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COMPANY REGULATION

INTERNAL AUDIT QUALITY ASSURANCE AND IMPROVEMENT PROGRAM

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INTRODUCTORY PROVISIONS

PURPOSE

This Regulation establishes the procedure for conducting the assessment of conformance of internal audit activity with International Standards for the Professional Practice of Internal Auditing and applying by internal auditors of the Code of Ethics of the Institute of Internal Auditors for the purpose of supporting sustainable development, improvement and efficiency improvement of internal audit of Rosneft and Group Subsidiaries.

This Regulation is developed in accordance with International Professional Practices Framework of Internal Auditing including Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics of the Institute of Internal Auditors, International Standards for the Professional Practice of Internal Auditing, Definition of Internal Audit as well as Guidelines on organization of the internal audit operation in joint-stock companies with participation of the Russian Federation approved by the Order of Rosimuschestvo dated 04.07.2014 № 249 and in accordance with Company Policy “On Internal Audit” № P4-01 P-02.

The tasks of this Regulation are as follows:

- determining the main directions of the assessment of internal audit;
- identifying approaches to ongoing monitoring of the quality of internal audit activity, both internal and external assessments of the quality of internal audit;
- identifying approaches to risk management of internal audit risks;
- identifying approaches to informing the Chief Executive Officer of Rosneft and the Rosneft Board of Directors on results of the performance of internal audit quality assurance and improvement program.

SCOPE

This Regulation is binding upon employees of:

- Rosneft Operational Audit Department;
- Rosneft Corporate Audit Department;
- Rosneft Regional Audit Department;
- Rosneft Economic and Organizational Analysis Division;
- Rosneft Internal Audit Methodology and Management Division;
- Internal audit units of subsidiaries of Rosneft in respect to which the Charters of the Subsidiaries, shareholding and other agreements with partners/ companies do not set forth a special procedure for the Shareholders / Participants to exercise their rights, including those to manage the Subsidiary.

VALIDITY AND AMENDMENT PROCEDURE

This Regulation is a permanent local normative document.

1. TERMS AND DEFINITIONS

TERMS AND DEFINITIONS OF THE CORPORATE GLOSSARY

AUDIT EVIDENCE means information and documents obtained by internal audit during the performance of check as well as results of the analysis of information and documents on which opinions of internal audit are based.

AUDIT MODEL means a document developed by internal audit when planning internal audit activity to identify the list of checks and containing information about objects to be audited, risks, risk-factors, and risk assessments.

AUDIT PROCEDURES means a set of professional actions of an internal auditor aimed at collecting audit evidence to achieve the objectives of check.

CONFLICT OF INTEREST means a situation when a personal interest (direct or indirect) of employees of Rosneft/ Group Subsidiaries and members of collegial management bodies of Rosneft/ Group Subsidiaries affects or could affect the proper, impartial and objective execution of official functions /duties (exercise of powers).

CORPORATE GOVERNANCE means the system of relationship among executive authorities of Rosneft, Rosneft Board of Directors, shareholders, Subsidiaries and other stakeholders. Corporate governance is the tool used to identify Company goals and means of achieving such goals and ensuring effective control over the Company's activities by shareholders and other stakeholders.

INTERNAL AUDIT means activity consisting in provision of independent and objective assurance and consulting aimed at improvement of the organization's performance. Internal audit helps the Company achieve the set of goals, in particular, by using a systematic and consistent approach to assessment and improvement of the efficiency of risk management, internal control and corporate governance processes.

Note: This term INTERNAL AUDIT is used also for determining the appropriate function or structural units executing this function.

INTERNAL AUDIT ACTIVITY PLAN (ACTIVITY PLAN) means the document developed by the Head of Internal Audit including scheduled audits and other internal audit activities for the planned period (one year, within the three year planning time-frame) submitted to the Chief Executive Officer of Rosneft for approval and to the Audit Committee of Rosneft Board of Directors for consent. The information about the activity plan is submitted to Rosneft Board of Directors during review of the internal audit performance report for the previous period.

INTERNAL AUDIT ITEM (AUDIT ITEM) INTERNAL AUDIT OBJECT (AUDIT OBJECT) means a business project, business process, information system, information resource, structural unit of Rosneft, Group Subsidiary, officer – an employee of the Company, subject to audit.

INTERNAL AUDITOR means the employee of the Company's internal audit, who possesses all the requisite skills and knowledge as required for performance of audits of the relevant business lines.

INTERNAL CONTROL SYSTEM means the system of organizational measures, policies, instructions and control procedures aimed at minimization of any risks of business-processes, corporate culture

standards and activities undertaken by risk management and internal control system subjects in order to ensure due implementation of business activities: in order to ensure financial sustainability of the Company, achieve optimal balance between the growth of its value, profitability and risks of business processes, for streamlined and efficient conduct of business, ensuring safety of assets, identification, rectification and prevention of violations, compliance with the applicable law and local regulatory acts, timely preparation of accurate financial statements in order to enhance the investor appeal.

INSPECTION means a form of control activities carried out to meet goals and objectives, perform functions and exercise powers of internal audit. Such inspections include, without limitations, the following:

- **AUDIT** means inspection (preventive control method) focused on assessment, analysis and expression of an opinion about the efficiency of business project implementation, business processes, business areas, risk management and internal control systems, and of corporate governance, aimed at developing proposals for performance improvement of the inspection target.
- **LIMITED SCOPE AUDIT** means an inspection based on the follow-up control method and focused on review of most exposed individual aspects and areas of the Auditee activities to find good practices, violations, deficiencies, to assess risks and develop performance improvement proposals for the Auditee.
- **INSPECTION OF FINANCIAL AND ECONOMIC ACTIVITY ISSUES** means an inspection based on the comprehensive follow-up control method and focused on the comprehensive review of business activity of the Auditee to find good practices, violations, deficiencies, risks, and develop performance improvement proposals for the financial and economic activity Auditee.

KEY PERFORMANCE INDICATOR means an indicator which is established on the basis of the Company's development strategy, the Company long-term development program and the Company business plan, as well as operating objectives for the reporting period which is used to provide numeric assessment of the efficiency of the performance of Rosneft employees and Group Subsidiaries.

MANAGER OF INTERNAL AUDIT INSPECTION (MANAGER OF INSPECTION) means an employee of the internal audit of the Company, responsible for the conduct inspection in accordance with established deadlines, organization and management of inspection, monitoring of the status of audit procedures and work of members of the audit team, communication with the inspected object in the course of the inspection, bearing personal responsibility for qualitative and timely result of the inspection.

ONGOING MONITORING OF INTERNAL AUDIT QUALITY means the process of verifying the compliance of internal audit activity with regulations and norms set by available regulatory documents in the field of internal audit to assess its quality level.

RISK means the combination of the probability of an adverse event and its potential implications, the threat of a negative impact of a random event on achievement Company's goals.

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM (RM&ICS) means a totality of risk management and internal control processes conducted by the subjects of the risk management and internal control system based on the existing organizational structure, internal policies and

regulations, procedures and risk management and internal control methods applied in the Company at all management levels and within the framework of all functions.

UNSCHEDULED INTERNAL AUDIT INSPECTION (UNSCHEDULED INSPECTION) means an inspection of the internal audit outside of the approved internal audit activity plan, conducted in accordance with the order of the Chief Executive Officer of Rosneft, or the Board of Directors of Rosneft (recommendations of the Rosneft Board of Directors) or in accordance with re-assessment of the Company's risks by the Head of Internal Audit.

TERMS AND DEFINITIONS FOR THE PURPOSES OF THIS DOCUMENT

ASSESSMENT SCOPE means the area of internal audit activity which is assessed in accordance with the procedure defined and approved by the Head of internal audit in the framework of external and internal assessments of internal audit quality.

ASSURANCE means an objective analysis of available audit evidence for the purposes of provision of an independent evaluation of risk management and internal control processes, corporate governance in the organization.

ASSURANCE PROVIDERS means structural units being the subjects of the risk management and internal control system and performing coordination of processes of risk management, internal control, financial control and processes in the field of combatting corruption and fraud; external auditor, State supervisory authorities and other independent organizations.

CHECK SUPERVISOR means the employee of the Company's internal audit possessing special knowledge and skills on the audit item and carrying out the current control of its implementation.

CURRENT CONTROL means ongoing control performed at all the stages of check in the framework of ongoing monitoring of internal audit quality. Line manager, check supervisor performs current control in respect to works of members of the audit team.

DEFICIENCY means a formally non-prohibited action or omission by any official that entails adverse consequences for the auditee.

EXTERNAL ASSESSOR means commercial or non-profit making organizations whose employees possess competencies in the field of external assessment of internal audit quality and meet the requirements of independence and objectivity.

GOOD PRACTICE means a positive example of increasing efficiency, reliability of business-projects, business-process, business lines, risk management and internal control system, corporate governance revealed by the internal audit, which is recommended by the audit to be used in the Company for the relevant activity line.

LINE MANAGER means a Deputy Head of a structural unit of Internal Audit Service of Rosneft/ Head of a structural unit of Internal Audit Service of Rosneft responsible for allocating resources for the performance of inspections, coordination of timely performance of all checks on the subordinate unit(s), monitoring of the status of the approved inspection plan and budget spent for inspections (resources/time), selective quality control and generalization of the inspection results in internal audit activity within the area of responsibility of the line manager.

MATERIAL VIOLATION / DEFICIENCY means violation or deficiency identified in the process of internal audit and resulting in adverse consequences which according to the opinion of internal audit have a particularly adverse impact on activities of the auditee and/or the Company and demands response of the Chief Executive Officer of Rosneft, top-managers of Rosneft and/or head of the auditee.

SCHEDULED INTERNAL AUDIT INSPECTION (SCHEDULED INSPECTION) means an audit included into the Internal Audit Activity Plan for the relevant scheduled period.

Note: External auditor is a commercial organization being a member of one of self-regulatory organizations and having the right to inspect socially important business entities as well as meeting the requirements of procurement documentation for the contractor.

SUBJECT OF ONGOING MONITORING OF INTERNAL AUDIT QUALITY means the head of internal audit, heads of structural units of Internal Audit Service of Rosneft, line managers, check managers performing ongoing monitoring of internal audit activity quality when performing each check of internal audit and other internal audit activities.

VIOLATION means any action or omission by the Company's employee aimed at non-fulfillment or improper fulfillment of law provisions, regulations, local normative documents of the Company, conditions of signed agreements whose party is a legal entity, with which the employee who has committed such violation is in employment relations.

2. DESIGNATIONS AND ABBREVIATIONS

COMPANY means a group of legal entities with various organizational and legal forms, including Rosneft, in relation to which the latter acts as the main or prevailing (participating) entity.

COMPANY MANAGEMENT means top managers of Rosneft and directors of the Group Subsidiaries.

GROUP SUBSIDIARY means a business company, where Rosneft's direct and/or indirect ownership of stock or shares in the authorized capital makes up at least 20 percent.

HEADS OF GROUP SUBSIDIARIES means chief executives of Group Subsidiaries and their deputies according to areas of activities of Group Subsidiaries.

HEADS OF IAS means a head of internal audit, heads of IAS SU, line managers.

HEAD OF INTERNAL AUDIT means the Company officer in charge of efficient management of internal audit in accordance with the Company Policy "On internal audit" № P4-01 P-02, Code of Ethics of the Internal Auditors Institute and International Standards for the Professional Practice of Internal Auditing. The Head of the internal audit of the Company is Vice President – Head of Internal Audit Service of Rosneft.

HEAD OF STRUCTURAL UNIT OF INTERNAL AUDIT SERVICE OF ROSNEFT (HEAD OF IAS SU) means one of heads of the following independent structural units of Rosneft participating in the process of conducting checks:

- Rosneft Operational Audit Department Director;
- Rosneft Corporate Audit Department Director;
- Rosneft Regional Audit Department Director;
- Head of Rosneft Internal Audit Methodology and Management Division;
- Head of Rosneft Economic and Organizational Analysis Division.

LND means a local normative document.

STRUCTURAL UNIT OF ROSNEFT INTERNAL AUDIT SERVICE means a structural unit of Group Subsidiary performing the internal audit function.

PROGRAM means the internal audit quality assurance and improvement program.

RM&ICS means Risk Management and Internal Control System.

ROSNEFT INTERNAL AUDIT SERVICE (IAS) means a group of structural units of Rosneft as a part of Rosneft Operational Audit Department, Rosneft Corporate Audit Department, Rosneft Regional Audit Department, Rosneft Internal Audit Methodology and Management Division, Rosneft Economic and Organizational Analysis Division being under direct control of head of internal audit.

ROSNEFT STRUCTURAL UNIT (SP OF ROSNEFT) means a structural unit of Rosneft with independent functions, objectives and responsibility, which operates within the framework of its competence stipulated by the Regulation on the structural unit.

ROSNEFT TOP MANAGERS means Rosneft First Vice Presidents, Rosneft Vice Presidents , Rosneft Chief Accountant, Rosneft Financial Director, Rosneft Press Secretary, Advisors and leaders of Rosneft structural units in the rank of Vice President, heads of Rosneft Functions in the rank of Vice President.

STRUCTURAL UNIT OF THE GROUP SUBSIDIARIES (SP OF SG) means a structural unit of a Group Subsidiary with independent functions, tasks and responsibility acting within the framework of their competence stipulated by the Regulation on the structural unit.

STRUCTURAL UNITS OF ROSNEFT INTERNAL AUDIT SERVICE means Rosneft Operational Audit Department, Rosneft Corporate Audit Department, Rosneft Regional Audit Department, Rosneft Internal Audit Methodology and Management Division, Rosneft Economic and Organizational Analysis Division.

3. GENERAL PROVISIONS

The goal of implementing this Program is the provision of reasonable assurance of the stakeholders that:

- internal audit of the Company performs its activity in accordance with Company Policy “On internal audit” № P4-01 P-02, International Standards for the Professional Practice of Internal Auditing and the Code of Ethics of the Institute of Internal Auditors;
- internal audit performs its functions efficiently and effectively with the appropriate quality level;
- the function of internal audit is improved in an ongoing way and helps the Company to improve RM&ICS and corporate governance;
- timely response to changes related to the development of business of Rosneft and Group Subsidiaries is supported by internal audit.

The program covers all the aspects of internal audit activity and includes:

- conducting by IAS employees ongoing monitoring of the quality;
- conducting internal periodic assessments of the quality of internal audit (by means of conducting annual self-assessment);
- conducting external assessments of internal audit quality by independent qualified external assessor at least once each 5 (five) years;
- submitting the results of internal and external assessments as well as the Plan of improving the function of internal audit¹ to the Chief Executive Officer of Rosneft, Rosneft Board of Directors Audit Committee and Rosneft Board of Directors.

Internal periodic assessments may not be carried out if during the reporting period external assessment of the quality of internal audit activity or preparation to it was performed by the external assessor. IAS develops the plan for developing the internal audit function based on results of work of external assessors.

Quality assurance of internal audit is the ongoing process stipulating the performance of set forth rules of and requirements for the organization and implementation of activity in the field of internal audit. Procedures for quality assurance of internal audit are stipulated in Company Standard “Organization of internal audit” № P4-01 S-0021.

Management of internal audit quality is organized and performed by:

- Head of internal audit
- IAS SU heads;
- line managers;
- heads of internal audit divisions of Group Subsidiaries;
- employees of Rosneft Internal Audit Service;
- employees of internal audit divisions of Group subsidiaries.

¹ In accordance with Section 8 of this Regulation.

Internal audit may declare as verbally as in writing that its activity is performed in accordance with International Standards for the Professional Practice of Internal Auditing only if this declaration is confirmed with the results of performing this Program including as internal assessments as external ones. After having confirmed the conformance with International Standards for the Professional Practice of Internal Auditing based on the results of external assessment, IAS may continue to use the statement about the conformance until the next external assessment (provided that this statement is again confirmed by the results of internal assessments).

4. MAIN DIRECTIONS OF THE QUALITY ASSESSMENT OF INTERNAL AUDIT ACTIVITY

With the aim of performing the proper quality assurance and assessment of internal audit activity the Head of internal audit develops the Program stipulating the performance of both internal and external periodic assessments as well as ongoing monitoring of the quality of internal audit, submits to the Chief Executive Officer of Rosneft for approval and supports its implementation.

The Head of Internal Audit ensures the achievement of the results of internal audit activity including periodic assessments of the compliance of goals, powers and responsibility of internal audit established by Company Policy “On internal audit” № P4-01 P-02 with the goals and tasks of internal audit set by Rosneft Board of Directors and the Chief Executive Officer of Rosneft.

To ensure the comprehensive coverage by the Program all the aspects of internal audit activity, the quality assessments are performed for the following objects of assessment:

- in general the function of internal audit is assessed within both internal periodic assessment and external assessment;
- checks of internal audit are assessed including within ongoing monitoring.

Main lines of the quality assessment of internal audit activity for the objects of assessment are given in Table 1.

Table 1
Main directions of the quality assessment of internal audit activity

NN	ASSESSMENT OBJECT	MAIN LINES OF ASSESSMENT
1	2	3
1	Function of internal audit as a whole	1. Conformance of internal audit activity with Company Policy “On internal audit” № P4-01 P-02, International Standards for the Professional Practice of Internal Auditing and the Code of Ethics of the Institute of Internal Auditors, including: <ul style="list-style-type: none"> ▪ independence and objectivity of internal audit; ▪ relevance of LND in the field of internal audit; ▪ professionalism and continuing development of internal auditors; ▪ performing the Plan of improving the function of internal audit; ▪ risk-based planning of internal audit activity; ▪ management of resources of internal audit (staff) namely the availability of staff and rationality of using staff to perform the approved internal audit activity plan; ▪ coordinating internal audit activity with other assurance providers and use of the results of their works, development and updating of Assurance Map; ▪ the quality of performing checks of internal audit in accordance with LND in the field of internal audit and International Standards for the Professional Practice of Internal Auditing ; ▪ reporting on results of internal audit activity to the Chief Executive Officer of Rosneft, Rosneft Board of Directors Audit Committee and Rosneft Board of Directors; ▪ Organization and performance of monitoring aimed at eliminating violations and deficiencies identified by checks.

NN	ASSESSMENT OBJECT	MAIN LINES OF ASSESSMENT
1	2	3
		<ol style="list-style-type: none"> 2. Compliance level with expectations of the stakeholders: the Chief Executive Officer of Rosneft, the Rosneft Board of Directors Audit Committee and Rosneft Board of Directors. 3. Contribution of internal audit into the processes of RM&ICS, corporate governance, as well as to improvement of the Company's activity. 4. Achievement of performance indicators of internal audit (at level of heads of IAS SU).
2	Checks of internal audit	<ol style="list-style-type: none"> 1. Quality of checks of internal audit and results of work of the audit team members; 2. Conformance of checks of internal audit with LND in the field of internal audit and International Standards for the Professional Practice of Internal Auditing, including: <ul style="list-style-type: none"> ▪ quality of planning and preparation to the performance of checks of internal audit; ▪ performing check in accordance with the approved program; ▪ timeliness and completeness of documentation at all the stages of check as well as audit evidence; ▪ controlling the performance of the check program to achieve its goals and ensuring the quality; ▪ quality of documenting check results including usefulness of observations, opinions and proposals of internal audit obtained based on results of check. 3. Feedback of heads of audit items and other stakeholders.

The method for assessing the quality of internal audit activity in the framework of ongoing monitoring and internal periodic assessments is defined and approved by the Head of internal audit.

5. ONGOING MONITORING OF INTERNAL AUDIT QUALITY

Ongoing monitoring of internal audit quality involves current control and quality assessment of internal audit activity. Checks and other internal audit activities are objects of ongoing monitoring of internal audit quality.

The Head of internal audit defines criteria of quality assessment of internal audit activity being used for the ongoing monitoring of internal audit quality.

The quality assessment of each check and the assessment of work of the audit team members are performed in the framework of ongoing monitoring of internal audit quality. Results of these assessments are considered by heads of IAS SU when assessing personal results of work of internal auditors for the reporting period.

Control of performing check is carried out with the aim of achieving check goals, ensuring the quality of work of the audit team and improving qualification of internal auditors.

Control of performing check is carried out at all stages of check from planning and preparation for conducting check up to monitoring of eliminating violations and deficiencies identified by the check performed.

Control procedures carried out by subjects of ongoing monitoring of internal audit quality are given in [Appendix 1](#). IAS senior executives on a selective basis perform control procedures which are binding on IAS lower-level employees.

The total responsibility for providing control of check quality rests with the head of IAS SU supervising the check.

In Group Subsidiaries the head of internal audit division of Group Subsidiary carries out ongoing monitoring of internal audit quality in accordance with the requirements of this Program.

In the framework of the process of ongoing monitoring of quality of checks the line manager (check supervisor)/ the head of IAS SU provides feedback of the results of the check to the check manager and the audit team with the aim of improving the quality of prepared documents as well as eliminating deficiencies identified in the process of performing the check.

6. INTERNAL PERIODIC ASSESSMENTS

Internal periodic assessments of the quality are performed by internal audit through self-assessment once per year. Internal periodic assessments of the quality are performed with using methodical guidelines on quality assessment of the Institute of Internal Auditors², and they cover all the aspects of internal audit activity. The main goal of internal periodic assessments of the quality is the assessment of internal audit activity in respect to:

- conformance with the requirements of Company Policy “On internal audit” № P4-01 P-02 and LND in the field of internal audit;
- conformance with the requirements of International Standards for the Professional Practice of Internal Auditing, the Code of Ethics of the Institute of Internal Auditors;
- compliance of internal audit activity with expectations of the Chief Executive Officer of Rosneft, the Rosneft Board of Directors Audit Committee and the Rosneft Board of Directors;
- assessment of the contribution of internal audit to the processes of RM&ICS, corporate governance as well as to the improvement of business-processes of the Company;
- conformance with the requirements of applicable legislative and regulatory acts.

Internal periodic assessment of the quality of internal audit is performed by IAS by means of:

- the analysis of relevance of LND in the field of internal audit and their conformance with the requirements of International Standards for the Professional Practice of Internal Auditing, the Code of Ethics of the Institute of Internal Auditors;
- assessment of the conformance of internal audit activity with the requirements of Company Policy “On internal audit” № P4-01 P-02 and LND in the field of internal audit, International Standards for the Professional Practice of Internal Auditing, the Code of Ethics of the Institute of Internal Auditors;
- selective inspections of conformance of audit working papers and reports with the requirements of International Standards for the Professional Practice of Internal Auditing, the Code of Ethics of the Institute of Internal Auditors, LND in the field of internal audit;
- polling of heads of audit items and other stakeholders to obtain feedback in respect to internal audit activity;
- analysis of carrying out performance indicators of internal audit.

² Quality Assessment Manual for the Internal Audit Activity.

7. EXTERNAL ASSESSMENT OF INTERNAL AUDIT QUALITY

External assessment of internal audit quality in respect of the conformance of internal audit activity with the requirements of International Standards for the Professional Practice of Internal Auditing, the Code of Ethics of the Institute of Internal Auditors is carried out by a qualified and independent assessor at least once per five years.

The goal of external assessment is the submission to the Head of internal audit, the Chief Executive Officer of Rosneft, the Rosneft Board of Directors Audit Committee and Rosneft Board of Directors the report containing the independent opinion on the quality of internal audit.

External assessment covers all the lines of internal audit activity. To achieve the optimal results the same aspects of internal audit activity which are considered when performing internal assessment are included in the scope of external assessment.

External assessment may be performed in accordance with the following approaches:

- self-assessment with the subsequent confirmation of its results by an external assessor;
- full external assessment (all the scope of works is performed exclusively by an external assessor).

The choice of the external assessor shall be carried out in accordance with the requirements of the legislation of the Russian Federation and Company Regulation “On procurement of goods, works and services” № P2-08 R-0019. When choosing the external assessor the following criteria are considered:

- professional competence of the external assessor namely experience of conducting external assessment of internal audit of large-scale companies during last 5 (five) years, the availability of at least three specialists with experience of conducting external assessment of internal audit during last 5 (five) years in the expert team;
- independence of the external assessor namely the absence of affiliation of the external assessor with members of the Rosneft Board of Directors, executive authorities, employees of the Company, the absence of interest of the external assessor in results of Company’s activity and any real or potential conflicts of interest related to the provision of services by the external assessor.

With the aim of observing the independence principle of internal audit, employees of other structural units of Rosneft or Group Subsidiaries shall not be considered as the external assessors.

IAS supports work of the external assessor, when performing external assessment of the quality appoints employees of IAS staff responsible for communication with the external assessor.

In the framework of conducting external assessment of the quality, employees responsible for communication with the external assessor:

- submit information about results of internal audit according to requests of the external assessor;
- analyze the preliminary results of the external assessment, give comments/ objections concerning the report;

- participate in meetings related to consideration of results of external assessment.

Based on the results of external assessment the external assessor prepares the report in accordance with the form agreed with the Head of internal audit, in which the assessment of conformance level of internal audit activity with the requirements of International Standards for the Professional Practice of Internal Auditing, the Code of Ethics of the Institute of Internal Auditors is given as well as areas to be developed and recommendations for improving effectiveness, if necessary, are provided.

8. MANAGEMENT OF INTERNAL AUDIT RISKS

The Head of internal audit considers risks related to the activity of internal audit and the performance of tasks, undertakes the appropriate measures to ensure reasonable assurance that internal audit manages its own risks. In the framework of carrying out ongoing monitoring of the quality of internal audit the Head of internal audit organizes work related to describing and assessing risks of internal audit, managing them.

In accordance with Practical guidelines on internal audit internal audit risks include three main groups:

- auditor's error risk;
- false assurance;
- reputational risks.

The following situations may result in formation of risks of internal audit:

- non-fulfillment of requirements of LND in the field of internal audit as well as the requirements of International Standards for the Professional Practice of Internal Auditing, the Code of Ethics of the Institute of Internal Auditors;
- the lack of effective processes of risk assessment by the internal audit as during the annual procedure of assessment of risks when planning activities as in defining particular attention areas when planning a check;
- the choice of ineffective audit procedures for achieving check goals;
- the formation of the audit team with involvement of specialists with insufficient level of knowledge and skills about high risk areas of the Company;
- insufficient professional skepticism and non-application of sophisticated audit procedures in respect to identified material violations and deficiencies;
- making incorrect decision when identifying indicators of corporate fraud, corruption actions, abuse, negligence;
- non-informing the authorized persons about identified material violations and deficiencies;
- improper / untimely documenting of results of every stage of check.

The Head of internal audit ensures the execution of the following measures aimed at managing risks of internal audit:

- making demands on the internal auditors for following LND in the field of internal audit, International Standards for the Professional Practice of Internal Auditing, the Code of Ethics of the Institute of Internal Auditors;
- control of periodic revisions of Audit Model with the aim of determining completeness of the list of potential audit items to be checked taking into account changes in risk assessments of the Company defined by internal audit;
- control of the quality of check planning including the comprehensive expert analysis of facts related to the audit item, understanding of check goals, audit procedures to be applied;
- control of resources sufficiency namely appointment of an check manager and check supervisor, if necessary, for each check, control of practical experience sufficiency of

members of the audit team including practical skills in managing projects of specialists who manage an engagement;

- control of the role and goals of involving internal audit into other activity taking into account the assessment of future impact on independence and objectivity of internal audit (if the internal auditors are a part of the project team that can result in false assurance);
- informing the Chief Executive Officer of Rosneft, the Rosneft Board of Directors Audit Committee, Rosneft top managers, other stakeholders about goals and tasks of internal audit including the activity in the field of assurance services.

IAS performs annually the preparation of the Plan of improving the function of internal audit containing also measures for risk management of internal audit. When creating the Plan of improving the function of internal audit results of both internal and external periodic assessments of the quality of internal audit activity are considered.

The Plan of improving the function of internal audit contains information about the name of measure, terms of performing and responsible employees. The form of the Plan of improving the function of internal audit is established by the Head of internal audit.

The Plan of improving the function of internal audit is considered by the heads of IAS SU, approved by the Head of internal audit, it may be revised each quarter. The control of executing of the Plan of improving the function of internal audit is performed by the Head of internal audit.

9. REPORTING ON INTERNAL AUDIT QUALITY ASSURANCE AND IMPROVEMENT PROGRAM

The Head of internal audit annually informs the Chief Executive Officer of Rosneft and reports to Rosneft Board of Directors Audit Committee on the activity in the framework of the Program and achieved results including results of both internal and external assessment.

Information on executing the Program is included in the internal audit performance report ³ and contains the following information:

- the scope and frequency of internal and external assessments;
- results of ongoing monitoring of the quality and periodic assessments;
- qualification and independence of the external assessor including any potential and real conflict of interest (when performing external assessment);
- opinions of the external assessor;
- Plan of improving the function of internal audit for the next reporting period;
- Status of executing measures of the Plan of improving the function of internal audit.

If results of internal or external assessment of the quality of internal audit activity showed a fact of non-conformance with Company Policy “On internal audit” № P4-01 P-02, International Standards for the Professional Practice of Internal Auditing, the Code of Ethics of the Institute of Internal Auditors which affect the total scope and content or the activity of internal audit the Head of internal audit informs the Chief Executive Officer of Rosneft, the Rosneft Board of Directors Audit Committee and the Rosneft Board of Directors non-conformance and its consequences.

Facts of non-conformance, about which the Chief Executive Officer of Rosneft, Rosneft Board of Directors Audit Committee and Rosneft Board of Directors should be informed immediately, are the following:

- adverse impact on independence and objectivity of internal audit;
- restrictions of internal audit.

³ In accordance with the requirements of Company Standard “Organization of internal audit” № P4-01 S-0021.

10. REFERENCES

1. Guidelines on organization of the internal audit operation in joint-stock companies with participation of the Russian Federation approved by the Order of Rosimuschestvo dated 04.07.2014 № 249.
2. Core Principles for the Professional Practice of Internal Auditing/ the Institute of Internal Auditors.
3. International Standards for the Professional Practice of Internal Auditing/ the Institute of Internal Auditors.
4. Definition of Internal Auditing / the Institute of Internal Auditors.
5. Implementation guides on Internal Audit / the Institute of Internal Auditors.
6. Code of Ethics of the Institute of Internal Auditors.
7. Quality Assessment Manual for the Internal Audit Activity.
8. Company Policy “On internal audit” № P4-01 P-02 version 1.00, approved by Rosneft Board of Directors dated 30.01.2015 (minutes dated 02.02.2015 № 20), effective by Order dated 18.02.2015 № 60.
9. Company Standard “Organization of internal audit” No. P4-01 S-0021 version 2.00, approved by Rosneft Management Board on 10.10.2019 (minutes dated 10.10.2019 No. PR-IS-43p), put into effect by Rosneft Order dated 05.11.2019 No. 624.
10. Company Regulation “On procurement of goods, works and services” No. P2-08 R-0019 version 3.00, approved by Rosneft Board of Directors on 03.12.2018 (minutes dated 03.12.2018 No. 11), put into effect by Rosneft Order dated 13.12.2018 No.799.

11. REGISTRATION OF AMENDMENTS TO LOCAL NORMATIVE DOCUMENT

Table 2
List of amendments to the Company Regulation

VERSION	TYPE AND NAME OF DOCUMENT	NUMBER OF DOCUMENT	DATE OF APPROVAL	EFFECTIVE DATE	REQUISITES OF RD
1	2	3	4	5	6
1.00	Company Regulation “Internal audit quality assurance and improvement program”	P4-01 R-0038	18.05.2015	18.05.2015	Rosneft Order dated 18.05.2015 № 215

APPENDICES

Table 3
List of amendments to the Company Regulation

NUMBER OF APPENDIX	NAME OF APPENDIX	NOTE
1	2	3
1	Control procedures performed by subjects of ongoing monitoring	Included in this file

APPENDIX 1. CONTROL PROCEDURES PERFORMED BY SUBJECTS OF ONGOING MONITORING OF THE QUALITY OF INTERNAL AUDIT

Table 4
Control procedures performed by subjects of ongoing monitoring of the quality of internal audit

N	SUBJECT OF ONGOING MONITORING OF THE QUALITY OF INTERNAL AUDIT	HEAD OF INTERNAL AUDIT	HEADS OF IAS SU, SUPERVIZING CHECK	LINE MANAGER / CHECK SUPERVISOR	CHECK MANAGER
	CONTROL PROCEDURES				
1	Approval of standardized requirements and procedures in the field of internal audit				
2	Assessment of knowledge, skills and competence of the audit team members necessary for performing checks				
3	Program examination from the point of view of adequacy and validity of audit procedures for achieving check goals				
4	Approval of check program and control of validity of amendments of check program				
5	Monitoring of achieving goals of check and timely performance of check program (including actual labor costs)				
6	Assessment of completeness of audit working papers and the availability of audit evidence confirming the validity of observations, opinions and proposals based on performed check				
7	Assessment of completeness and quality of reports with results of check: accuracy, objectivity, transparency, concision, constructiveness and timeliness of observations, opinions and proposals				
8	Selective control of achieving check goals				
9	Control of conducting monitoring aimed at eliminating violations and deficiencies identified by check				
10	Control of performing other internal audit activity				

 Responsibility for conducting control procedures by a subject of ongoing monitoring of the quality of internal audit. IAS senior executives on a selective basis perform control procedures which are binding on IAS lower-level employees.