

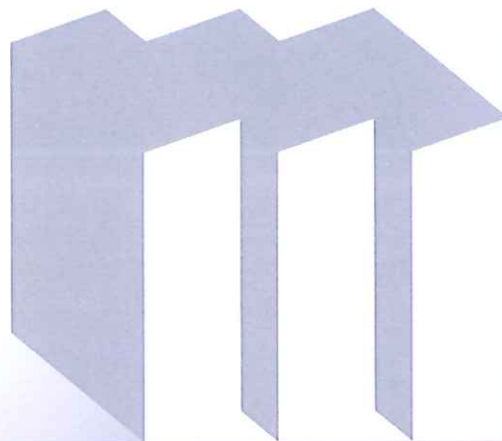
2019

INTERNAL AUDIT ANNUAL REPORT for activities in the period 01/01/2019 – 31/12/2019

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Introduction

The Internal Audit department is an independent part of the organizational structure of the company and is self-supporting. Its task is to provide an objective and independent assessment of the entity, whether procedures, regulations and standards are applied consistently, compliance with procedures, whether assets are used effectively and economically, and whether the company's goals are met.

In accordance with Article 415-v, points 1 and 3 of Law of Trade companies (Official Gazette No. 48/10) and the Internal Audit Department's operating procedure, the department submits an Annual Report on its operation for 2019.

The report on the work of the department has been prepared in accordance with the provisions of the aforementioned acts and contains the following information:

- Description of the individual audits performed during 2019;
- Adequacy assessment and effectiveness of internal control systems;
- Opinion;



Scope and objectives of the audit

The scope of Internal Audit is the most significant segment of the company's operations provided in the Annual Audit plan, incidentally identified by the auditor when auditing an event or expense, or at the behest of the management body or responsible manager.

The purpose of the Internal Audit department is to regularly review the legality and timeliness of the company, comparing operating procedures in audited processes, to provide reasonable assurance that the appropriate department performs business processes in accordance with written procedures, internal regulations and legal regulations.

The audit techniques used during the audit are as follows:

Statistical control and method of statistical sample or complete control, process observation, direct insight into source documentation and reporting forms of information system, interview of direct executives, heads of departments, etc.

Description of performed audits

Internal Audit carried out its activities in accordance with the operational plan of the sector for the internal audit for 2019, through a risk assessment, taking into account the structure and significance of assets, liabilities, revenues and expenses.

The audits were conducted using internal guidance and procedures in accordance with the standards for the professional practice of Internal Audit. The audit highlighted the legal compliance of the audited processes under review.

Overview of individual audits performed during 2019:

No.	Scope of the audit	Objectives of the audit	Recommendations
1	ERP	Checking the compliance of the system and its estimate, in relation to the operation of the sectors managing the system	2
2	Procurement department	Checking the procurement process	7
3	Sales department	Checking the sales process	5
4	Corporate Governance	Agreements, Independence of Independent Board Members, Board Meetings	3
5	Fixed Assets - Quarry	Checking internal procedures for procurement of fixed assets	3
6	Fixed Assets - Factory	Checking internal procedures for procurement of fixed assets	3
7	Subcontractors	Checking the documentation flow according to the information in the arrangement	2

Assessment of the adequacy and effectiveness of internal control systems

Internal control is a continuous process carried out at all levels in the company by management and all employees, designed to provide reasonable assurance of achieving goals such as the preparation of accurate financial statements, increasing the efficiency of overall operations, improvement of management efficiency, as well as compliance with the company's internal policies, procedures, laws and regulations. The internal control system is constantly changing and adapting to changes in legislation, changes in technology of certain processes or systems, and therefore represents an important component in managing and setting a reliable and stable basis for the company's operation.

In the process of evaluating the adequacy and efficiency of the internal control system in the audited processes and activities during 2019, Internal Audit was led to conduct an analysis and evaluation of the most important components and objectives of the internal control systems:

- Are the audited processes or activities in line with internal policies and procedures and to what extent;
- Are the internal policies and procedures in compliance with the legislation;
- Is there an adequate subdivision of the powers and responsibilities of employees in organizational units;
- Are the audited processes supported by an adequate information system;
- Is the internal control system enabling the identification and assessment of the most significant risks to which the company is exposed;

IA Opinion

Based on the individual audits performed during 2019, as well as the audit evidence presented just prior to the preparation of the annual report, based on an audit of a representative sample of audited material selected at random from all audited processes, Internal Audit confirms the justified belief that in most cases the internal control system is adequately implemented to minimize significant material risks and in order to effectively and consistently apply business policy and legislation.

The general conclusion is that business processes would be significantly improved if system support is automated, which would avoid a high degree of manual review, reporting, etc., for which an appropriate solution needs to be found, in the interest of improving performance and providing significantly better, more efficient and a more economical system of internal control of the overall operation of the company.

Some findings were of great importance to the process at the company and have been removed during the year.

Identified weaknesses in the internal control system are subject to continuous upgrades and improvements as recommended, and will be subject to control during subsequent audits of these processes.

Date:
15/01/2020

Internal Auditor
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