

МЕРМЕРЕН КОМБИНАТ АД

Бр. 01-5838/2

27.12 20 24 год.
Прилеп

Annual internal audit report for the period 01.01.2024-31.12.2024

DECEMBER 2024

Mermeren Kombinat AD - Prilep
Made by: Aneta Trkaleska



MERMEREN
Kombinat



Content

1. Introduction.....	3
2. Purpose of the semi-annual report.....	4
3. Conducted audits for the period from January 2024 to December 2024.....	4
4. Evaluation of the planned control time and possible deviation.....	5
5. Findings and proposed measures of the internal audit service.....	5
6. Information about other activities performed.....	11
7. Evaluation of the adequacy and efficiency of internal audit systems.....	12
8. Opinion.....	13

1. Introduction

The internal audit service at Mermeren Kombinat AD – Prilep functions as an independent organizational part of the Company and the annual work plan of the service for 2024 was approved by the Decision of the Board of Directors on 26.01.2024 - 02/292/1. 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, established standards, as well as assessment of 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; point 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 the annual report for the period from 01.01.2024 to 31.12.2024 on its operations.

The audit methods that were used during the audit are the following: statistical control and the method of a statistical sample or full 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 semi-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 semi-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 framework of legal regulations.

3. Conducted audits for the period from January 2024 to December 2024

In the Semi-annual report on the operation of the internal audit for the period from January 2024 to December 2024, the following audits were carried out according to the adopted Internal Audit Plan for 2024:

- The first audit was carried out in the procurement sector in the period from 15.04.2023 to 15.04.2024 and the recommendations and corrected internal codes of the articles were checked and controlled according to the previous audit report, 01-Report-Purchase sector with arch. number: 01-1778/1 from 24.04.2023 and the determined irregularities in relation to duplicate item codes, items that have more or less numbers in the formation of the code, items that do not have a description and are not properly named, and other items with detected irregularities in the procurement sector in the warehouse in the Sivec mine and in the processing warehouse.

- The second audit was carried out in the accounting department and the sales department in the period from 01.01.2024 to 04.30.2024. and an inspection of all buyers of granulate with whom the sales department worked from 01.01.2024 to 31.03.2024 was carried out and to determine whether all claims were collected within the appropriate period for collection in accordance with the procedures and work instructions.
- The third audit was carried out in the accounting sector and the maintenance sector in the period from 01.01.2024 to 06.30.2024. and all maintenance and protection services from group 413 – Maintenance and protection services were checked and whether they increased or decreased in 2024 compared to 2023 in the time period from 01.01.2023 – 06.30.2023 and 01.01.2024 – 06.30.2024.
- The fourth audit was carried out to check the recommendations given by the external auditors for IMS and ISO standards and whether they have been implemented.
- The fifth audit has been carried out in the maintenance department in order to identify all types of hydraulic hoses recorded on MOMO00999 and to form new codes for all hoses in accordance with work procedures.

4. Evaluation of the planned control time and possible deviation

The Service carried out the planned audits of the business processes in the Company's sectors within the available time and without major deviations from the time planned for control with the Annual Work Plan of the Service.

Evaluation of the planned time is that it is 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.:01-2024



Finding and Opinion	<p>In the procurement sector in the Sivec warehouse and processing, there is a reasonable assurance of compliance of operations within the law, an advanced level of promptness and good internal control by the management body, with the exception of isolated examples.</p> <p>Periodically check the articles where irregularities have been determined and remove them - there are still 33 articles that need to be checked by March 2025.</p>
recommendations with suggested measures	<p>the first recommendation was to block the duplicate codes for those where there is a quantity on two or three codes, to use and spend the quantity to zero, and then to block one (two) code, and the following was determined: there are 6 duplicate codes left that have a quantity and cannot be blocked, until the quantity is used up.</p> <p>the second recommendation was to block the code on items that have more or less numbers after the stock is used up and open a new code with a new purchase; There are 3 quantity codes left and cannot be blocked until the quantity is used up. And a mistake was made again and the wrong code was purchased - MOCT7020 with receipt no. PRIEM24/00059 on 01.23.2024.</p> <p>the 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; There are 18 quantity codes left and they cannot be blocked until the quantity is used up.</p> <p>the fourth recommendation: In the case of articles with old codes that have a quantity, the quantity should be transferred to a newly formed code suitable for the article, and then the old codes should be blocked. Likewise, the newly formed erroneous codes with quantity, to find an appropriate solution, to be reversed or to open a new code for them, or else, after consuming the stock and reducing it to zero, to block them and open</p>

	appropriate new codes for them; Completed and fully implemented according to notification No. 01-1654/1 dated 04/13/2023
status	partially implemented

2. Inspection of all domestic and foreign buyers of granulate in the first three months of 2024 and the collection of claims	
report number	No.:02-2024
Finding and Opinion	<p>In the accounting department and the sales department, 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.</p> <p>After checking a total of 305 invoices, of which 59 invoices are from the domestic market, and the remaining 246 are from the foreign market, namely: from Albania there are 223 invoices, from Kosovo there are 14 invoices and from Serbia there are 9 invoices for the time period from 01.01.2024 to 03.31.2024 it was established that there are no outstanding claims.</p>
recommendations with suggested measures	<p>From the inspection of the entire documentation of the sale of granulate from 01.01.2024 to 31.03.2024 and all buyers of granulate with whom AD - Mermeren Kombinat worked from 01.01.2024 to 31.03.2024 and their collection, it was determined that we have no outstanding claims for this period and that there are no other irregularities in relation to sales and their collection.</p> <p>Recommendation: - one of the internal documents used in the sales process - Loading order - manual, which is issued for the truck, which then goes for loading and is loaded with the required type of granulate - issued by the Scale Operator should be numbered with the appropriate number according to 2-KD-01 - The document control procedure and 3-KD-01 – Instructions for the appearance and</p>

	identification of documents. Then, after being numbered accordingly, the same Loading Order should be added with an Annex to the procedures and instructions where this internal document is mentioned.
status	implemented

3. Verification of all maintenance and protection services from group 413 – Maintenance and protection services in the first six months of 2024 compared to the first six months of 2023	
report number	No.:03-2024
Finding and Opinion	<p>In the accounting sector and the maintenance sector, 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. Namely:</p> <ul style="list-style-type: none"> - 41300 - Real estate, plant and equipment maintenance services - increased in 2024 by 579,323 thousand compared to 2023 due to the different needs of different types of service technicians for the needs of the different groups of machines that the company has; - 41304 - Software and website maintenance services are the same in the first six months of 2024 compared to 2023; - 41306 - Services for service and maintenance of motor vehicles – increased in 2024 by 11,913 thousand compared to 2023, due to the different types of defects and the costs of their deflection on the different motor vehicles that the company has; - 41307 - Services for the protection and improvement of the working and living environment - slightly decreased in 2024 by

	<p>12,659 thousand compared to 2023, due to the various technical reports on the machines that are carried out in different periods of the year and tests that are applied for environmental protection, and which are performed in a different period of time, e.g. some once a year, some every three years, etc.</p> <p>- 41308 - Property security services - increased in 2024 by 123,506 thousand compared to 2023, because contract No. 03-1010/2 was concluded with Rubicon Security LLC Prilep, a new security company from 01.01.2024 and an additional increase in the price of the service from 01.04.2024.</p>
recommendations with suggested measures	To carry out larger control and preventive inspections of the machines, equipment, motor vehicles by the operators themselves, as well as by the maintenance department, in order to determine the defect earlier and with lower costs, it is deflected, rather than a larger defect occurring, for the deflection of which greater costs will have to be incurred.
status	implemented

4. Inspection and control of all measures that are given as a recommendation and determined by the external inspection of the IMS by the external auditors in the Sivec mine and in the factory	
report number	No.:04-2024

Finding and Opinion	<p>In accordance with IMS and ISO standards, there is a reasonable assurance of compliance of operations in all sectors within the framework of the law, an advanced level of promptness and good internal control by the management authority. Namely, 4 recommendations were given by the external auditors, of which:</p> <p>The first recommendation is that when the goals are established, define who is responsible for fulfilling the goal and the deadline by which the goal must be completed;</p> <ul style="list-style-type: none"> - The second recommendation is to make a plan for replacement work positions; - The third recommendation is that the pressure cylinders in the maintenance sector be in a suitable place and tied; - The fourth recommendation is to regularly organize meetings regarding OSH.
recommendations with suggested measures	<p>The first two recommendations have not been implemented, as it needs to be discussed in more detail with the top management and a decision made by the Board of Directors. The third has been implemented in its entirety and the fourth has been partially implemented, as monthly oral meetings are organized.</p>
status	partially implemented

5. Checking the item MOMO00999 – HYDRAULIC HOSE, i.e. identifying all types of hydraulic hoses	
report number	No.:05-2024

Finding and Opinion	<p>In the maintenance sector, 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. Namely:</p> <p>In our records, all hydraulic hoses are recorded under one code MOMO00999 – HOSE HYDRAULIC, while the different values for which the hoses were purchased are collected and divided by the current quantity of hoses that exist in stock, and in this way an average price is obtained, after which the hoses are further invoiced. In this way, an unrealistic price for the hoses is obtained and therefore it is recommended to open several new basic codes for the different hydraulic hoses in order to have a more realistic price and a more accurate representation of the different type of hydraulic hoses.</p>
recommendations with suggested measures	<p>In order to obtain a more realistic cost in the accounting book of the hoses, in consultation with the preventive maintenance, it is recommended to perform a simpler division of the hoses and the opening of the initial three codes in relation to the delimitation of the price of the hoses into three groups:</p> <ul style="list-style-type: none"> ➤ First group – hydraulic hoses up to ¾" inch; ➤ Second group – hydraulic hoses from ¾" to 1.5" inch; ➤ Third group – hydraulic hoses over 1.5" inch.
status	not implemented

6. Information on other activities performed

During 2024, 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 2023/2024;

- Implementation of internal audit for ISO IMS in all sectors in Sivec mine and in processing from 17.06.2024 to 19.06.2024;
- Control and correction of the entered daily cards of the employees from Sivec mine and factory in Microsoft Dynamics NAV and preparation of monthly reports on the loaded amount of waste material from the dumpers, for the daily amount of cut m² of the diamond wire saws, for the daily number of drilled meters of the drilling machines and for the daily amount of cut meters of the fountains;
- Occasional provision of independent and objective advisory services on certain issues at the request of the management;

7. Assessment of the adequacy and efficiency of internal control systems

Internal control is a continuous process that is carried out by the management and employees of the Company and is established to provide reasonable certainty for achieving the goals.

The system of internal control is constantly changing and adapting depending on the changes in the legal regulation, the changes in the technology of certain processes or systems and therefore represents a significant component in the management and setting 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 2024 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 2024 to December 2024, foreseen by the Annual Internal Audit Plan, have a low importance rank 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 regulation 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 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:
27.12.2024

Made by:
Aneta Trkaleska

