

## 7.11. CONTROL AND AUDIT SYSTEM

### Internal Control System

The Transneft internal control policy is stipulated in the Regulations on Internal Control Procedures. As per the Regulations, internal control is exercised by authorised units of Transneft to fulfil the following tasks:

- to ensure that investors trust Transneft and its management bodies, to protect capital investments of shareholders and Transneft's assets;
- to maintain the high level of Transneft's business reputation;
- to ensure fullness and accuracy of Transneft's financial and managerial reports;
- to ensure compliance with Russian regulatory acts, decisions of management bodies and local regulatory acts of Transneft;
- to ensure safety of Transneft's assets and efficient use of its resources;
- to ensure execution of Transneft's financial and business plans.

The Internal Audit Unit conducts an annual assessment of the reliability and efficiency of the internal control system and provides the Board of

Directors of Transneft with a report on the results of the assessment.

Taking into account the internal audits conducted, the implementation of corrective action plans by the Company and its subsidiaries, comprehensive assessments, the internal control system of the Company and its subsidiaries in general is recognised as effective.

The report on the results of the activities of the Internal Audit Unit of Transneft for 2020 was submitted for consideration to the Board of Directors and approved in May 2021 (Minutes No. 4 dated 19 May 2021).

The Company does not have a special business unit for internal control.

For more detail, please see [Sections](#)  
[Protection of Insider Information](#)  
[and Countering Corruption](#)

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### Internal Audit System

The internal audit policy of Transneft is stipulated in the Regulations on Internal Audit (approved by the resolution of the Board of Directors of Transneft dated 20 September 2019 (Minutes No. 16). Internal audit helps the Company and its subsidiaries reach the set targets through the use of a systematic and consistent approach to assessing and raising the efficiency of the risk management system, the internal control system and the corporate governance of the Transneft system.

Internal audit within the Company and its subsidiaries is performed by the department of internal audit and analysis of core business activities.

In 2020, Transneft's Department of Internal Audit and Analysis of Core Business Activities operated in accordance with Transneft's General Guidelines (Plan) for Internal Audit for 2020 approved by the Board of Directors of the Company. In pursuance of this plan, 109 internal audits were conducted in relation to the Company and its subsidiaries for the following main types of activities:

- execution of certain provisions of the Long-Term Development Programme;

- organisation and conduct of procurement and contract execution procedures;
- capital investments in fixed assets;
- fixed assets and inventories;
- implementation of commercial operations with oil (petroleum products), ensuring oil (petroleum products) preservation;
- financial management and budgeting;
- forming the financial results, distribution and use of revenue;
- automation systems and information systems;
- comprehensive assessment of the internal control and risk management systems;
- other specific issues of financial and operational activities.

Such audits resulted in recommendations on improvement of the business processes, elimination of the existing shortcomings and remarks, followed by checking whether the recommendations were observed.

The Audit Committee under the Company's Board of Directors annually assesses the efficiency

**Internal Audit is carried out for the following types of activities**

Type of activity	Measures
Assessment of the reliability and efficiency of the internal control system	<ul style="list-style-type: none"> <li>analysing the business processes aims conformity, projects, business units in the Company and its subsidiaries to the goals of Transneft Group.</li> <li>checking the efficiency, reliability and integrity of business processes (operations) and information systems, including the reliability of procedures for countering illegal actions, abuse and corruption;</li> <li>checking the accuracy of accounting (financial), statistical, managerial and other reports; determining to what extent the results of activities of the Company's business units and subsidiaries achieve the set goals;</li> <li>determining the adequacy of criteria established for analysing the degree of achievement of the set goals;</li> <li>detecting flaws of the internal control system which bar (barred) the Transneft system from reaching the set targets;</li> <li>assessing the results of measures tailored to eliminate violations and flaws while improving the internal control system taken by the Company and its subsidiaries on all corporate governance levels;</li> <li>checking the efficiency and expediency of using resources of the Company and its subsidiaries;</li> <li>checking the safety of assets owned by the Company and its subsidiaries;</li> <li>checking compliance with the law, the Articles of Association and internal regulatory documents of the Company and its subsidiaries.</li> </ul>
Assessment of the reliability and efficiency of the risk management system	<ul style="list-style-type: none"> <li>checking the sufficiency and maturity of the risk management system's elements possessed by the Transneft system for efficient risk management. These elements of the RMS include goals and objectives, infrastructure including corporate structure, automation tools and such, arrangement of processes, regulatory and methodological framework, interaction of business units within the RMS and reporting;</li> <li>checking whether the risks are fully exposed and correctly assessed by the management of the Company and its subsidiaries on all corporate governance levels;</li> <li>checking the efficiency of monitoring procedures and other risk management measures, including the efficiency of use of the resources allocated for these purposes;</li> <li>analysing information about the materialised risks (including violations detected during inspections, underperformance to target, lawsuits and other cases).</li> </ul>
Assessment of corporate governance	<ul style="list-style-type: none"> <li>checking adherence to business ethic principles and corporate values of the Transneft system;</li> <li>checking the procedure of goal-setting by the Company and its subsidiaries as well as monitoring their implementation;</li> <li>checking the level of regulatory support and information exchange procedures (including regarding risk management and internal control) at all corporate governance levels of the Transneft system, the Company and its subsidiaries, including engagement with stakeholders;</li> <li>checking whether the shareholders' rights are respected, including subsidiaries' shareholders, as well as whether interaction with stakeholders is efficient;</li> <li>checking the procedures of disclosing information about the activities of the Company and its subsidiaries.</li> </ul>

of performing internal audit functions, considers the matters of essential limitations and threats to the independence in performing internal audit functions. The Company's Board of Directors annually approves a report on the performance results of the internal audit unit.

The Board of Directors of Transneft approved the Measures to Improve the Internal Audit of Transneft and its Subsidiaries (Minutes No. 10 dated 7 May 2020), developed, in particular, taking into account the recommendations issued by KPMG following the results of the external assessment of the quality of internal audit in 2019.

Based on the 2020 performance, the Audit Committee under the Board of Directors of the Company recognised the performed internal audit function as efficient at the Company and its subsidiaries, recognised the absence of essential limitations and threats to the objectivity of the internal auditors, as well as to the independence in performing internal audit functions at the Company

and its subsidiaries, in 2020. The Company's Board of Directors approved a report on the performance results of the internal audit unit.

**List of Internal Documents Governing the Internal Audit Functions:**

- The Regulations on Internal Audit (approved by the resolution of the Board of Directors of Transneft on 20 September 2019 (Minutes No. 16);
- Regulations on Transneft's Department of Internal Audit and Analysis of Core Business Activities No. 08-03/001 dated 08 December 2015;
- The Internal Auditors' Code of Ethics (approved by Transneft Order No. 87 dated 21 April 2016);
- The Internal Audit Quality Assessment and Improvement Programme (approved by Transneft Order No. 136, dated 14 July 2016)
- The Regulations on Planning Internal Audits and Analysing the Core Business Activities of Transneft and its subsidiaries (approved by the Transneft President on 24 November 2016).

## External Audit

Pursuant to Paragraph 4 of Article 5 of Federal Law No. 307-FZ On Auditing dated 30 December 2008, a contract for mandatory audit of accounting (financial) statements of a company where the government owns at least a 25% stake in the authorised (joint) capital shall be signed with an audit company or an individual auditor winning an open tender to be held at least once in five years as per the procedure stipulated in Federal Law No. 44-FZ On the Contractual System of the Federal and Municipal Procurement of Goods, Works and Services dated 05 April 2013.

The auditor selection tender for 2020 was conducted in accordance with the Regulations on Holding an Open Tender to Select an Auditor for the Mandatory Annual Audit of Transneft for 2020 and Reviewing the Interim Consolidated Financial Statements by IFRS for Q1 2021.

### Bidding Terms and Conditions:

- an auditing organisation that applies for participation in the tender shall comply with the requirements defined in the Regulations;
- the open tender notice is posted by the customer on its corporate website and on Transneft's website at least 20 days before the day when the envelopes containing the tender applications are opened and access to the tender applications submitted in the form of electronic documents is provided;
- to participate in the tender, an application should be submitted within the time specified in the open tender notice; acceptance of open tender applications is closed on the day when the envelopes containing the tender applications are opened and access to the tender applications submitted in the form of electronic documents is provided;
- the open tender applications should contain the necessary information and documents about the open tender participant, as well as technical and financial proposals;
- evaluation and comparison of the open tender applications is to be completed no later than twenty days after the opening;

- evaluation and comparison of the applications is carried out by scoring the technical and financial proposals contained therein in accordance with the criteria and the procedure established by the Tender documentation. Each open tender application is assigned a reference number to be listed in order of descending profitability of the terms of contract performance contained therein. The winner of the open tender is the participant whose open tender application was assigned to the first number;
- the minutes of evaluation and comparison of the applications is posted on the corporate website and on the Company's website on the day following the aforementioned minutes signing day.

Based on the open tender results, the Board of Directors of the Company nominates the winner of the tender for the General Meeting of Shareholders to approve.

The auditor's remuneration for auditing services is determined after conducting the open tender. As per the contract for auditing the statements of Transneft for 2020, it amounted to RUB 12.9 million excluding VAT.

### Results of Audit Efficiency Assessment by the Audit Committee

The Audit Committee under the Transneft Board of Directors evaluates the auditor's opinion's conformity to Federal Law No. 307-FZ On Audit Activities, dated 30 December 2008, as well as its compliance to the effective auditing standards.

The audit report on the accounting (financial) statements of Transneft for 2019 was provided by KPMG on 26 March 2020. The report was reviewed by the Audit Committee and recognised as complying with the requirements established by the International Auditing Standards in Force in the Russian Federation

The audit report on the accounting (financial) statements of Transneft for 2020 was considered by the Board of Directors of Transneft in April 2021.

## Insider Information Protection

In connection with the entry into force of the Bank of Russia Directive dated 01 August 2019 No. 5222-U On Requirements for Internal Control Rules for the Prevention, Detection and Suppression of the Unlawful Use of Insider Information and/or Market Manipulation by Legal Entities Specified in Clauses 1, 3 - 8, 11 and 12 of Article 4 of the Federal Law of July 27, 2010 No. 224-FZ On Counteracting Unlawful Use of Insider Information and Market Manipulation and on Amendments to Certain Legislative Acts of the Russian Federation:

- the Regulations for Access to Insider Information of Transneft and Internal Control Regulations for Prevention, Detection and Suppression of Unlawful Use of Insider Information and (or) Company's Market Manipulation were approved (Minutes of the meeting of the Board of Directors No. 16 dated 21 September 2020);
- members of the management and control bodies and employees of the Company familiarised themselves with the Regulations and Requirements for Prevention, Detection and Suppression of Unlawful Use of Insider Information and (or) Market Manipulation;
- the Order on Counteracting Unlawful Use of Insider Information was approved;

- the Corporate List of Insider Information was approved;
- the For the Insiders special section has been created and is maintained on the official website and internal corporate portal of the Company, where information about the beginning and end of moratorium on transactions with the Company's financial instruments is posted quarterly.



[Regulations for Access to Insider Information of Transneft](#)



[For more details, see Information for the insiders](#)

## Countering Corruption

Anti-Corruption activities of Transneft are organised in accordance with Federal Law No. 273-FZ On Combating Corruption dated 25 December 2008, the National Anti-Corruption Plans and annual Transneft's Action Plans for Preventing and Countering Corruption.

The priority areas of the Company's activities in the field of preventing and countering corruption are determined by the Board of Directors of Transneft, which approves the Company's Anti-Corruption Policy and an annual report on the measures taken to prevent and combat corruption.

Transneft's Commission for Countering Corruption coordinates the activities of the Company's business units and officials in implementing the Company's Anti-Corruption Policy. The Anti-Corruption Division provides support for anti-corruption activities and coordination of measures aimed at preventing and combating corruption in Transneft.

The Company's anti-corruption hotline is there for employees to report possible acts of corruption in the activities of the Company or its subsidiaries' personnel. Every employee must inform the employer about the

facts of being contacted in an attempt to induce them to commit corruption offenses and about corruption offenses that have become known to them, committed by other employees of Transneft and its subsidiaries or counterparties of Transneft and its subsidiaries.

Transneft is taking measures to identify and resolve employees' conflicts of interest. Additional measures were introduced for employees holding positions with high corruption risk to prevent and manage conflicts of interest, i. e. annual submission of declarations on conflict of interest. Conflict of interest notifications are considered collectively at meetings of Transneft's Commission for Countering Corruption.



[For more details on anti-corruption measures, see Transneft's web site](#)

## Results for the Reporting Year

In 2020, in accordance with the Resolution of the Government of the Russian Federation No. 613 dated 22 July 2013, Transneft ensured that the employees holding the positions of the President, the First Vice President and Vice Presidents of Transneft, as well as candidates to fill these positions, submitted information on their income, expenses, assets and liabilities to the Government of the Russian Federation.

In 2020, as part of improving the regulatory framework, the Anti-Corruption Policy of Transneft, the Regulations on Conflicts of Interests of Transneft, the Memo to the Employees on the Basics of Anti-Corruption Behavior and other internal regulatory documents governing measures to prevent and combat corruption in Transneft were updated.

In 2020, in pursuance of the National Anti-Corruption Plan, advanced training was organised for employees involved in implementation of anti-corruption measures, as well as training for persons holding positions in the additional anti-corruption measures list. For these purposes, the Company engages specialists from the Federal State Research Institute of Legislation and Comparative Law under the Government of the Russian Federation and the Higher School of Economics National Research University.

Based on the results of the taken anti-corruption measures in 2019, the Internal Audit Unit conducted a comprehensive assessment of the risk management and internal control system in the field of preventing and combating corruption. The level of efficiency of the system was found to be satisfactory. Recommendations to improve the efficiency of the anti-corruption measures taken at Transneft were included in Transneft's Action Plan for Preventing and Countering Corruption for 2020 and were implemented. In 2020 and in Q1 2021, measures were also taken to assess the Risk Management and Internal Control System in the field of preventing and combating corruption – the level of efficiency of the system was found to be satisfactory.

Measures for preventing and countering corruption, carried out in accordance with the Methodological Instructions of the Ministry of Labour of Russia on a regular basis, measures to fulfill the orders of the Government of the Russian Federation, as well as additional measures to improve the efficiency of countering corruption in Transneft and proposals received from independent business units of the Company are included in Transneft's Action Plan for Preventing and Countering Corruption for 2021.

## Information on Business Ethic Performance

The Code of Ethics and Conduct for Employees of Transneft and Transneft Subsidiaries defines the ethical standards and principles of corporate relations and conduct for employees of Transneft and Transneft

subsidiaries in regulation of internal relations, as well as during official functions and hospitality events. Compliance with the Code is mandatory for all employees.



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