

# ENSURING INTERNAL CONTROL WITHIN ZARUBEZHNEFT GROUP

The primary objective of the Internal Audit Section of Zarubezhneft JSC is to assess the risks management system performance and express an opinion on the reliability and performance of the internal control and corporate governance system in place in the Group.

In its activities, the Section is guided by the Regulation on Internal Audit of Zarubezhneft JSC, Methodology for Planning and Conducting Internal Audits, and Regulation on the Internal Audit Section.

Functionally, the Internal Audit Section is accountable to the Board of Directors of Zarubezhneft JSC. The existing structure of subordination of internal audit service to the Board of Directors and executive bodies of the Company provides Internal Audit Section with independence sufficient to perform the functions assigned thereto.

The annual plan of internal audits and the report on the Section performance are subject to review by the Audit Committee, and to approval by the Board of Directors of Zarubezhneft JSC.

In 2019, the key areas of internal audits were set as follows:

- evaluation of the corporate KPIs achievement (on a quarterly basis);
- audit of sale of non-core assets of Zarubezhneft Group (on a quarterly basis);
- audit of the risks management process in Zarubezhneft Group;
- audit of internal control and risks management system, as to anti-corruption;
- audit of the investment project "Boca de Jaruco" performance;
- audit of the investment project "Lutseyakhskoye Field Build-Out";
- audit of the jack-up "Murmanskaya" class-restoring repair process;

- audit of the business process "Construction and Facilities Management" of Zarubezhneftstroyromontazh LLC;
- audit of the business process "Management of Procurement and Sale of Optional Goods" of Nestro Petrol A.D.;
- audit of production system of Zarubezhneft JSC.

As a result of the audits conducted, the Internal Audit Section assessed the internal control system as to business processes, and made recommendations for improvement thereof.

In addition to scheduled audits, the Internal Audit Section carried out a number of unscheduled inspections as instructed by the General Director of Zarubezhneft JSC.

The Internal Audit Section is the owner of the business process "Auditing in Subsidiaries". In accordance with the "Regulations for Auditing Subsidiaries", the Section coordinates the processes of auditing, and drafting audit reports and opinions. The Section continuously monitors the implementation of recommendations based on completed internal audits and auditing activities aimed at improving the systems of internal control, risks management, and corporate governance.

Within the framework of the expert function, the Section's employees carried out expert review of documents related to BDs/management/organizational structure/general meetings of shareholders of the subsidiaries, and took part in the activities of expert groups of Zarubezhneft JSC.

During the financial year, in order to improve the internal audit regulatory framework, the following regulatory document was updated:

- a revised edition of the "Methodology for Planning and Conducting Internal Audits" was approved.

During the year, as part of the development and improvement of the internal audit function, and in line with the recommendations of external consultants, the Section implemented the activities as follows:

- an algorithm was developed for evaluation and ranking of the non-conformities detected in the course of internal audits;
- efforts were made to develop the internal audit function in terms of IT-audits;
- a system of annual evaluation and planning of internal audits ("audit universe") was developed and put into practice;
- online monitoring of procurement activities was conducted.

In accordance with the requirements of the International Standards for the Professional Practice of Internal Auditing, and in line with the best practices, the Section operates:

- a procedure to certify the employees' independence and freedom from conflicts of interest;
- a unified system of accounting for violations/breaches/faults detected through audits, and monitoring the remedial measures;
- an internal audit quality management system (under ISO 9001:2015).

Throughout the year, in order to develop professional expertise, all employees of the Internal Audit Section participated in training events such as trainings, seminars and workshops, and strategy sessions.