

Internal audit

Internal Audit Service

The Internal Audit Department is a subdivision responsible for the implementation of the internal audit function in the Company. The objectives of the Company's internal audit and approaches to its organisation comply with the standards set out in Clause 2, Article 87.1 of Federal Law No. 208-FZ "On Joint Stock Companies" dated 26 December 1995.

In accordance with [the Company's Internal Audit Policy](#)¹, the Internal Audit Department functionally reports to the Board of Directors of the Company. The Board of Directors controls and organises the activities of the Internal Audit Department, including approval of the internal audit action plan, the progress report on the internal audit activity plan and the budget of the Internal Audit Department, reviews material limitations on the powers of the Internal Audit Department or other restrictions that may adversely affect the internal audit, handles preliminary approval of decisions of the sole executive body of the Company on appointment, termination of appointment (not on the employee's part) of the Head of Internal Audit, as well as approves the terms of the employment agreement with the Head of Internal Audit, considers the findings of the quality assessment of the internal audit function.

Internal auditing is a process that aims to improve the performance of the Company by offering unbiased, impartial assurance and recommendations. Through a methodical and consistent approach to evaluating and enhancing the efficacy of risk management, internal control, and corporate governance, internal audit seeks to support the Company in accomplishing its goals in the most economical and efficient way possible.

The goals, objectives and functions of internal audit are defined in the Internal Audit Policy.

Internal audit follows these fundamental guidelines in its operations:

-  Independence
-  Impartiality
-  Honesty
-  Confidentiality
-  Professional competence

The Company has the following main documents in place to regulate the internal auditing process:

- The Company's Internal Audit Policy, including the Code of Ethics for Internal Auditors of the Rosseti Group
- The Company's Internal Audit Quality Assurance and Improvement Programme²
- Internal standards of internal audit and standards of practical application developed in accordance with the recommendations of the Bank of Russia and Rosimushchestvo, International professional standards of internal audit

As of 31 December 2023, the actual number of employees involved in internal audit function was 20 FTEs.

Key Decisions and Measures to Improve the Internal Audit System

The resolution of the Board of Directors of the Company dated 1 March 2023 approved the action plan of the Company's Internal Audit Department for 2023, as well as the budget of the Company's Internal Audit Department for 2023³.

Based on the results of the internal quality assessment (self-assessment) of internal audit activities for 2023, Internal audit activities at the Rosseti Group were rated 4 points, which, in accordance with the assessment methodology approved by the Company's Internal Audit Quality Assurance and Improvement Programme³, corresponds to the category of 'fully compliant'.

The Head of Internal Audit receives feedback from the Audit Committee of the Board of Directors of the Company (hereinafter referred to as the Audit Committee) in various forms in the course of interaction with the Audit Committee, including analysing decisions/recommendations of the Audit Committee on matters within the internal audit remit, as well as by means of questionnaire survey of the members of the Audit Committee.

The indicator of satisfaction of the Audit Committee with the performance of the internal audit function (weighted average sum of points on the questionnaires of the voted members of the Audit Committee to the number of voted members of the Committee) at the end of 2023 corresponds to a score of 4 ('fully compliant') according to the Company's Internal Audit Quality Assurance and Improvement Programme.


The Internal Audit Department of the Company is responsible for methodological and operational support of the activities of the internal audit divisions of the Company's subsidiaries.

According to the results of the 2019 external independent assessment of the internal audit of the Rosseti Group, the Company's internal audit activities were assessed as 'generally compliant' with requirements of the International Professional Standards for Internal Auditing, Code of Ethics, Internal Audit Policy with recommendations issued to improve internal auditing process¹.

Approaches to the Evaluation of the Performance of Executive Bodies and Results of Such Evaluation in the Reporting Period²

The Company's corporate governance assessment methodology and procedure are defined in the Methodology for Corporate Governance Assessment in the Company approved by Company Order No. 116 dated 11 April 2019 (hereinafter referred to as the Assessment Methodology) and comply with the recommendations of the Bank of Russia and Rosimushchestvo. Answers to questions about the following corporate governance components — shareholder rights, the Board of Directors, executive management, transparency and disclosure, risk management, internal control and internal audit, corporate social responsibility, business ethics and compliance — are used to evaluate whether or not the components meet the requirements.

The Company's internal auditors conducted an annual corporate governance assessment in 2023. The internal auditor's report on assessment of corporate governance efficiency in the Company based on the results of the 2022/2023 corporate year was reviewed by the Company's Board of Directors on 28 December 2023 (Minutes No. 640 dated 28 December 2023).

 For more details on the results of the self-assessment of corporate governance quality, please see [the Corporate Governance System section](#)



— Which of the Company's internal auditing procedures may be deemed the best?

— In 2023, Rosseti started the trial run of the internal audit, control and risk management system, which is the centrepiece of our information environment. In addition to implementing internal audit features, this system automates a single procedure that combines internal control and risk management division activities. This enables us to conduct a comprehensive risk-oriented audit in a single information environment, including everything from risk identification to evaluation of the impact of putting recommendations based on control measure results into practice. Also, by integrating with an automated procurement system, a continuous audit function has been put into place.

Furthermore, the Rosseti Group expanded its 'end-to-end' auditing practice in 2023, and the restructuring also included companies from the former PJSC FGC UES Group.

— What key decisions were made at the Rosseti Group based on the results of the internal audit?

— In 2023, a end-to-end thematic audit of the installation of fiber-optic communication lines at power grid facilities, one of the key initiatives for securing non-tariff revenue streams, was completed. Consequently, strategic decisions were taken in order to streamline operations and redesign the entire business process. They are aimed, among other things, at increasing the level of the Rosseti Group's income, resolving disputes with external regulatory authorities, complying with the rules of non-discriminatory access to power grid facilities, and creating and developing a unified technological communications network for the power engineering sector.

Anton Ulyanov,
Director of Internal Audit — Head of Internal Audit Department

¹ Approved by the resolution of the Board of Directors of the Company dated 7 June 2023 (Minutes No. 620 dated 7 June 2023).

² Approved by the Board of Directors of the Company (Minutes No. 592 dated 20 October 2022).

³ Minutes of the Board of Directors No. 609 dated 3 March 2023.

¹ The results of an external independent assessment of the internal audit at PJSC Rosseti and its S&As were reviewed by the Audit Committee of the Board of Directors of PJSC Rosseti on 16 January 2020 (Minutes No. 113) and by the Company's Board of Directors on 2 April 2020 (Minutes No. 401).

² The information was prepared in line with the recommendations of PJSC Moscow Exchange on improving the information disclosure in the annual report of PJSC FGC UES for 2021 (letter No. TM/146/48 dated 12 January 2022).