dates. Verification for the implementation of the recommendations shall be followed up and adequately informed in the next Report. Based on the results of the performed audits in the specific areas, we believe that the company had identified the possible risks and that the larger part of the controls necessary to mitigate the key risks in the controlled processes is set. Our primary objective that is to provide assurance in the efficient functioning of the system for internal control, remains to be a subject of our further monitoring, control and possible improvement.

March 2018



Division for Internal Audit
Tatjana Lazarevska
Manager