



Annex 28

A MODEL BY-LAW ON INTERNAL CONTROL

APPROVED

By decision of the Supervisory Board
of the Open Joint Stock Company «_____»

Supervisory Board Minutes

No. _____
of _____ 200_

Signature of the Chairman of the Supervisory Board

_____ dated this __ day of _____, 200_
[The Company's Seal]

BY-LAW ON INTERNAL CONTROL

of the Open Joint Stock Company
«_____»

The city of _____
_____, 200_



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Article 1. General Provisions

- 1.1. This By-law on Internal Control (hereinafter the By-law) of the Open Joint Stock Company «_____» (hereinafter the Company) has been drafted in accordance with the laws of the Russian Federation (hereinafter the Law), the charter and other internal corporate documents of the Company, and relevant recommendations of the Federal Commission for the Securities Market's Code of Corporate Conduct (hereinafter the FCSM Code).
- 1.2. The By-Law defines the goals and objectives, principles, and processes, as well as the Company's bodies and persons responsible for internal controls.

Article 2. Definitions

- 2.1. Internal control is a process conducted jointly by the Supervisory Board, management, and the company's employees, the aim of which is to provide reasonable guarantees that the following Company objectives are attained:
 - 2.1.1. Financial reporting is reliable and accurate;
 - 2.1.2. Operations are efficient and effective; and
 - 2.1.3. Activities and processes comply with the Law, the Company's internal rules and guidelines.
- 2.2. The internal control system includes the following interrelated elements:
 - 2.2.1. Control environment;
 - 2.2.2. Risk assessment;
 - 2.2.3. Control procedures;
 - 2.2.4. Information and communication; and
 - 2.2.5. Control and monitoring of the internal control system's efficiency.

Article 3. Principles

- 3.1. The Company's internal system control is based on the following principles:
 - 3.1.1. The internal control system functions at all times, without interruption. A system of internal control that functions on an ongoing basis allows the Company to identify deviations on a timely basis, and helps to predict such deviations in the future.
 - 3.1.2. Each person involved in the internal control process is held accountable. The performance of each person carrying out internal control functions is, therefore, managed by yet another person within the internal control system.
 - 3.1.3. The system of internal control segregates duties. The company prohibits any duplication of control functions, and distributes functions among the employees so that one and the same person does not combine functions relating to the authorization of operations with certain assets, recording of such operations, ensuring and safe-keeping of assets, and inventory of these same assets.

- 3.1.4. Proper authorization and approval of operations is established. The Company establishes procedures for the approval of all financial and business operations only by authorized persons acting within the scope of their authority;
- 3.1.5. The Company ensures the organizational separation of its subdivision responsible for internal control and, moreover, ensures that this subdivision is accountable directly to the Supervisory Board (specifically its Audit Committee);
- 3.1.6. All persons involved in the Company's internal control process are responsible for the proper performance of control processes;
- 3.1.7. All units and departments integrate and cooperate with one another to ensure proper implementation of the internal control system;
- 3.1.8. A culture of continuous development and improvement has been put in place. The Company's internal control system is structured in such a way to ensure that it can be flexibly "tuned" to address new issues, and be receptive to expansions and upgrades in the system;
- 3.1.9. A system for timely reporting any deviations has been put in place. Ensuring the timeliness of reporting on deviations with the shortest possible deadlines allows authorized persons to receive such information in a timely manner and act in an expeditious manner to correct them;
- 3.1.10. The level of complexity of the internal control system corresponds to the level of importance of the object under control;
- 3.1.11. The Company prioritizes its activities. The Company's areas of strategic importance are covered by the internal control system, even if the efficiency of monitoring such areas, and the ratio between the costs and the economic benefits are difficult to measure; and
- 3.1.12. The Company's internal control system is comprehensive, that is, it covers all operational areas.

Article 4. Control Environment

- 4.1. The control environment within the Company can best be described as the general attitude of directors, senior managers, and shareholders towards the internal control system, and their awareness and practical actions aimed at establishing and maintaining the internal control system in the Company.

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- 4.2. Control environment factors include:
- 4.2.1. The integrity, ethical values, and competence of the Company's employees;
 - 4.2.2. Management's philosophy and operating style;
 - 4.2.3. The way management assigns authorities and responsibilities, and organizes and develops its own employees; and
 - 4.2.4. The attention and direction provided by the Supervisory Board.

Article 5. Risk Assessment

- 5.1. The identification and assessment of the Company's risks is performed in accordance with _____.²⁰⁶

Article 6. Control Activities

- 6.1. Control activities are the policies and procedures that help ensure that management directives are carried out, and that necessary steps to address risks are taken.
- 6.2. Specific internal control procedures include:
- 6.2.1. Controlling the implementation of the financial and business plans of the Company;
 - 6.2.2. Comparing current operational data with the budget;
 - 6.2.3. Comparing data provided by various operating units of the Company;
 - 6.2.4. Examining the accuracy of accounting entries;
 - 6.2.5. Checking the accuracy and timeliness of document flows;
 - 6.2.6. Evaluating the efficiency of certain specific transactions;
 - 6.2.7. Checking for the management approvals of the underlying primary documents;
 - 6.2.8. Conducting periodic and unscheduled inspections, inventories of assets and liabilities;
 - 6.2.9. Reconciling and confirming settlement accounts;
 - 6.2.10. Using information from external sources for the purposes of control;

²⁰⁶ Insert the name of the by-law or other document regulating the company's risk management procedures. See also Annex 27 for a model by-law on risk management.

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- 6.2.11. Controlling the use of tangible assets;
- 6.2.12. Physically limiting access to the Company's assets, the underlying primary documents, accounting registers, and electronic accounting files;
- 6.2.13. _____; and
- 6.2.14. _____.

Article 7. Information and Communication

- 7.1. Information and communication refer to the identification, capture, and exchange of information in a timely and useful manner.
- 7.2. The Company ensures the availability of full and accurate information on events and conditions that may affect the Company's decision-making.
- 7.3. The Company is committed to creating a comprehensive system of information dissemination to cover all areas of the Company's activities. Information system software is authorized and protected in accordance with procedures adopted by the Company.
- 7.4. The Company seeks to create efficient communication channels to ensure that all governing bodies and persons involved in the internal control process understand and adhere to approved policies and procedures.
- 7.5. The Company ensures the protection of information by prohibiting and preventing unauthorized access.

Article 8. Control and Monitoring of the Internal Control System

- 8.1. An ongoing evaluation of the internal control system is conducted to determine the probability and materiality of errors, the occurrence of which could influence the accuracy of financial statements, and in order to determine whether the internal control system is meeting its stated objectives.
- 8.2. The review of the Company's internal control system is conducted in two stages:
 - 8.2.1. A general overview of the internal control system and preliminary evaluation of its reliability (Annex 1); and
 - 8.2.2. The confirmation of evaluations of material elements of the internal control system (Annex 2).

Article 9. Bodies and Persons Responsible for Internal Control

- 9.1. The Supervisory Board and the executive bodies of the Company are responsible for establishing the proper internal control environment and maintaining high ethical standards at all levels of the Company's operations.
- 9.2. The Supervisory Board (through its Audit Committee, if established) shall be responsible for the approval of the internal control procedures that fall within the authority of the Supervisory Board.
- 9.3. The General Director is responsible for devising and implementing the internal control system throughout the Company. For this, the General Director delegates certain authority to managers who are responsible for internal control functions within specific areas of the Company's activities.
- 9.4. The control and audit body of the Company²⁰⁷ or _____ [*specify the name of another person/body in charge of the internal audit function*] implements control activities on a daily basis and reports to the Supervisory Board (or its Audit Committee, if established) and the Company's executive bodies on the results of the internal audit of the internal control system. The control and audit body reports to and is functionally accountable to the Supervisory Board, and is administratively accountable to the General Director.
- 9.5. The control and audit body is comprised of ____ staff members that have the following qualifications:²⁰⁸
 - 9.5.1. _____;
 - 9.5.2. _____; and
 - 9.5.3. _____.
- 9.6. The control and audit body holds regular meetings whenever necessary, but not less than one meeting every ____ weeks.
- 9.7. The results of the meetings of the control and audit body are presented to the General Director [Finance Director] and the Chairman of the Supervisory Board [Chairman of the Audit Committee].

²⁰⁷ The control audit body may be the Control and Revision Service, or the Internal Auditor, or any other company department.

²⁰⁸ For example, a higher educational degree, __ years of professional experience in the __ industry or sector, etc.

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- 9.8. The Company's executive bodies shall annually prepare a report on the internal control regarding the preparation of financial statements for the Supervisory Board __ days before the Supervisory Board shall approve the annual report and the annual financial statements.²⁰⁹
- 9.9. The report on the internal control over the preparation of financial statements shall contain:
 - 9.9.1. A confirmation of the top managers' responsibility for implementing proper internal control over the preparation of the financial statements;
 - 9.9.2. A description of the internal control system and methods used to evaluate the efficiency of the system;
 - 9.9.3. Evaluation of the efficiency of the internal control over the preparation of the financial statements as of the end of the latest fiscal year as carried out by top managers;
 - 9.9.4. Confirmation that the Company's External Auditor prepared an opinion on management's evaluation;
 - 9.9.5. _____; and
 - 9.9.6. _____.
- 9.10. The Company develops a schedule of audits of its internal control system, and its subsidiary companies.
- 9.11. The following functions shall not be allocated to one and the same person:
 - 9.11.1. Immediate and unrestrained access to the assets of a business entity;
 - 9.11.2. Approval of operations with such assets;
 - 9.11.3. Conducting business operations; and
 - 9.11.4. Accounting of business operations.
- 9.12. The proper functioning of the internal control system depends upon the professionalism of its employees. The Company employs systems of selection, engagement, promotion, and professional training of personnel that ensure the highest qualifications and integrity of such personnel.
- 9.13. Executive bodies shall disclose information on material deficiencies in the internal control system.

²⁰⁹ Article 404 of the U.S. Sarbanes-Oxley Act (2002) requires use of this particular report. Accordingly, Russian companies are strongly advised to consider using this report.

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Exhibit 1. General Overview of the Internal Control System and Preliminary Evaluation of Its Reliability²¹⁰

	Control Environment	Yes	No	N/A
Organizational Structure				
1.	The organizational structure has been developed and approved. It illustrates all departments, clearly indicating relations among management and the subordination of departments (employees).			
2.	The organizational structure of the department responsible for maintaining accounting records has been developed and approved indicating the relations within management and subordination of departments (employees).			
3.	Approved procedures on document flow exist, which list all of activities involving the production, review, and processing of documents performed by the departments and individual employees, and specifies relevant deadlines.			
Allocation of Duties, Powers, and Liability				
4.	The duties of those employees responsible for conducting commercial, financial, and business operations are clearly separated from the duties of those employees in charge of reflecting such operations in the operating system and/or accounting records.			
5.	The separation of functions and duties exists among the employees involved in the operations in a particular segment from their ability to exercise control over the accounting in such segment.			
6.	There are job descriptions for accounting unit employees which specify the allocation of duties, define liability, and establish the scope of authority for each position.			
7.	Those officers having the right to sign underlying documents are clearly identified.			
8.	The persons responsible for safekeeping assets have been officially appointed, and there is a clear system of accountability for such persons.			
9.	If the Company owns expensive assets, the number of persons authorized to dispose of them is limited in number.			
Human Resources Policy				
10.	Training sessions, and continuing professional education seminars are conducted for: <ul style="list-style-type: none"> • The members of the inventory commission in connection with the procedure for conducting and summarizing the results of the inventory of assets; • The cashier regarding rules for conducting cash operations; • Those persons accountable for assets regarding matters of control over the assets; and • The accounting employees to offer additional training and advanced training, etc. 			

²¹⁰ The list of questions in the exhibit is not exhaustive.

Notes:

- 1) The Company uses three levels — high, medium, and low — for the purpose of assessing the efficiency and reliability of the internal control system in general, the control culture, and the specific control procedures employed by the Company.
- 2) The grading at this stage is done by analyzing the data in the table. The ratio of positive answers, i.e. those checked “yes”, in relation to the total number of questions in the questionnaire will be the basis for the assessment. If the ratio is 40–60%, the preliminary assessment of the internal control system shall be assessed as medium. If the ratio is less than 40%, the level of the internal control system will be defined as low, and if it is more than 60%, as high.
- 3) The results of any preliminary review of the accounting and internal control systems are generally insufficient to draw a final conclusion as to the overall efficiency of the internal control system, since a low assessment of reliability of the internal control system and/or separate controls does not preclude a medium or high assessment of the level of other individual controls. However, the results of the first stage should be taken into account during the process of further review (see Exhibit 2).
- 4) The completed table is used as the basis for assessing each section and the entire stage, in general. Subsequently, a review is planned based on the given results. One should not rely on the existing internal control system in the areas affected by the sections graded as “low,” and items for which the answer was “no.” Attention should be paid to those specific areas assessed negatively, although the section as a whole may have been graded as “medium” or “high.” Based on the initial result received upon assessment of the entire stage, a decision is made whether one can rely on the internal control system or not.

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Exhibit 2. Confirming the Evaluation of Material Elements of the Internal Control System²¹¹

No.	System of Control	Notes
General Matters		
1.	Does management create the appropriate atmosphere and culture in the Company regarding matters of internal control?	
2.	Does any control and audit body implement internal control?	
3.	Does any regular program regarding the review and assessment of the internal control system exist as the Company's operations change?	
4.	Does the reporting system provide sufficient information to identify any material financial and operational problems in a timely manner?	
5.	Does the Audit Committee receive the same comments from the External Auditor regarding the internal control system as management does?	
6.	How does the External Auditor evaluate the Company's internal control system? What suggestions have been made? Does the External Auditor prepare a report regarding internal control measures for preparing financial statements? Do the Company and its External Auditor provide a report on the internal control system to the Company's shareholders?	
7.	Has the External Auditor identified any material defects in the internal control system's structure or functioning? Were any of them serious enough to be considered "material defects"? What was done to cure such defects?	
8.	Do both management and the Supervisory Board consider the Company's internal control system to be effective? What mechanisms exist within the Company to prevent accounting fraud or other violations of accounting principles?	
9.	How often do the control and audit bodies of the Company (the Revision Commission, the Control and Audit Service, or the Internal Auditor) examine the Company's internal control policies and procedures? Have any serious defects been identified? And, if so, what was done to cure such defects?	
Fraudulent and Illegal Practices		
10.	Does the Company have any program in place to detect and prevent fraud? Who is responsible for corporate security? Does the Company have a good control system to protect the Company's technology, commercial secrets, and other confidential information?	
11.	Are the internal control policies and procedures efficient enough to reveal any potential defects, fraud, or illegal practices? Is the the control system sufficient enough to uncover any unauthorized transactions, for example, unauthorized securities operations?	

²¹¹ The list of questions in the exhibit is not exhaustive.

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No.	System of Control	Notes
Fraudulent and Illegal Practices (continued)		
12.	Is there any system in place which protects against the misappropriation of the Company's assets?	
13.	Does the control and audit body of the Company have any processes specifically intended to prevent fraud? Do they include discussions with management regarding implementing of measures to prevent fraud? Does the Audit Committee discuss with the External Auditor its review of the risk of fraud during the course of audits?	
14.	Did the Audit Committee receive any information regarding fraudulent or illegal practices occurring during the previous year? If such practices occurred, what arrangements did management and the auditing authorities make for dealing with such events?	
15.	Were any employees involved in committing fraud? If so, what sanctions were imposed against such employees? Were these cases disclosed to the public?	
16.	What policies and procedures does the Company have in order to uncover and prevent any insider transactions? Were any such violations revealed during the previous year? If so, what measures did management and the control and audit body take to rectify the situation?	
17.	Does the Company have any policies or procedures concerning voluntarily disclosing information as to material terms (the price, periods, payment procedures) of supply agreements with counterparts representing the interests of state agencies or departments?	
18.	Who is responsible for the enforcement of the Company's internal control policies and procedures? Does this person have a sufficiently high level of experience and expertise to ensure efficient performance of its duties and responsibilities?	
19.	Are the Company's lawyers required by the Company to report any possible violations of laws and regulations to executives at the relevant level? Has such information ever been reported? If so, what measures were taken as a result?	
External Audit		
20.	How often does the External Auditor meet with the control and audit body and the Audit Committee? Does management take part in such meetings? Does the Audit Committee meet with the External Auditor separately, i.e. without management being present?	
21.	Does the Audit Committee analyze the breadth and degree of the External Auditor' intended audit prior to such audit? Does it hold any meetings with the External Auditor when the audit is completed? What mechanism ensures that the Audit Committee follows the Auditor's recommendations?	
22.	Who appoints the External Auditor? What is the decision-making process for the Audit Committee to decide on appointment of the existing Auditor or election of a new one? If shareholders do not approve this decision, what are the reasons?	
23.	Does the External Auditor have any relationship with management or the Supervisory Board that may be viewed as a conflict of interest?	

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No.	System of Control	Notes
External Audit (continued)		
24.	What kind of non-audit services does the External Auditor provide? Do the fees for such non-audit services significantly exceed typical audit fees and if so, why? How do the fees for non-audit services compare with the fees paid by other companies in the same industry in terms of their form and amount?	
25.	Has any competitive selection process been carried out, or any other method used to guarantee that the External Auditor's services are offered at market prices and pursuant to accepted standards? What fees do other consulting firms charge, and what is the percentage of the total fees for such consulting services that the External Auditor receives?	
26.	Does the External Auditor provide the Company with any internal audit services? Does the Company plan on having the External Auditor provide such services?	
27.	Does the External Auditor advise the Company on matters of structuring transactions? If so, what kind of advice is provided? Does the External Auditor analyze any material and complex transactions from the point of view of accounting and tax matters? Is the control and audit body informed about such transactions? What methods are applied to supply the External Auditor with all the necessary information in order to ensure accurate taxation? Does the Company consult with the technical staff of the External Auditor? Has the Company ever had any disagreements with the External Auditor concerning the accounting for such complicated transactions?	
28.	Has the Company ever considered periodic rotation of the External Auditor's lead partner, or even the entire audit firm?	
29.	How many years has the External Auditor audited the Company?	
30.	If the External Auditor was dismissed/replaced, what were the reasons? If the External Auditor refused to conduct further audits of the Company, what were the reasons?	
31.	Did the company have any disagreements with the previous External Auditor concerning the Company's accounting practices? If so, what were the reasons of such disagreements?	
32.	What are the nature and scope of errors in the financial statements which were revealed by the External Auditor and which were not corrected by management?	
33.	Did the Audit Committee have any consultations with its advisers or any other audit firm? What necessitated such consultations? Does the Audit Committee believe that such consultations will become a standard practice in the future?	
34.	Does the Company use the services of any other audit firms in order to audit its subsidiaries? Are all the Company's divisions audited? Is any Auditor's report on financial statements of Company's subsidiaries qualified? If yes, why did the Auditor's report on the parent company not disclose such information?	
35.	Does the External Auditor visit the main operating units of the Company on a regular basis?	

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No.	System of Control	Notes
Internal Audit		
36.	Does the Company have an Internal Auditor or internal audit unit? If not, does the Company plan on establishing one? When will it start operating? What costs are involved in its creation?	
37.	How many Internal Auditors are there in the Company, and how does this figure compare to similar companies? What is the amount of annual expenses for maintaining the Internal Auditor? What have been the trends for changing the personnel of the Company's Internal Auditor over the last five years?	
38.	How often do the internal audit representatives meet the Audit Committee? Does management take part in such meetings? Are any meetings held without management's participation? Does the Audit Committee meet the Internal Auditors separately?	
39.	Does the Audit Committee conduct a preliminary evaluation of the scope of work of the Internal Auditors? What mechanism, if any, ensures the Committee's compliance with the Internal Auditors' recommendations?	
40.	Does the Internal Auditor participate in the audit of financial statements?	
41.	Does the Company have any Internal Auditors specializing in the audit of information systems and control systems? Do their responsibilities include examination of computer security and business continuity planning?	
42.	Does the Internal Auditor include specialists in the area of operations with financial instruments? How often does the Internal Auditor inspect operations with derivative instruments and risk management procedures?	
43.	Is the Internal Auditor encouraged to receive additional professional training (for example, to qualify as a certified accountant)? How is the appropriate professional level of the Company's Internal Auditor maintained?	
44.	What governing body does the Internal Auditor report to? Does the head of the Internal Auditor function have permanent access to Audit Committee members? Does the Supervisory Board approve the By-law on Internal Control and the scope of work of the Internal Auditor? Can management dismiss the head of the Internal Auditor without the consent of the Audit Committee?	
45.	Are there any limitations on the scope of work of the Internal Auditor? Do the Internal Auditors have unrestricted access to all units, documents and personnel of the Company?	
46.	How often do the representatives of the Internal Auditor visit each of the operating units? Do they audit foreign units? Are there any offices or units of the Company that the Internal Auditors have never visited?	
47.	Does the Internal Auditor conduct operational (managerial) audits intending to identify opportunities to increase production efficiency and eliminate instances of inefficient operation? How much time does the operational audit take in comparison with the financial audit?	
48.	Do the Internal Auditors prepare written reports for each audit? Who receives such reports? Who is responsible for implementing the recommendations?	
49.	Does the Company use the External Auditor's employees to conduct internal audits? If so, does this procedure violate the requirements regarding the External Auditor's independence?	

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No.	System of Control	Notes
Internal Audit (continued)		
50.	Does the Company engage any other audit firm to conduct the internal audit? What is the relationship between the External Auditor and the firm that provides internal audit services?	
51.	Has an external audit of the standards and efficiency of the Internal Auditor ever been conducted?	
General Financial Accounting Matters		
52.	How does the Company gauge the quality of its accounting practices? Can the Company's accounting policy generally be described as aggressive or conservative?	
53.	Have the press or analysts expressed any concerns regarding the accounting policy of the Company?	
54.	How does the Company's accounting policy compare with those of its main competitors?	
55.	Is the Company's accounting policy consistent with the last year's policy? Were there any changes in the accounting policy? If so, how did such changes influence the financial results? Are there any plans to change the accounting policy next year? What is the expected effect?	
56.	What quantitative and qualitative factors does the Company consider important for purposes of making decisions regarding the materiality of violations during reviews of the financial statements?	
57.	Did the Company have to amend the profit and loss statement? If yes, what was the reason for the misstatement, and how was it discovered? Is there any possibility that these misstatements were deliberate?	
58.	Why has the information about _____ (a material event such as acquisition, write-off, or sale) not been made available earlier? How long did such information remain undisclosed? Is the Company considering any similar transactions in the near future?	
59.	Are the financial statements of the Company available on the internet? Does the Company plan to distribute hard copies of its annual report directly to shareholders?	
60.	Why did the Company change its accounting method of _____ [name transactions]? Why is the new method better than the old one?	
61.	What is the cause for the increase/reduction of _____ [name account] as compared to the last year?	
62.	What general items were included into _____ [name account]?	
63.	What is the Company's accounting policy regarding _____ [name transaction]?	
64.	What extraordinary accounting entries affected the comparability of results?	
65.	What items are included into "other" in _____ (name the balance sheet line)?	
66.	What kind of information does the Company provide regarding its trading activity, in particular, its over the counter transactions where fair or market value price must be determined separately?	

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No.	System of Control	Notes
Financial Accounting Matters: Information Disclosure in the Annual Report		
67.	Does the Company include in its annual report information on material aspects of its accounting policy, assumptions and uncertainties that affect the application of its policy, and the probability of the amounts being materially different based on other assumptions? What are the most material assumptions and qualifications that management uses in preparing the financial statements?	
68.	What does the Company do in order to make its financial statements transparent and easy to understand? Do the financial statements of the Company and its annual report reflect actual business risks and economic reality accurately, completely, and clearly?	
69.	Why does the Company not increase the scope of information in its annual report by including more analytical information and forecasts, and information about current issues and steps to resolve problems?	
70.	Does the Company's annual report clearly explain the external environment, industry dynamics, and the Company's position in the market?	
71.	Does the Company's annual report reflect its strategy in terms of its market capitalization?	
72.	Are the Company's financial objectives clearly stated, and to what extent have they been fulfilled by the Company? Is information included about the managerial and governance structures responsible for fulfilling the Company's strategies?	
73.	Is it clear from the annual report what the basis for the Company's financial performance is, how efficient the Company is in managing such resources as personnel, innovations, clients, trademarks, and suppliers, and what the Company's reputation is with stakeholders in terms of its environmental responsibility?	
Financial Accounting Matters: Accounting		
74.	Have accounting records been kept in accordance with the Company's approved accounting policy for the relevant period?	
75.	Does the Chief Accountant or any other authorized person check internal transactions to control whether all current business transactions are fully reflected in the accounts, and whether internal transactions comply with the rules in effect?	
76.	If the Company is conducting internal transactions which are not referenced or reflected in the chart of accounts (accounting records), do these internal transactions lead to a violation of accounting rules and, as a result, are misstatements of the taxable base and financial results material?	
77.	Are the business transactions authorized by management, both in their entirety and on each phase of the transaction (for example, all underlying petty cash vouchers and accounts payable are approved by the authorized manager)?	
78.	Do the accounting records reflect all business transactions based on the primary documents only?	
79.	Do the synthetic accounting balance data in the ledger correspond to the accounting balance data in the order record books or in any other backup accounting registers?	

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No.	System of Control	Notes
Financial Accounting Matters: Accounting (continued)		
80.	Does analytical accounting data correspond to primary document data regarding the designation, terms and amount, and to the synthetic accounting data?	
81.	Do the closing balances in the accounting registers correspond to the opening balances of the next reporting period?	
82.	Are there any inconsistencies between the amounts of a particular internal transaction as reflected in different accounting registers (for example, in the order register and in the ledger)?	
83.	Are there any inconsistencies between the balances of any particular account as reflected in different accounting registers (for example, the balance of the cash account which is registered in the ledger may not correspond to the same account balance registered in the cashbook)?	
84.	Are primary documents and accounting registers free from any notes made in pencil or unspecified corrections?	
85.	Are accounting operations registered on the basis of the accrual method?	
86.	Has any particular person been appointed to be responsible for, and is there any control over the timing of payments under invoices to avoid penalties for the breach of contractual obligations?	
87.	Are earmarked funds used for their intended purpose (subject to approved estimates and plans)?	
88.	Are all funds created in accordance with the Company's charter spent in accordance with their purpose?	
Financial Accounting Matters: Financial Results		
89.	How do actual sales and revenues relate to the numbers in the forecasts and the budget, or the numbers for the previous year? If any differences exists, what are the reasons for such differences? To what extent did operating volumes influence these differences? Or the assortment of goods/services? Or the price?	
90.	If the financial results of the Company differ from the forecasted figures or from forecasts by analysts, what are the reasons?	
91.	What percentage of any increase in sales is accounted for by new acquisitions?	
92.	How much money did the Company save over the past year because of cost-saving measures?	
93.	What share of the Company's net profit accounts for one-time transactions? What kind of transactions were they?	
94.	How do revenues and the major financial indices of the Company compare with the data for other companies in this industry? How do cash flows and the Company's liquidity compare with those of its competitors? If operational cash flows fail to grow as fast as the net profit, what are the reasons for that?	
95.	How much money was spent on advertising and goods promotion this past year? Will these expenses increase or decrease next year?	
96.	If the Company's receivables increase faster than sales, what are the reasons for that? Does the Company provide major clients with additional financing in order to encourage sales? Has the Company had to write off any part of such debts?	

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No.	System of Control	Notes
Financial Accounting Matters: Financial Results (continued)		
97.	What was the total amount of debt written off last year? How can it be compared with other companies in this industry? What were the largest amounts of debt written off?	
98.	How much in receivables are owed by insolvent or bankrupt companies? Has any reserve been set aside, and if so, do such reserves cover the full amount of these debts?	
99.	Is there any risk of default from the Company's major suppliers or customers, or other major contracting parties, because of financial problems or bankruptcy?	
100.	Are there any direct or indirect operational risks, including risks connected with off-balance contracts, with a company that has initiated bankruptcy proceedings?	
101.	Does the Company have any joint investment projects, derivative, or other contracts with a company that has claimed bankruptcy? If yes, has the value of such joint investments decreased as a direct result thereof? What was the estimated value of those investments at the end of the year?	
102.	Why are ____ [a competitor's] operational results so much better than the Company's results?	
103.	How does the Company's return on investments compare with other companies in this industry?	
104.	How does the Company's profitability compare with changes in revenues? If the net profit has not grown in proportion to revenues, then what factors influenced the situation?	
105.	Were there any material revisions of profit data made in the fourth quarter?	
Control Over Computer Data Processing System		
106.	Is software appropriately licensed?	
107.	Is the program protected from access by third parties who may change or delete data?	
108.	Are electronic accounting data backed-up on a regular basis to prevent loss or deletion?	
109.	Do the original electronic forms (templates) of primary documents and accounting registers developed by the company (an order register, a cash register, the ledger) satisfy the requirements for unified and approved forms?	
110.	Does the business accounting data processing algorithms comply with current laws? When using the electronic business accounting method overall, or in certain areas, is it necessary to selectively check and confirm the validity of calculations under the main orders? For example, when using the computerized method of filling in tax returns, are the tax accounting formulas and the tax rates correct? When using the computerized method of filling in accounting forms, are the formula and synthetic accounts which are involved in the calculations correct?	

Annex 28. A Model By-Law on Internal Control

Notes:

- 1) The processing of the data is carried out in the same way as for the table in Exhibit 1. Thereafter, an evaluation of the functioning of the accounting and internal control system should be separately conducted for each Company unit and for the Company as a whole.
- 2) The report on the evaluation shall provide a description of any identified shortcomings with suggestions for remedying such deficiencies. In this way, those parts of the accounting and internal control systems that require special attention and focus from the Supervisory Board will be identified, and efforts made to minimize the risks of recurrence. The resulting data analysis should indicate the status of the internal control system in each Company unit, and will readily allow the identification of strengths and weaknesses in the accounting and internal control systems.²¹²
- 3) The results of the aggregated data analysis in each Company unit should indicate the level of the internal control system in the whole Company. A low estimate indicates that material deficiencies in the internal control system exist, and that the existing accounting and internal control systems in the Company are not capable of identifying and curing significant deficiencies and/or preventing such deficiencies from occurring.²¹³

²¹² Approximate results of the estimates:

- Financial operations reflected on the accounting with violations of legal requirements bring into question the correctness of recording these transactions;
- Misstatement of cost and financial results records in certain accounting periods;
- Lack of control functions leads to unjustified expenditures of the company's funds; and
- Contracts entered into which violate laws and regulations might be declared null and void under Article 168 of the Civil Code.

²¹³ Some examples of the most common deficiencies:

- Lack of proper delineation of duties, or multiple duplication of duties;
- Lack of proper control over, and approval of business transactions;
- Lack of proper control while preparing and entering into business agreements;
- Inefficiency of control procedures;
- Intentional or unintentional violations of control procedures by company officials; and
- Accounting system violations by employees who are in charge of preparing initial documents.