

# **RULEBOOK ON THE SELECTION, PERFORMANCE AND REPORTING OF EXTERNAL AUDIT**



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**ALKALOID**  
**SKOPJE**

*Health above all*

Pursuant to Article 119 of the Statute, the Management Board of ALKALOID AD Skopje, under Article 193 of the Statute, at its meeting on 22.12.2022, passed the following:

## **RULEBOOK ON THE SELECTION, PERFORMANCE AND REPORTING OF EXTERNAL AUDIT**

### **I. GENERAL PROVISIONS**

#### **Article 1**

This Rulebook shall set out the procedures for performing external audits, including criteria for determining and maintaining independence and objectivity, the selection process and criteria for choosing an external auditor, the work plan, reporting frequency and methods, and other matters relevant to the engagement and activities of the external auditor.

#### **Article 2**

External auditors shall conduct audits and produce audit reports following the Audit Agreement and the Annual external Audit Plan for:

- Consolidated and non-consolidated financial statements following the provisions of the Company Law, the Audit Law of the Republic of North Macedonia, and other applicable regulations governing this matter.
- Consolidated and non-consolidated financial statements in compliance with International Financial Reporting Standards.
- Other Company documents for performing a special purpose audit;

#### **Article 3**

External audits can be either regular annual audits or extraordinary audits.

Regular annual audits shall be performed for one calendar year period, following the provisions of the Company Law regarding documents adopted at the Annual Assembly of Shareholders.

Extraordinary audits shall be performed to meet other business or legal requirements under other legal provisions for audits specified in the applicable regulations.

### **II. SELECTION PROCEDURE AND CRITERIA FOR EXTERNAL AUDITOR**

#### **Article 4**

The audit firm to conduct the external audit (hereinafter: the external auditor) shall be selected following the Company Law, the Company's Statute, this Rulebook, other applicable internal acts, and regulations that govern the matter.

The Finance Department shall initiate the external auditor selection process.

The Finance Department shall determine the need for an external audit, whether for a regular annual or an extraordinary one.

## Article 5

The Finance Department shall set the criteria for choosing an external auditor based on the mandatory provisions of applicable regulations, the Statute, and other internal acts, considering the subject of the audit.

The Finance Department shall typically consider the following selection criteria: service cost, the external auditor's experience and expertise, previous successful collaborations between the Company and the external auditor, recommendations from other companies, the audit timeframe, the size and composition of the audit team, and other relevant factors.

The Finance Department, with the Chief Executive Officer's approval, shall select the external auditor from several options by either collecting offers and selecting the most favourable one or conducting direct negotiations with a particular external auditor.

## Article 6

The Finance Department shall initiate the selection of an external auditor to perform the regular annual audit in a timely manner.

When initiating the selection, the Finance Department shall consider the deadlines regarding the Annual Assembly of Shareholders as specified in paragraph 1 of Article 43 of the Company's Statute.

Based on the established need to perform a regular annual audit, the Finance Department shall prepare a proposal to select the external auditor following the criteria defined in this Rulebook. They shall prepare this proposal no later than the compilation of the annual account, financial statements, and annual performance report for the previous year.

The proposal mentioned in the previous paragraph pertains to the regular annual audit for the calendar year when the Annual Assembly of Shareholders is held.

## Article 7

The proposal for the selection of an external auditor to perform the regular annual audit must be elaborated based on the external auditor selection criteria specified in this Rulebook.

Specifically, the proposal shall include information about the selected audit firm and the price offered.

The Finance Department shall send the proposal to the Supervisory Board for adoption.

The proposal adopted by the Supervisory Board shall be forwarded to the Management Board for convening the Annual Assembly of Shareholders and preparing draft decisions and other documents submitted for adoption at the Annual Assembly of Shareholders.

The Management and Supervisory Boards shall be entitled to request further explanations from the Finance Department and/or request the inclusion of certain information and parameters in the proposal.

If the proposal does not correspond to the criteria of this Rulebook, the Management Board may request the Finance Department and the Supervisory Board to review it.

## Article 8

If an extraordinary audit is needed, the Finance Department shall initiate an external auditor selection procedure in time to fulfil the specific purpose for which they are engaged.

Having established the need for an extraordinary audit, the Finance Department shall prepare a proposal to select an external auditor, following the criteria defined in this Rulebook.

### **Article 9**

The proposal for the selection of an external auditor to perform the extraordinary audit must be elaborated explained based on the external auditor selection criteria specified in this Rulebook.

Specifically, the proposal shall include information about the selected audit firm, the price offered and the specific need to perform an extraordinary audit.

The Finance Department shall send the proposal to the Management Board for adoption. As required by the Company Law and the Statute, if the work in question falls within the competence of the Supervisory Board, the proposal shall also be sent to them.

The Management and Supervisory Boards shall be entitled to request further explanations from the Finance Department and/or request the inclusion of certain information and parameters in the proposal.

The Management Board shall adopt the proposal for selecting an external auditor following the Company Law and the Statute. If necessary, the proposal shall be submitted for adoption by the Assembly of Shareholders as required by the Law and the Statute.

### **Article 10**

An Audit Agreement shall be signed with the selected external auditor, containing all the relevant information from the selection proposal.

## **III. PERFORMANCE OF THE EXTERNAL AUDIT**

### **Article 11**

After selecting an external auditor following the Company Law and this Rulebook, the Finance Department shall prepare a General Audit Plan.

### **Article 12**

The General Audit Plan shall contain the following information:

1. The type of audit;
2. A list of companies in the ALKALOID AD Skopje group, systems, and processes planned for audit;
3. Clear, achievable, and measurable objectives for each audit; and
4. Possible indicators (time frame, available resources, and possible engagement of external experts).

The external experts' engagement is planned for certain types of external audits, considering the scope, complexity, necessary qualifications, or availability of external resources.

The necessary time for preparing the audit reports shall also be considered when planning the external auditor's activities.

### **Article 13**

The audit shall start with an initial meeting between the management of ALKALOID and the manager of the audit firm, accompanied by the head of the audit team and the external auditors performing the audit.

At the initial meeting, the manager of the audit firm shall do the following activities:

- Introduce the audit team to ALKALOID management;
- Present the audit purpose and give a brief overview of the approach to be used. If the firm conducts the audit for the first time, it shall provide a more detailed explanation;

- Undertake that the external audit will keep the ALKALOID`s management informed of the audit progress and that management`s assistance will facilitate the audit;
- Requests additional information on audit areas;
- Discusses with management the areas that the external audit deems to need special attention;
- Requires executives to point to specific areas they believe need to be examined; and
- Determines the list of documents to be submitted for the audit.

#### **Article 14**

After the preliminary examinations and initial meeting, the external auditors should prepare a detailed audit plan submitted to the ALKALOID`s management. The plan shall include the following:

1. Composition of the audit team (including external experts);
2. A detailed plan for auditing companies in the ALKALOID group;
3. A detailed plan for the system or process audit;
4. Key objectives of the systems/processes prepared under the SMART method (specific, measurable, achievable, realistic, and timely);
5. Brief description of the system/process audit, including:
  - System/process name
  - Resources included in the system/process (financial resources, materials, employees, time, information, and knowledge/technology)
  - Name of activities/process steps
  - Description of activities (method of processing resources)
  - Controls related to activities (checks, reviews, other)
  - Results (product, impact, and achievements) of the system processing
  - Name of the person responsible for the activity
6. A detailed plan for presenting significant findings from the audited financial statement/system/process;
7. Key contacts (list of persons to be contacted/interviewed);
8. Audit objectives;
9. Audit scope;
10. Priorities/critical issues and possible problems;
11. Audit approach and techniques (types and levels of review and testing to be performed; external audit procedures related to data collection, analysis, processing, and documentation);
12. Planned dates for the completion of preliminary research, fieldwork, draft report preparation, preliminary report submission, and final audit report submission.

#### **Article 15**

After establishing the audit objectives, the head of the audit team shall prepare an audit program for each audited system or process.

The audit program shall include the following elements:

- Objectives of the system/process/activity;
- Control objectives (the reason for the control);
- Risks;
- Identified controls;
- Assessment of identified controls versus risks;
- Compliance tests to verify the adequacy and proper functioning of established controls;
- Substantive tests (check for errors or losses resulting from control failures);
- Working documents; and
- Conclusions and comments (information on the audit results for the entire process or a specific step).

## Article 16

Fieldwork is a systematic process for collecting objective evidence confirming the accuracy and truthfulness of financial statements/systems/processes subject to audit. The assessment shall include findings on the positive aspects and weaknesses of financial reporting processes and other systems or processes versus the identified risks and goals.

The purpose of fieldwork is to perform all audit activities specified in the audit plan to achieve the audit purpose.

During fieldwork, auditors use methods compliant with applicable regulations in the Republic of North Macedonia and international standards and accepted best professional practices, including:

- supervision,
- confirmation,
- verification,
- examination,
- analysis, and
- evaluation.

The evidence should support the findings of the audited financial statements, systems and processes. Particular attention shall be paid to the efficiency of operations in line with the objectives.

The audit shall assess the quality and efficiency of management controls and the accuracy of financial data. The assessment shall compare the audit program's control objectives and the actual situation identified by testing and interviewing the process implementers.

## Article 17

The Management Board shall allow the external auditor to access all documentation, including trade secrets.

The external auditor shall request explanations and evidence necessary to properly examine financial statements from the Management Board or the departments and persons authorized by it, primarily the Finance Department.

## IV. REPORTING OF AUDIT

### Article 18

If an annual audit is performed, the auditor shall issue several reports as part of its engagement:

1. An audit report compiled following the applicable laws of the Republic of North Macedonia. This report shall cover the Statutory Financial Statements and contain a separate section entitled "Report on Other Legal and Regulatory Requirements," which shall include a report on the consistency of the information disclosed in the annual performance report and annual statement. ALKALOID must submit its annual report to the auditor for evaluation in advance. The auditor shall read the annual performance report and (1) assess whether it is consistent with the audited regular annual financial statements for the same business year and (2) whether it is compliant with the applicable legislation. The audit report covering the statutory financial statement (unconsolidated and consolidated) shall be issued in Macedonian, with a translation of the audit opinion in English and attached to the audited financial statements (unconsolidated and consolidated). According to International Auditing Standards (IAS), upon completion of the audit, the auditor may prepare a Letter to Management outlining the audit findings and recommendations relating to accounting, financial, and business matters. If the auditor writes a Letter to Management, they must provide the management with the draft letter so they can consider the management's comments before issuing the final version of the Letter.

2. The auditor will audit the unconsolidated and consolidated financial statements for the year ending on December 31, compiled following the International Financial Reporting Standards (IFRS). The work shall result in opinions issued in accordance with the International Standards on Auditing (ISA) published by the International Federation of Accountants (IFAC), accepted and published in the Republic of North Macedonia. This report shall be issued in English.

If performing an extraordinary audit, the external auditor shall issue a report according to the contractual provisions and regulations applicable to that type of audit.

#### **Article 19**

If performing a regular annual audit, the external auditor shall prepare the audit opinion on the financial statements no later than one month before the Annual Meeting of Shareholders.

## **V. OBJECTIVITY AND INDEPENDENCE CRITERIA FOR THE EXTERNAL AUDITOR**

#### **Article 20**

The external auditor shall be objective and independent throughout the audit performance.

While performing a regular audit and for at least the two previous years, the auditor shall not provide any other service to the Company that could compromise their objectivity and independence.

If any other audit firm employee provides non-audit services to the Company or its related entities, the Finance Department must inform the Supervisory Board if it deems this person cannot ensure the objectivity and independence criteria.

## **VI. FINAL PROVISIONS**

#### **Article 21**

This Rulebook shall be amended in the same way and procedure as for its adoption.

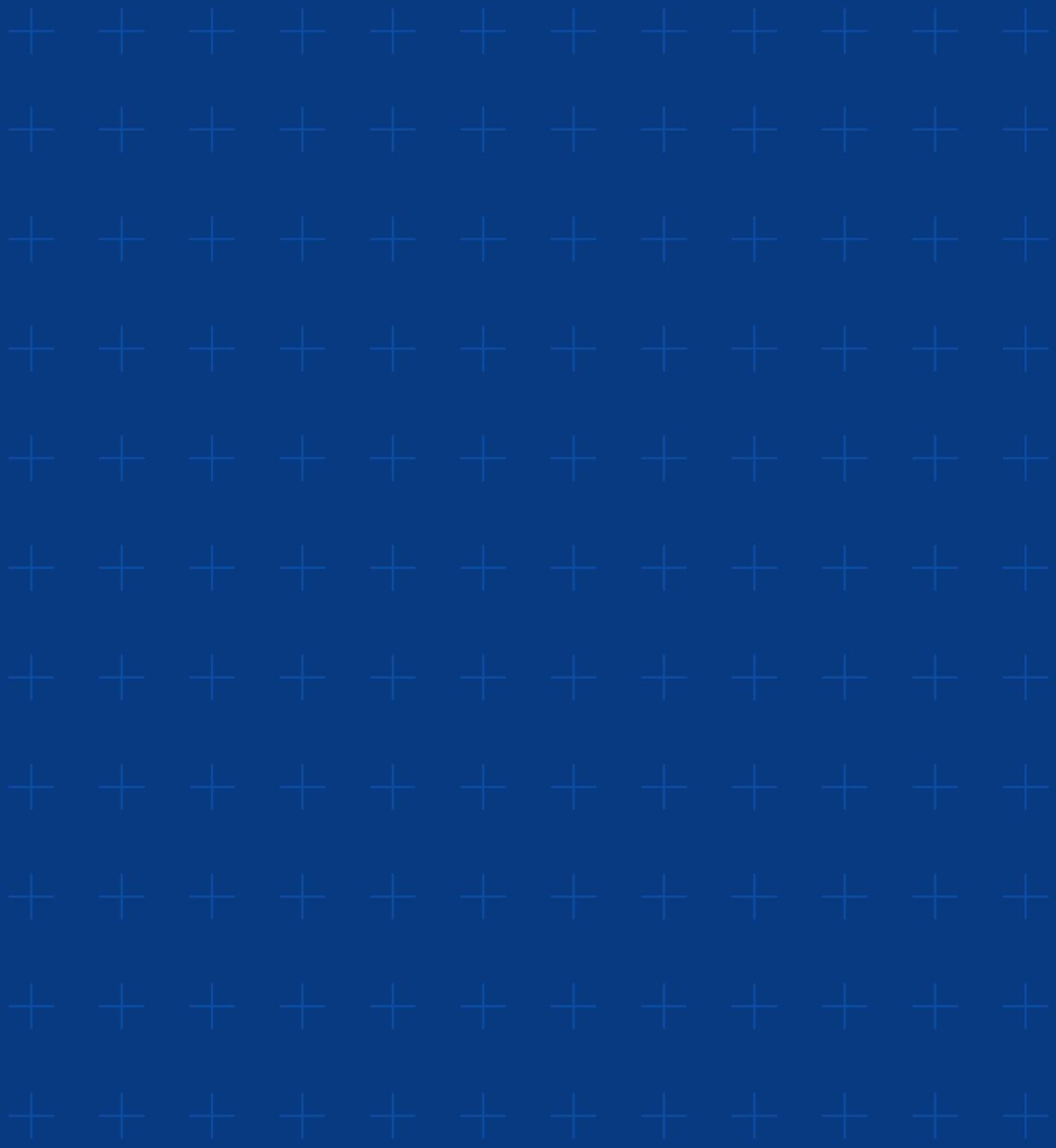
This Rulebook shall take effect on 01.01.2023.

#### **Article 22**

If any provision of this Rulebook conflicts with the applicable regulations or the Statute, Rulebook amendment will be initiated immediately, and until then, the requirements of the relevant regulations and the Statute shall directly apply to the activities according to this Rulebook.

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<sup>1</sup>This version of the Rulebook on the Selection, Performance and Reporting of External Audit of ALKALOID AD Skopje is formatted and designed to inform the public about it. The official version of the Policy is kept at the Company headquarters.



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