

# Audit and control

## Audit Commission

The Audit Commission oversees the Company's business operations and acts on the basis of the laws of the Russian Federation, the Charter of Russian Railways and the Regulation on the Audit Commission of Russian Railways approved by Order No. 265-r of the Russian Government dated 25 February 2004.

The Audit Commission is responsible for:

- auditing the Company's business operations for any given year and at any time as it thinks fit or as resolved by the General Meeting of Shareholders, the Company's Board of Directors or requested by the shareholder;
- auditing and reviewing the Company's financial and solvency position, systems for internal control and management of financial and operational risks, asset liquidity and debt to equity ratio;
- verifying the accuracy of the Company's annual report, annual financial statements and other disclosures or financial documents;
- auditing the accounting and reporting procedures used in the course of business operations;
- auditing the timeliness and accuracy of payments to/from counterparties

and the government, payroll and social insurance payments, as well as accrual and payment of dividends;

- checking the legality of business operations under contracts signed on the Company's behalf;
- auditing assets and other Company resources for efficient use, identifying causes of downtime and overhead costs;
- auditing compliance with improvement orders to address the gaps identified by the Audit Commission;
- auditing business-related resolutions adopted by the Chief Executive Officer – Chairman of the Management Board, the Board of Directors and the Management Board of the Company for compliance with Russian Railways Charter and resolutions of the General Meeting of Shareholders;
- providing recommendations to the Board of Directors and the Management Board of the Company on preparing and adjusting the Company's budgets;
- other matters under its purview as per the Federal Law on Joint Stock Companies, the Company's Charter and the Regulation on the Audit Commission.

### MEMBERS OF THE AUDIT COMMISSION

The Audit Commission of Russian Railways consisted of seven people in 2019<sup>1</sup>.

Members of the Audit Commission in 2019:

1. Alexander Tikhonov (Chairman)
2. Igor Belikov
3. Alexander Varvarin
4. Svetlana Gorbatykh
5. Olga Kabanova
6. Sergey Ubuğunov
7. Vasily Shipilov

The remuneration of the Audit Commission<sup>2</sup> amounts to RUB 7.3 m.

## Internal control and audit

Russian Railways has an internal control system in place to provide reasonable assurance that it will achieve its goals.

Russian Railways' internal control system leverages the most up-to-date organisational and methodological framework and best international and national professional practices, operating in full compliance with the ethical standards applied by the internal audit and control functions in the Russian and global business communities.

The main objectives of the internal control system are:

- to ensure the efficiency and robustness of business operations;
- to safeguard assets and use resources in a cost effective manner;
- to identify and manage risks;
- to ensure the accuracy and completeness of financial (accounting) and other types of statements;
- to ensure compliance with the laws and regulations of the Russian Federation and by-laws of Russian Railways.

The main structures in charge of the internal control function and their responsibilities are as follows:

- governance bodies such as the Board of Directors and its Audit and Risk Committee, the Chief Executive Officer – Chairman of the Management Board of Russian Railways, relevant deputies of the Chief Executive Officer, and the Director for Internal Control and Audit are responsible for putting internal controls in place at the corporate level;
- heads of branches, departments, divisions and units are responsible

for putting internal controls in place and ensuring their smooth running at the operational level;

- employees are responsible for the timely and efficient execution of existing internal control procedures;
  - in addition to implementing internal controls and ensuring their smooth running in relevant business units, certain departments and divisions are also responsible for exercising functional internal control within the given terms of reference in relation to end-to-end processes;
  - special internal control structures responsible for select functions
- The Zheldorkontrol Internal Control Centre is in charge of follow-up internal control to identify violations and materialised risks. The Zheldoraudit Internal Audit Centre is responsible for assessing the organisation and functioning of the internal control system.

Russian Railways' Board of Directors and its Audit and Risk Committee determine the overall concept of the internal control system, review its performance assessment results, and analyse its actual state subject to the nature, scale and conditions of Russian Railways' operations.

Deputy Chief Executive Officer – Director for Internal Control and Audit of Russian Railways supervises the internal control and internal audit operations, with the Zheldorkontrol Internal Control Centre and the Zheldoraudit Internal Audit Centre reporting directly to the Director.

**The Zheldorkontrol Internal Control Centre** is a structural unit of Russian Railways responsible for organising and conducting follow-up internal control

of financial and business operations of the Company, its subsidiaries and other companies of the Group when required.

Internal audit serves:

- to identify violations, gaps and risks in the operations of the Company's business units, subsidiaries and other companies of the Group;
- to identify financial and internal reserves and prepare recommendations on their use to improve financial position of Russian Railways and prevent financial and tax risks and losses;
- to ensure timely and complete elimination of identified violations and gaps.

Internal audit is conducted by the **Zheldoraudit Internal Audit Centre**, a structural unit of Russian Railways, which is supervised by Deputy Chief Executive Officer – Director for Internal Control and Audit of Russian Railways and functionally reporting to the Audit and Risk Committee of the Board of Directors.

The latter approves annual action plans and budgets of Zheldoraudit, reviews internal audit reports, including the assessment of the internal control and risk management systems, monitoring internal control systems of the Company's subsidiaries and other matters.

In 2019, the internal audit focused on compliance with the requirements established for a risk management and internal control system (RMICS), and involved a selective assessment of the efficiency of specific risk management initiatives and control procedures.

<sup>1</sup>. Appointed in accordance with Order No. 1393-r of the Russian Government dated 29 June 2019.

<sup>2</sup>. As per Order No. 1393-r of the Russian Government dated 29 June 2019.