

МЕРМЕРЕН КОМБИНАТ АД

Бр. 01-5847/2

29.12 20 23 год.  
Прилеп

**Annual report of the  
internal audit for the  
period  
01.01.2023-31.12.2023**

**DECEMBER 2023**

**Mermeren Kombinat AD - Prilep**

**Made by: Aneta Trkaleska**



**MERMEREN  
Kombinat**





## Content

1. Introduction.....	3
2. Purpose of the annual report.....	4
3. Conducted audits for the period from January 2023 till December 2023.....	4
4. Evaluation of the planned control time and possible deviation.....	6
5. Findings and proposed measures of the internal audit service.....	6
6. Information about other activities performed.....	12
7. Evaluation of the adequacy and efficiency of internal audit systems.....	13
8. Opinion.....	14



## 1. Introduction

The internal audit service in Mermeren Kombinat AD - Prilep functions as an independent organizational part of the Company and the annual work plan of the service for 2023 was approved by the Decision of the Board of Directors on 01.26.2023 - 02/326/1. The main purpose of the internal audit is to check the compliance of the internal acts and procedures with the positive legal regulations, the regulation, the established standards, as well as the assessment of the internal control systems and risk management. The internal audit provides an independent and objective opinion to the Company's bodies on the efficiency of the established internal controls and on the adequacy of the risk management systems.

The performance of the internal audit is in accordance with the requirements of the Law on Commercial Companies ("Official Gazette of the Republic of Macedonia" no. 28/04, 84/05, 25/07, 87/08, 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 and 120/18 and "Official Gazette of the Republic of Macedonia" No. 290/20 and 215/21).

Based on Article 415-c; points 1 and 3 of the Law on Trading Companies and the decision made by the Board of Directors of the Company to organize the Internal Audit Service of Mermeren Kombinat AD - Prilep, the service submits a annual report for the period from 01.01.2023 to 31.12.2023 for his work.

The audit methods that were used during the audit are the following: statistical control and the method of a statistical sample or complete control, observation of processes, immediate insight into the documentation and report forms from the information system, interviews with direct executors, employees, heads of departments, etc.

## 2. Purpose of the annual report:

Provision of timely information on the need, benefits and improvement of the efficiency, economy and effectiveness of the Company from the functioning of the internal audit.

The annual report on the operation of the internal audit service contains the following information:

- ❖ Description of the performed audits of the Company's operations;
- ❖ Evaluation of the adequacy and efficiency of internal control systems;
- ❖ Findings and proposed measures of the service;
- ❖ Evaluation of the planned control time and possible deviation;
- ❖ Information about other activities performed.

During the implementation of its activities, the internal audit service was primarily and solely guided by the goals of providing an independent and objective assessment of the adequacy and efficiency of the internal control systems, as well as the adequacy of the Company's established procedures, their compliance with current operations and within the legal framework.

## 3. Conducted audits for the period from January 2023 to December 2023

In the Annual Report on the operation of the internal audit for the period from January 2023 to December 2023, the following audits were carried out according to the adopted Internal Audit Plan for 2023 with arch. no.01-6026/1 from 30.12.2022:

- The first audit was carried out in the procurement sector in the period from 15.03.2023 to 15.04.2023 and the recommendations and corrected internal codes of the articles were checked and controlled according to the previous audit report, 04-Report - Procurement sector with arch. number: 01-5653/1 of 09.12.2022 and the determined irregularities in relation to double article codes, articles that have more or less numbers in the formation of

the code, articles that do not have a description and are not properly named and other articles with detected irregularities in the procurement sector in the warehouse in the Sivec quarry and in the processing-factory warehouse.

- The second audit was carried out in the purchasing department in the warehouse in Processing in the period from 30.04.2023 to 30.05.2023 and a check was carried out on one type of article - grinders and whether the physical condition corresponds to the accounting condition. A temporary warehouse was made in hall 6 next to the polisher and all the grinders were transferred there and the way of issuing the grinders was made easier. In doing so, it was established that there are no deviations from the accounting situation.
- The third audit was carried out in cooperation with the Health and Safety department and Environment in the period from 15.02.2023 to 15.05.2023 and a re-check and control of the OSH recommendations that had not been implemented until then, and which were determined by the external inspection of the Integrated Management System and ISO standards by the external auditors in the Sivec quarry and in the Processing plant in Factory.
- The fourth audit was carried out in the accounting department on a certain date - 12.07.2023. and an inspection of the cash register operation and the cash maximum was carried out in relation to the new amendments in the Law on Payment Services and Payment Systems, official gazette of RSM No. 90/22, which are applied from January 1, 2023.
- The fifth audit was carried out in the sales sector and the credit policy and credit approvals were checked in the first 6 months of 2023.
- The sixth audit was carried out in the Sivec quarry and in the Processing plant in the Factory in order to check the types of waste and their storage according to the Waste Management Program in the Sivec quarry or in the Processing plant.
- The seventh audit that was planned to be carried out in the sales department was not carried out due to the two-month absence of the internal auditor and lack of time.

#### 4. Evaluation of the planned control time and possible deviation

The Service did not carry out all the planned audits of the business processes in the Company's sectors within the time planned for control and in relation to the Annual Work Plan of the Service for 2023. There is one unimplemented audit, i.e. one deviation from the Annual Plan due to the absence of the internal auditor due to illness for a period of 2 months and the impossibility of carrying out the audit.

The assessment of the planned time is that it is not fully aligned with the annual plan.

#### 5. Findings and proposed measures of the internal audit service

1. Checking the correctness of the internal codes and their name - description of the items in the Procurement Department in the warehouse - Sivec quarry/Factory	
report number	No.:01-2023
Finding and Opinion	In the procurement sector in the Sivec warehouse and processing, there is a reasonable assurance of compliance of operations within the framework of the law, an advanced level of promptness and good internal control by the management authority, with the exception of isolated examples. Periodically check the articles in which irregularities have been determined and remove them - out of 101 articles detected, there are still 34 articles that need to be checked by March 2024
Recommendations with suggested measures	<b>the first recommendation was:</b> to block duplicate codes immediately, for those that have a quantity of zero, and for those where two or three codes have a quantity, to use and spend the quantity of zero, and then to block one (both) codes, whereby the following was determined: out of a total of 39 article codes, 19 codes are duplicates, and 14 codes are

blocked because they do not have a quantity, the remaining 6 codes have a quantity and cannot be blocked, until the quantity is consumed.

**the second recommendation was:** to add or delete a number in the code to the articles that have more or less numbers in the code, but care should be taken not to have the same code already created and to create a duplicate code, or after the stock is used up to block the code and with a new purchase to open a new code; Out of a total of 10 item codes, 7 codes are blocked because they have no quantity, the remaining 3 codes have a quantity and cannot be blocked until the quantity is used up.

**a third recommendation was:** that all codes that do not have a name be defined if they should be used or blocked if they are not. All articles that are written with a general name to be defined and explained better with correct catalog numbers or dimensions, or to open new codes; Out of a total of 42 item codes, 18 codes are blocked because they do not have a quantity, 3 codes are defined in the item description, and the remaining 21 codes are with a quantity and cannot be blocked until the quantity is consumed.

**the fourth recommendation:** for articles with old codes that have a quantity, transfer the quantity to a newly formed code suitable for the article, and then block the old codes. Likewise, the newly formed erroneous codes with quantity should be found an appropriate solution, reversed or a new code opened for them, or else, after the stock is used up and reduced to zero, they should be blocked and appropriate new ones opened for them codes; out of a total of 10 article codes, 6 codes are blocked because they do not have a quantity, and corresponding new codes have been opened for them, and 4 codes have a quantity and cannot be blocked according to notification no. 01-1654/1 of 04/13/2023 . it is determined to transfer the amount of newly opened code.

Status	partially implemented

2. Checking the stock of the grinders due to moving to another location in the Procurement Department in the warehouse – Factory/temporary warehouse	
report number	No.:02-2023
Finding and Opinion	In the procurement sector in the warehouse factory in the processing plant there is a reasonable assurance of compliance of operations within the law, an advanced level of promptness and good internal control by the management authority. After moving the grinders to the auxiliary warehouse, counting of the grinders and confirmation of the physical with the accounting situation was carried out and it was established that the amount of the physically counted grinders is in accordance with the accounting situation and that there are no irregularities in the amount of the issuance of the same.
Recommendations with suggested measures	By reducing the stock of grinders and ordering a new one of the different types of grinders, pay attention to the quantity that will be ordered, that it should not be a larger quantity because the auxiliary warehouse will not be able to store a larger number of grinders. Therefore, before each order, make a count and carefully calculate the required number of grinders that is needed for a certain period.
Status	implemented

3. Verification of OSH measures and recommendations from external auditors in accordance with IMS and ISO standards	
report number	No.:03-2023



Finding and Opinion	<p>When checking the recommendations from the external auditors, there is a reasonable assurance of compliance of the operation within the law, an advanced level of up-to-datedness and good internal control by the management body. All five recommendations have been removed. The identification of the waste should be carried out in accordance with the rules for classification - list of types of waste. The waste disposal site should be clearly identified. Previously, there were signs installed, but they were in an unobservable place, and therefore it is recommended to tidy up and clean the space intended for the storage of all kinds of waste.</p>
Recommendations with suggested measures	<p>Change of the existing form for mandatory PPE - upon entry of a visitor to a factory-gate or mine-gate;</p> <p>To place an OSH board in front of the gas station to mark the location and what everyone should apply and wear to that location;</p> <p>In the space where the waste is stored, separate boards for all types of waste according to the coding of the waste should be installed;</p> <p>Check and remove old board at the explosive store near the fence;</p> <p>A separate container should be placed in the resin hall in case of leakage.</p>
Status	implemented

## 4. Check of the treasury operation and cash maximum in the accounting department

report number	No.:04-2023
---------------	-------------

Finding and Opinion	<p>When checking the cash maximum in relation to the new amendments in the Law on Payment Services and Payment Systems, official gazette of RSM No. 90/22, which apply from January 1, 2023, there is a reasonable assurance of compliance of operations within the law. advanced level of promptness and good internal control by the management body. The management of the cash register and all cash payments are in accordance with the legal provisions and the Law on payment services and payment systems.</p>
Recommendations with suggested measures	<p>The cashier's maximum is determined by the legal entity with a special act; Namely, during the inspection, the decision of the Board of Directors was submitted based on Article 49 of the Statute of Mermeren Kombinat AD Prilep and Article 20 of the Law on Payment Transactions, which determined the treasury maximum. For the year 2022, by decision with arch. no. 02-286/7 of 28.01.2022, the treasury maximum is determined in the amount of 40.000 denars. Whereas, with the new amendments to the Law on Payment Services and Payment Systems for the year 2023 by decision with arch. no. 02-326/5 of 26.01.2023, the treasury maximum is determined in the amount of 20.000 denars.</p>
Status	implemented

5. Checking the credit policy and credit approvals in the Sales department	
report number	No.:05-2023

Finding and Opinion	During the inspection of credit approvals in the sales sector, there is a reasonable assurance of compliance of operations within the law, an advanced level of promptness and good internal control by the management authority. Credit approvals have decreased compared to the previous year.
Recommendations with suggested measures	During the inspection in the first six months of 2023, one credit approval No. 1/I was found to be canceled in the first 6 months of this year due to the difference in the price of granulate No. 6 from 08.05.2023 and No. SIF23/00908 with a value of 106.96 euros.
Status	implemented

6. Inspection and identification of types of waste, with special reference to hazardous waste and its storage in the Sivec quarry and in the Processing plant-factory	
report number	No.:06-2023
Finding and Opinion	When checking the types of waste in the Sivec quarry and the Processing plant, you can see that the selection of waste in the Processing plant is better organized in contrast to the Sivec quarry, where a better selection of all types of waste should be carried out, with special reference to the waste oil and waste filters.
Recommendations with suggested measures	Arrange the location for the collection point of waste oils and filters; to better select the remaining waste; to conclude an agreement with an authorized company that will take over the waste tires.
Status	partially implemented

## 6. Information on other activities performed

During 2023, the internal audit service performed the following activities:

- Implementation of the proposed measures from the external audit for ISO IMS and the recommendations given by the external auditors from 2022;
- The following procedures and instructions have been renewed:
  - 2 - PR - 01 – Procedure – Sale on June 22, 2023 with arch. no. 12-933/1;
  - 3 - PR - 02 – Instruction – Sale and delivery of blocks, finished and semi-finished products on June 22, 2023 with arch. no. 12-933/2;
  - 2 - PR - 03 – Procedure – Implementation of a simplified customs clearance procedure on June 22, 2023 with arch. no. 12-933/3;
  - 3 - PR - 04 – Instruction – Creation, processing and archiving of documents for the sale and delivery of products on June 22, 2023 with arch. no. 12-933/4;
  - 2 - AD - 02 - Procedure - Credit control - on 29.12.2023 with arch. no. 05-5836/1.
- Monitoring the request for an authorized economic operator which was ultimately abandoned as an idea;
- Control and correction of the entered daily cards of the employees from the Sivec quarry and factory in Microsoft Dynamics NAV by month and preparation of monthly reports on the loaded amount of waste material from the dumpers, for the daily amount of cut m<sup>2</sup> of the diamond wire saws, for the daily number of drilled meters on the drilling machines and for the daily amount of cut meters on the Fantine's;
- Preparation of various reports depending on the needs of the engineers in the Sivec quarry;
- Occasional provision of independent and objective advisory services on certain issues at the request of the management;
- Monitoring of the inventory of assets and liabilities and continuous control for the purpose of harmonizing the actual situation with the accounting situation of assets and liabilities as of 2023.

## 7. Evaluation of the adequacy and efficiency of internal control systems

Internal control is a continuous process that is established to provide reasonable certainty for the achievement of the objectives. The system of internal control is constantly changing and adjusting depending on the changes in the legal regulation, changes in the technology of certain processes or systems and therefore represents a significant component in the management and establishment of a reliable and stable basis for the functioning of the Company.

The internal audit during the evaluation of the adequacy and efficiency of the internal control system in the audited processes and activities during 2023 was directed to analyze and evaluate the most significant components and objectives of the internal control systems, namely:

- Are the audited processes or activities regulated by internal policies and to what extent;
- Are the internal policies and procedures in accordance with the legal regulation;
- Does it establish the adequate division of powers and responsibilities of employees in organizational units;
- Are the revised processes supported by an adequate information system;
- Does the internal control system enable recognition and assessment of the most significant risks to which the Company is exposed.

## 8. Opinion

The identified findings based on the individual audits performed in the period from January 2023 to December 2023, foreseen by the Annual Internal Audit Plan, are of low and medium importance and the overall assessment is good. The internal audit confirms the acquired reasonable assurance that the internal control system is for the most part adequately implemented in the direction of minimizing the significant material risks that are characteristic of the operation of the Company's activities and in the direction of efficient and consistent implementation of the legal regulations and the Company's business policy.

The general conclusion is that the business processes still have insufficient system support, a high degree of manual preparation of reviews, reports, etc., for which an appropriate solution should be found, in the interest of improving and advancing the operation and providing a significantly higher quality, more efficient and a more economical system of internal control of the overall operation of the Company.

Identified weaknesses in the system of internal controls are subject to continuous upgrades and improvements in accordance with the given recommendations, and will be subject to control during the next audits of these processes.

Date:  
December, 2023

Made by:  
Aneta Trkaleska

