



Transelectrica®

Societate Administrată în Sistem Dualist

Compania Națională de Transport al Energiei Electrice
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To: THE SHAREHOLDERS' GENERAL ASSEMBLY

**The Report of the Audit Committee
within the Supervisory Board of NPG Co. Transelectrica (TEL) for the year 2022 on
the Company's systems of internal control and significant risk management**

In accordance with its statutory duties, the Supervisory Board (SB) has the essential role to permanently control the manner in which the Directorate manages the Company, as well as the role to verify the activities performed in the name and on behalf of the Company. Therefore the SB is entitled and has the duty to establish the control and verification modes which it considers necessary in view of performing its supervisory and reporting actions with respect to the activities developed by shareholders during reunions of the Shareholders' general assembly (SGA).

All seven members of the Supervisory Board have filled in and submitted statements of independence.

The Audit Committee is one of the two Committees that is mandatorily established within the Supervisory Board. The Audit Committee within the Supervisory Board (SB) of NPG Co. Transelectrica S.A., established based on the Articles of Association of NPG Co. Transelectrica S.A., carried out its activity in accordance with the relevant legal provisions. In fulfilling its responsibilities the Audit Committee regularly monitors the financial reporting process, internal control and intern audit and the system of risk management adopted by the Company. The Committee shall submit to the SB reports on its work.

Audit Committee members are nominated from among the SB members (who in their turn are appointed by SGA). Its current membership is the following:

- ✓ ZEZEANU Luminița – Chairwoman,
- ✓ ATANASIU Teodor – member,
- ✓ DASCĂL Cătălin-Andrei – member,
- ✓ PĂUN Costin-Mihai – member and
- ✓ STERP VINGĂRZAN Gheorghe – member.

During the year 2022, the Audit Committee, gathered for 6 plenary meetings, has analysed the process of financial reporting and of management, as well as the financial plan and the elaboration process of the annual, consolidated and stand-alone financial statements. The data and information included in the following documents have been analysed and verified during the meetings:

- Stand –alone financial statements and the consolidated ones related to the financial year 2021;
- The Income and Expense Budget for the year 2022 and the estimations for 2023-2024;
- Stand – alone preliminary financial statements on the date and for the financial exercise ended on December 31, 2021;
- Stand – alone financial statements for the financial exercise ended on December 31, 2021;
- Consolidated financial statements for the financial exercise ended on December 31, 2021;
- Annual Report of the Directorate on the Company's activity during the year 2021, in accordance with the provisions of the capital market;

- Consolidated Annual Report of the Directorate on the Company's activity during the year 2021, in accordance with the provisions of the capital market;
- Finalizing the Semestrial Report of the Supervisory Board regarding the economic - financial activity of Transelectrica for the II Semester of the year 2021;
- Finalizing the report of the Audit Committee for the year 2021, elaborated according to the new provisions of the BSE Corporate Governance Code;
- Interim simplified financial statements on the date of March 31, 2022;
- The Report regarding the Company's economical – financial activity on March 31, 2022;
- Interim simplified financial statements on the date of June, 30, 2022
- The Report regarding the Company's economical – financial activity on June, 30, 2022;
- The Report of the Supervisory Board regarding the administration activity January - June 2022;
- Interim financial statements on 30.09.2022;
- The Report regarding the Company's economical – financial activity on 30.09.2022 „the Quarterly Report FSA”;
- The activity Report of the Directorate for the period January – September 2022;

During the statutory meeting, the members of the Audit Committee within the SB, were informed about the following documents:

- The Quarterly Report IV and January - December 2021 regarding the economic - financial activity of Transelectrica, elaborated according to the provisions of the capital market;
- The Independent auditor's Report on Stand – alone financial statements for the exercise ended on December 31, 2021;
- The Independent auditor's Report on Stand – alone consolidated financial statements for the exercise ended on December 31, 2021;
- The Auditor's additional report to the Audit Committee;
- Information related to the proposal to allocate the net profit on December 31, 2021;
- Information regarding the establishment of reserves related to the revenues obtained from the allocation of transport capacity on the interconnection lines in 2021, from the surplus made from taxable and non – taxable revaluation reserves upon change of destination;
- The activity Report of the Directorate regarding the results for first quarter 2022 in accordance with G.E.O. 109/2011;
- Miscellaneous.

Also, the Audit Committee within the Supervisory Board took part in the elaboration and finalisation of the following documents during the year 2022:

- The 2021 Audit Committee Report on the the systems of internal control and of significant risks management within TEL, elaborated according to the provisions of the Corporate Governance Code of the Bucharest Stock Exchange (SAOGA document at its reunion on 28.04.2022);
- The Supervisory Board Report for the second semester on the administration activity, elaborated in accordanced with G.E.O. 109/2011, submitted to the shareholders gathered in ordinary meeting on 29.09.2022;

We submit to the shareholders short information on the Company's systems of internal control and of significant risks management:

I. Report regarding the activity for the year 2022 developed by the Public Internal Audit (API) within TEL as well as by its subsidiaries

The activity report presents the way of organizing and carrying out the public internal audit activity within National Power Grid Company Transelectrica S.A. (NPG Co. Transelectrica S.A.) as well as

within its subsidiaries (Company for Electricity Transmission Maintenance Services SMART – S.A., the Electricity Market Operator Company OPCOM – S.A., FORMENERG – S.A. Company, the Company for Telecommunication Services and Information Technology in Electric Transmission Networks TELETRANS – S.A., ICEMENERG – SERVICE – S.A. Company. Within them, establishing the public internal is as follows:

1. three subsidiaries have established their own public internal audit, with the approval of TEL;
2. two subsidiaries of internal audit provided by the higher hierarchical body. The internal audit is provided by NPG Co. Transelectrica S.A. for the subsidiaries FORMENERG and ICEMENERG SERVICE S.A.

Throughout the year 2022, in accordance with the organizational structure of the Company, there have been eight operational Territorial Transmission Units without legal personality.

During the year 2022 the public internal audit was carried out through the public internal audit structure (API) within NPG Co. Transelectrica S.A., in compliance with the minimum reporting requirements required by UCAAPI (Central Harmonization Unit for Public Internal Audit) în cursul anului 2022,

I.1. Planning the activity of public internal audit

- ✚ The annual plan unfolded based on the approved "Multiannual public internal audit plan of CNTEE Transelectrica SA" and the risk analysis, taking into account certain priorities arising from previous audit missions, or requests from Directorate members. The plan of internal audit missions for the year 2022 has included 22 assurance missions (four within the Executive of the Company and 18 within its Territorial Transmission Units.
- ✚ Within the three subsidiaries of TEL that have elaborated annual report regarding the internal public audit activity, the process of activity planning has the following features, as follows:
 - at SMART the annual plan for internal public audit for the year 2022 was approved at the end of the year 2021 and it had planned five assurance missions. During the year 2022 the audit annual plan has been changed five times in order to develop some ad-hoc missions, as well as to postpone the due date of some missions and the postponement of a regularity mission.
 - at OPCOM the planning process of the internal public audit activity for the year 2022, approved by the Chief Executive Officer of the Company at the end of the year 2021 has included:
 - Five assurance missions of internal public audit and an advisory mission.

The annual plan for internal public audit for the year 2022 did not require update during the reporting period.

- In TELETRANS assurance missions were unfolded in accordance with the annual plan for internal public audit for the year 2022 approved at the end of the year 2021. Within the annual plan for internal public audit for the year 2022 there have been established 4 assurance missions, namely:
 - Auditing the payroll activity of the company's staff;
 - Auditing the process informatics activity;
 - Auditing the activity of developing contracts;
 - Auditing the implementation of the decision making system at the company level.

I.2. Public internal audit missions performed

In the year 2022 at TEL have been completed:

- ✓ 16 planned assurance audit missions, covering the following areas:

- Financial - accounting: 10 missions performed in the territorial transmission units;
- Public acquisitions: 5 missions performed in the territorial transmission units;
- IT field: one mission performed in the Executive of the Company.

Not all planned missions were completed on time (endorsed by the Directorate), on objective grounds. As a result 72.7% of the plan was completed mainly due to the lack of staff (internal auditors) and for the performance of the ad-hoc internal public audit mission.

I.3. Current situation of public internal audit

Within NPG Co. Transelectrica S.A. the established public internal audit structure is also functional since 2004.

Within the five subsidiaries that established the public internal audit, its operation has the following characteristics:

- ✓ The establishment of the internal public audit function is as follows:
 - Three subsidiaries have established internal public audit through their own structure with TEL's approval;
 - Two subsidiaries have established internal public audit through assuring this function by higher hierarchical body. The internal audit is assured by TEL for FORMENERG and ICEMENERG SERVICE SA subsidiaries.
- ✓ From the point of view of the way of organizing the internal public audit function, the three subsidiaries that established the internal audit through their own structure opted for the following structure:
 - One for service (SMART);
 - One for office (OPCOM);
 - One for compartment (TELETRANS).
- ✓ In four entities the public internal audit works
 - in three entities (SMART, OPCOM, TELETRANS) through their own structure;
 - in an entity (FORMENERG) through the higher hierarchical body;
- ✓ In an entity (ICEMENERG SERVICE) the public internal audit does not work, although it is established by the hierarchically superior body. ICEMENERG SERVICE is in bankruptcy proceedings, no public internal audit missions have been carried out in recent years, this being the cause of the non-functioning of the public internal audit provided by the higher hierarchical body.

I.3.1. Public internal audit reporting

Of the five subsidiaries of the Company, three entities (SMART, OPCOM and TELETRANS) established the public internal audit through their own structure with the approval of NPG Co. Transelectrica S.A. FORMENERG and ICEMENERG SERVICE SA subsidiaries established the public internal audit through higher hierarchical body.

The public internal audit operates through its own structure at all three subsidiaries. Thus, the three subordinated entities have the obligation to issue and communicate to NPG Co. Transelectrica S.A. the annual activity report on the public internal audit. The annual activity report on the public internal audit was elaborated by three public subordinated entities (subsidiaries), the information given by them are to be found within the present report.

I.3.2. Independence of the public internal audit structure and objectivity of auditors

Independence is the attribute of public internal audit functions while objectivity is the prerogative of public internal auditors. Therefore, in order to keep the independence of the public internal audit structure the following criteria are ensured:

- ✓ The position of public internal audit must report directly to the superior management of the organization;
- ✓ The appointment and revocation of the management position for public internal audit, namely of the public internal auditors must be submitted to the endorsement process in accordance with the law and in order to maintain the objectivity of internal public auditors, the following criteria are followed:
 - ✓ Internal public auditors must not be involved in the activities that they can later audit;
 - ✓ Internal public auditors must declare their independence within the public internal audit and within the performed assessment missions.

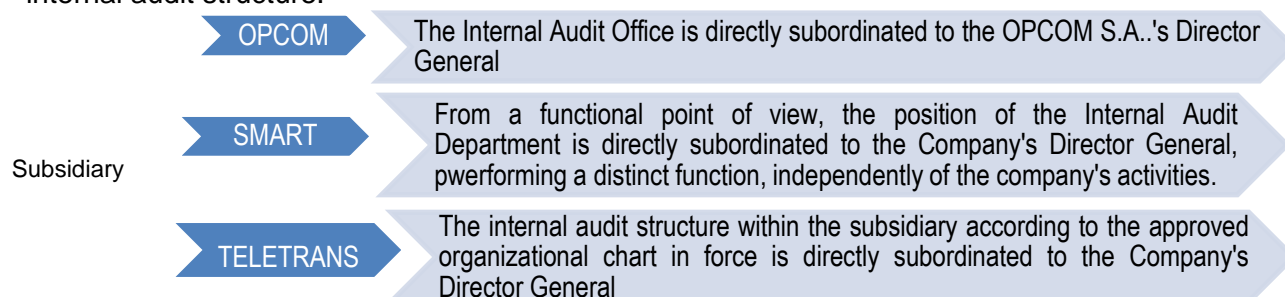
These aspects are found in the current legal basis, respectively Law no. 672/2002, republished with later amendments and additions and GD no. 1086/2013. Also, similar aspects are found in the international internal audit practice stipulated in the International Professional Practices Framework (IPPF) issued by the Institute of Internal Auditors (Standards 1100 to 1130).

❖ Within NPG Co. Transelectrica S.A.

According to the Organizational and Functional Structure valid from 06.07.2022, approved by Directorate Decision no. 76/2022, the structure of the Public Internal Audit (API) is subordinated to the Company's Directorate. During the reporting year there were no appointments or dismissals of the public internal audit structure's management, nor revocation of the internal auditors. During the year 2022 the chief inspector ended his contractual relationship with the Company, the position becoming vacant and his responsibilities being taken by another employee within the Company for a determined period of time. Also, during the year an auditor's request to move to another organizational structure was approved by the management of the Company.

❖ At the level of NPG Co. Transelectrica S.A. subsidiaries. From the annual activity reports issued by a number of three functional public internal audit structures, the following information resulted:

Regarding the position of the public internal audit structure:



Regarding the application and observance of the procedure for appointing/dismissing the head of the public internal audit structure during the year 2022:

Subsidiary	OPCOM	within the Internal Audit Office the head of the structure is nominated, this being endorsed by the hierarchically superior public internal audit structure.
	SMART	In 2022 appointments were made in the internal audit management, the position of head of office being filled by examination.
	TELETRANS	this was not the case in the reporting year.

Regarding the application and observance of the procedure for appointing/revoking the internal public auditors during 2022

Subsidiary	OPCOM	this was not the case in the reporting year.
	SMART	this was not the case in the reporting year.
	TELETRANS	this was not the case in the reporting year.

Objectivity of internal auditors within subsidiaries

Subsidiary	OPCOM	In 2022, the public internal audit structure was not involved in carrying out the auditable activities within the company.
	SMART	the internal audit office was not involved in activities from the auditable area.
	TELETRANS	the internal auditors within the Internal Audit Compartment were not involved in carrying out the auditable activities. in the year 2022.

I.3.3. Providing the methodological and procedural framework

The methodological and procedural framework of public internal audit activities refers to aspects likely to provide good development of such activities in the light of applicable methodologies and procedures, taking into account as well the application and observance of the public internal auditor's ethical conduct code. With reference to setting procedures for activities of the public internal audit structure, they are also subject to issuing system or operational procedures, as appropriate. In view of this, it is necessary for the public internal audit structures to analyze and decide how many of the activities carried out have to be under procedure (i.e. to issue a written procedure for that activity). In this context, the degree of procedure issuance may vary from one entity to another, depending on the professional judgment applied. Also, for the procedural activities, it will be established what is the issuance degree of the procedures. Naturally, the target is 100%, aiming to come as close as possible to this percentage.

I.3.4. Existence of written procedures specific to public internal audit

- ❖ Within NPG Co. Transelectrica S.A. At the level of the public internal audit structure, an activity was identified, namely that of "public internal audit", which was carried out by procedure. The internal procedure was updated during 2021. All the steps carried out in public internal audit missions from planning to observing and reporting the implementation degree of recommendations are foreseen in the body of this procedure. Therefore, a written procedure was issued for an activity identified to be carried out by procedure, which represents 100% degree of issuance of procedures

❖ Within the subsidiaries of the Company – there have been identified activities at the public internal audit structure and these activities can be issued by procedure, as it follows:

1. OPCOM: 4 main activities have been identified:

- ✓ Elaborating and updating of the Methodological Norms specific to the public internal audit activity and of the Internal Audit Charter at OPCOM level
- ✓ Elaborating the multi-annual and annual public internal audit plan at OPCOM level;
- ✓ Carrying out internal public audit missions of assurance and counseling at OPCOM level;
- ✓ Elaborating regular reports to the interested parties/entities regarding the public internal audit at OPCOM level

At the level of the Internal Audit Office, a number of 4 written procedures have been elaborated and are being implemented, as mentioned above, which represents 100% degree of issuance of procedures.

2. SMART: Within the Internal Audit Department there is the operational procedure of Public Internal Audit

3. TELETRANS: There have been identified within the public internal audit structure the activities to be carried out by procedure for which a single procedure was developed. The activities covered by the procedure and established as procedural are as follows:

- ✓ Organizing the internal audit activity;
- ✓ Appointment/dismissal of the head of CAI- Teletrans and of the internal auditors;
- ✓ Conducting internal audit;
- ✓ Providing and improving the quality of internal audit;
- ✓ Planning the internal audit activity;
- ✓ Methodology of conducting a regular public audit mission of regularity/compliance;
- ✓ Carrying out a regularity/compliance internal public audit mission ;
- ✓ Carrying out internal performance audit mission;
- ✓ Carrying out internal system audit missions;
- ✓ Counseling mission. Carrying out formalized counseling missions;
- ✓ Reporting the public internal audit activity. Annual internal audit report.

A written procedure has been issued for all procedural activities, which represents 100% degree of issuance of procedures. The operational procedure was updated in March 2022.

I.3.5. Ensuring and improving the quality of public internal audit

✚ Elaborating and updating the Quality Insurance and Improvement Programme (PAIC)

In accordance with the provisions of point 2.3.7. from annex no. 1 to GD no. 1086/2013, within the public internal audit structure, a Quality Insurance and Improvement Programme (PAIC) is elaborated in every respect of the public internal audit, which would allow a continuous control of its effectiveness. By applying PAIC it is ensured that the activity is carried out in accordance with the rules, instructions and the Code on the ethical conduct of the public internal auditor and it contributes to the improvement of the activity of the public internal audit structure.

PAIC gives conclusions regarding the quality of activity of public internal audit and recommendations to implement the improvement of this activity and should allow an assessment of:

- compliance with the laws in force;
- the contribution of the public internal audit to the processes of governance, risk management and control of the organization;
- full coverage of the auditable domain;
- compliance with the laws, regulations and procedures that the public internal audit activity must comply with;
- the risks affecting the operation of the public internal audit.

PAIC imposes a systematic and disciplined approach to the periodic self – assessing process, including the method of conducting the periodic self assessment for each intermediate year between the external evaluations.

A fully functioning PAIC exercises a permanent monitoring of the internal public audit activity and the periodic self – assessment of it to ensure compliance with the applicable and legal framework. This process should help the external evaluation become an opportunity to obtain new ideas from the evaluator or from the evaluation team regarding the ways of improving the overall quality of public internal audit, as well as its efficiency and effectiveness.

❖ Within NPG Co.Transelectrica S.A.

The last update of the PAIC was made on 10.12.2020 at the level of the public internal audit structure within the Company.

❖ Within the subsidiaris of NPG Co.Transelectrica S.A.

The following information resulted from the annual activity reports issued by a number of three functioning public internal audit structures:

1. On the public internal audit structure within OPCOM the version of the Program for providing and improving the quality of the public internal audit activity elaborated in 2020 is applicable and it contains the action plan for 2020 – 2022.
2. On the Internal Audit Service within SMART, PAIC was issued in 2022.
3. On the public internal audit structure within Teletrans the last update of the document was made in March 2021.

I.3.6. Carrying out the external evaluation

Complementary to the PAIC, the quality of the public internal audit function can be improved by means of external evaluations. They should be carried out every five years according to the requirements of national legislation, but also according to the international internal audit standards issued by the Internal Institute of Auditors. The objective of external evaluation is to assess public internal audit activities in terms of their conformity with the internal audit definition, with the requirements of the ethical conduct code and the provisions of national legislation in this domain. External evaluations can also focus on identifying opportunities to improve the public internal audit function, providing suggestions to improve the effectiveness of such activities and promoting ideas to enhance the image and credibility of the public internal audit function.

❖ Within NPG Co.Transelectrica S.A.

In 2022, the structure of Public Internal Audit was not evaluated by Public Internal Audit Department within GSG, the hierarchically superior body. The evaluation took place in 2021.

❖ Within the subsidiaris of NPG Co.Transelectrica S.A.

At the level of subordinated entities, from the annual activity reports issued by a number of three functional public internal audit structures, it resulted that, in the year 2022 neither of the entities was evaluated by the hierarchically superior body, namely by the organizational structure 'Public Internal Audit' within Transelectrica. The external evaluation of the subordinated entities in the last four years is as follows: all three entities have been evaluated by the hierarchically superior body, the Court of Accounts or other entities. Regarding the evaluation of the public internal audit activity every five years, all the functional internal audit structures have been evaluated.

I.3.7. Human resources allocated to internal audit

At a time when there is an increasing emphasis on organizational accountability, improved internal control, risk management and corporate governance, more and more emphasis should be placed on public internal audit structures.

In order to achieve its objectives, it is important that the internal audit structure¹ has access to human resources that have necessary skills for this purpose.

- ❖ Within NPG Co.Transelectrica S.A. – on December 31, 2022, within Transelectrica, the public internal audit structure had a vacant leading position (chief inspector), the duties being taken over by proxy by a specialist within the Company. Regarding the operating positions, on December 31, 2022, the public internal audit structure had six positions occupied. All the six operating positions occupied are framed as internal auditors, people who actually work for the public internal audit structure.
- ❖ Within the subsidiaris of NPG Co.Transelectrica S.A., on December 31, 2022 the public internal audit structures had allocated a number of three management positions, all of which being occupied and 3 operating positions. The operating positions were held by people who actually worked for the public internal audit structure.

From this point of view, the situation of the subordinated entities is as follows:

- There is no entity with just one position;
- Three entities have one position of public internal auditor occupied, who actually exercises the attributions of public internal audit.

I.3.8 Personnel structure and professional training as of December 31, 2022

When analyzing personnel structure, the following criteria were taken into account: public internal audit experience, field of specialized studies, foreign languages, national and international certifications held as well as membership in national and international professional organizations. All these elements, together with the personnel's professional training, contribute to a qualitative analysis of the human resource, an extremely important factor in carrying out the public internal audit activity.

- ❖ Within NPG Co.Transelectrica S.A.

According to the Classification provided in the Collective Labor Agreement, all employees within API are employed as internal auditors, and the head of the structure as Chief Inspector. According to the populated list of positions, valid from the end of 2022, within the structure of Public Internal Audit (API) there is a chief inspector position and six internal auditors (with experience in public internal audit of more than five years). On 31.12.2022, within the Public Internal Audit structure (API), there are:

- Five economists; one of them is also licensed in the mathematics - informatics profile;
- Two engineers; we mention that these auditors have also higher economic studies.

All seven employees of API speak English, three of them also speak French and one of them speaks Turkish. An internal auditor is a member of CAFR and ANEVAR.

The status of certifications held by the internal auditors and by the chief inspector is as follows:

- An internal auditor is financial auditor and expert evaluator for companies.
- An internal auditor holds a financial controller's certificate.
- An internal auditor holds the certificate of ANRE authorized electrician degree IV A+B, namely site manager authorized ISC electrical networks.
- An internal auditor is also a quality auditor.

It must be mentioned that due to the experience of the internal auditors, most of the objectives within Transelectrica's entities were audited by both economists and engineers.

- ❖ Within the subsidiaris of NPG Co.Transelectrica.

¹ It is important to have a minimum number of personnel within the public internal audit structure because:

- art. 2 letter.(f) of Law no. 672/2002, with later amendments and completion mention that a public internal audit structure can be established with minimum two full norm positions. Therefore any public internal audit structure should comply with this legal provision, having at least two full norm positions of public auditors.
- The entire methodology of public internal audit mention within G.O.no. 1086/2013 refers to the existence of a public internal audit team that must include a supervisor of missions. Therefore, any public internal audit structure should comply with this legal provision, having at least two full norm positions occupied.

1. Within Public Internal Audit of the subsidiary OPCOM an employee with more than 14 years experience in internal public audit is working (the chief of the structure) as well as an employee with 2 years experience in internal public audit.
2. Within the subsidiary SMART the chief of the Public Internal Audit has experience in public internal audit since 2019, with specialization: economist, financial audit, foreign languages spoken: French, international certifications: CIA.
3. Within the subsidiary Teletrans the chief of the structure has experience in public internal audit of no more than 3 years with specialization: economist, professional experience in financial management control, professional experience of up to 15 years in accounting – financial management, experience in financial management of infrastructure projects with European funding. English speaking person. The operating personnel has professional experience in internal audit of up to 3 years, juridical studies and professional experience in public acquisitions, management internal control and also professional experience of more than 15 years in legal field, English speaking person.

I.4. Providing the continuous professional development

❖ Within NPG Co.Transelectrica.

The participation degree within the professional training is of 100%. The average number of days of professional training for each public internal auditor is of 16.1, being done as follows:

- 8 days through training courses;
- 105 days through individual studying;
- 0 days through other ways of training.

We observe that due to the individual study of each internal auditor, the minimum requirement of professional training foreseen by the legislation² (15 days/year) is fulfilled.

❖ Within the subsidiaris of NPG Co.Transelectrica S.A

1. In OPCOM SA, the participation degree within the professional training is of 100 %. The average number of days of professional training done in the reporting year was of 15 days/person, being fulfilled both by the managing personnel and by the operating personnel. During the reporting year there have not been problems regarding the fulfilling of the minimum number of days of training foreseen by the regulation framework.
2. In SMART SA the participation degree within the professional training is of 100%. During the year 2022, taking into account the existing training needs, the main themes for professional training were: improvement in internal audit, internal managerial control, risk management, financial accounting and legislation regarding the implementation of the national anti – corruption system.
3. In „Teletrans” S.A., the participation degree within the professional training is of 100%. During the reporting year the following problems regarding the minimum number of training days foreseen by the regulation framework have appeared: due to the financial situation of the company in the year 2022, the professional training was achieved through individual study done by each employee CAI in the field of internal audit.

I.5. Analysis of the adequacy of the size of the internal public audit department

From the cumulative interpretation of the articles of law³, it results that the area that can be audited must be completely covered in three years, according to the risks associated with the activities. So

² In order to ensure the continuous professional development of every auditor, to maintain and develop his/her competence, the legal framework foresees the obligation to perform at least 15 days/year of professional development. The training needs were identified in accordance with the competence necessities in order to ensure the performance of the objectives of the missions included in the audit plan and in accordance with the legal amendments in the field of audit and in the field that enters the field of audit.

³ According to art. 3 para. (2) of Law no. 672/2002, the scope of the public internal audit includes all the activities carried out within the public entities in order to fulfill their objectives, including the evaluation of the managerial control system. According to the provisions of art. 15 para. (1) of Law no.

the public internal audit structure is organized in such a way that it can provide the necessary resources to audit, in a period of three years, based on the risk analysis, all the activities developed by the company. In accordance with the applicable regulations, the public internal audit structure is sized (number of auditors, based on the volume of activity and the size of the risk associated) in such a way that it can ensure the audit of the activities included in the area of the public internal audit.

❖ Within NPG Co.Transelectrica.

Taking into consideration the existing personnel resources, namely a number of six occupied positions, the degree of coverage of the auditable area is of 40 % in four years. In order to comply with the legal provisions and with the total coverage (100 %) of the auditable area in three years, the public internal audit needs a number of 15 occupied positions of public internal auditor.

❖ Within the subsidiaries of⁴ "Transelectrica" S.A.

1. OPCOM – a number of occupied positions that exercises the activity of public internal auditor, the degree of coverage of the auditable area in 4 years is of 100 %.
2. SMART – a number of 2 occupied positions, the degree of coverage of the auditable area in 4 years is of 100 %.
3. TELETRANS – a number of 1 managing position and 1 operating position, the degree of coverage of the auditable area in 4 years is of 100 %.

I.5. Planning the internal audit activity carried out in the reporting year

Regarding the public internal audit, the planning is performed multiannually, for a period of 3 years, but also annually. The calculation and distribution of resources is done only on the shorter time horizon (1 year). The planning is based on the assessment of the risks related to the activities carried out within the Company and the prioritization of these activities according to the risk score. This risk score is what will determine when that activity will be audited by the public internal audit structure. Given the fact that the risks associated with the activities are generated by the economic and social environment in which the activity is carried out, there is a need for the risks to be reassessed periodically, in order to be followed in their dynamics. In this context, the multi-annual public internal audit plan should be updated annually, and this should be the basis for the development of the annual public internal audit plan. Also, in order to perform a substantiated risk analysis, but also to reduce the subjectivity degree of the risk analysis, we consider it necessary to use well-defined risk analysis criteria, explaining the effective way to perform the risk analysis and establish the risk score.

❖ Within NPG Co.Transelectrica

672/2002, the public internal audit is performed on all the activities carried out in a public entity, including on the activities of the subordinated entities, under the coordination or under the authority of other public entities. According to the provisions of art. 15 para. (2) of Law no. 672/2002, the public internal audit structure audits, at least once every 3 years, without being limited to the following:

- a. the financial activities or with financial implications carried out by the public entity since the establishment of the commitments until the use of the funds by the final beneficiaries, including the funds from external financing;
- b. payments made under budgetary and legal commitments, including from Community funds;
- c. the administration of patrimonial assets, as well as the sale, pledging, concession or rent of goods from the state's private domain or of the administrative-territorial units;
- d. the concession or rental of goods from the state's public domain or of the administrative-territorial units;
- e. the establishment of public revenues, namely the manner of authorization and establishment of debt securities, as well as the facilities granted for their collection;
- f. allocation of budget appropriations;
- g. the accounting system and its reliability;
- h. decision making system;
- i. management and control systems, as well as the risks associated with such systems;
- j. computer systems.

⁴ In order to comply with the legal provisions and the full coverage (100%) of the auditable scope in a period of three years, the internal audit structure needs a total number of 2 positions of internal auditors occupied (1 internal auditor - head of department and 1 internal auditor - operating position).

For 2017 - 2023, the Multiannual Public Internal Audit Plan of NPG Co. Transelectrica S.A. was elaborated and approved. The Multiannual Public Internal Audit Plan has not been updated. A new Multiannual Public Internal Audit Plan will be suggested to the management of the Company in the year 2023.

According to the provisions of Law no. 672/2002, republished with later amendments, the public internal audit is performed on all the activities carried out in a public entity, including on the activities of the subordinated entities. As a consequence, the existing internal auditors within API must carry out public internal audit activity within the organizational structures of the Company's Executive branch, the eight Territorial Transmission Units and the subsidiaries where there is no internal audit structure. The audit in OPCOM, SMART and TELETRANS subsidiaries was performed through their own structure, and the API staff from NPG Co. Transelectrica S.A. shall assess them.

Taking into consideration the large number and the diversity of the activities carried out by the Company, compared with the human resources of API structure and the annual calendar available for the public internal audit missions, as well as the necessity to perform assessment missions in the subsidiaries, the multiannual plan was elaborated for a period of five years.

In order to break down the audited activities by year, a hierarchy of organizational entities was made, depending on their importance and contribution in achieving the main activity objectives of TEL. Within each structure, the activities carried out were identified and ranked, based on the detailed organization and functioning regulations and on the discussions carried out with the management of the those entities.

The ranking also took into account the analysis and assessment of the risks associated with each activity. The division of these activities into years was in accordance with International Standards on Auditing and good practice in the field, taking into account, as far as possible, a balanced distribution. Thus, every year, mainly high-risk activities will be audited, but also those with medium and low risk. The risk analysis criteria used in the annual and multiannual planning are as follows:

- ✓ Likelihood of risk occurrence;
- ✓ Seriousness of event consequences (impact level).

Within TEL, the 'Public Internal Audit' procedure has been elaborated and it regulates the way the annual and multiannual planning is carried out. This planning is achieved taking into consideration the structures within the entity.

❖ In the subsidiaries⁵ of Transelectrica S.A.

1. OPCOM – Specific criteria have been developed for multi-annual planning. In this regard, the risk analysis criteria used in the planning process took into account the following elements:

- ✓ The share of risks identified for the activity within structures;
- ✓ Coverage degree of activities under procedure;
- ✓ Methodological changes due to legislative changes;
- ✓ The share of number of measures to be implemented for the risks that require treatment/mitigation.

Within OPCOM SA a procedure has been elaborated and it regulates the way the annual and multiannual planning is carried out and this planning is achieved taking into consideration the structures, activities, projects and operations within the company.

2. SMART – the Multiannual Plan for internal audit related to the period 2022 – 2024 is in accordance with the incidental legislation.

The planning was made for a period of 3 years (2022, 2023 și 2024) and it includes the missions regarding the audit of the activities, structures, processes, projects and operations carried out within the company. The selection of internal audit missions was made according to the risk assessment

⁵ In order to comply with the legal provisions and the full coverage (100%) of the auditable area for a period of 3 years, the internal audit structure needs a total number of 2 occupied positions of internal auditors (1 internal auditor – head of department and 1 internal auditor – operating position).

related to different activities and operations, taking into account the periodicity of the audit every 4 years, types of audits and the available audit resources.

The elaboration of the multi – annual internal audit plan was done by going through the following steps:

- 1) identifying the activities carried out within the company and included in the scope of internal audit;
- 2) establishing the criteria for risk analysis;
- 3) determining the total risk score for each activity and their ranking
- 4) establishing the distribution of internal audit missions by years;
- 5) preparation of the multi-annual audit plan.

The operations from points 1)-3) were carried out by drawing up the Annex “Identification of activities, determination of the total risk score and their ranking for the 2022-20224 multi-annual plan”.

The annual plan for internal audit for the year 2022 included 2 assurance missions and 1 ad – hoc mission.

3. TELETRANS – the risk analysis criteria used in the annual and multi – annual planning were established as follows:

- ✓ Assessment of internal control;
- ✓ Quantitative assessment;
- ✓ Qualitative assessment;
- ✓ Legislative amendments.

Within Teletrans, the multi-annual and annual planning activity is included in the operational internal audit procedure and this planning is carried out taking into consideration the structures within the entity.

The activity of the Internal Audit Department within the subsidiary is carried out based on the Annual plan for internal audit. The 2022 public internal audit plan was based on:

- ✓ the multi-annual plan for internal audit 2022 – 2026, based on the analysis of risks and forecasts regarding the development/maintenance of the subsidiary activity;
- ✓ the impact of changes in the internal and external environment in which the subsidiary evolves.
- ✓ the time available;
- ✓ the human resources involved.

Within the Annual Plan for 2022 a number of 3 regular missions and 1 system mission, namely:

- ✓ auditing the payroll activity of the company’s staff;
- ✓ auditing the process information activity;
- ✓ Auditing the activity of carrying out contracts;
- ✓ Auditing the implementation of the decision – making system at the company level.

I.6. Carrying out the internal audit missions

I.6.1. Carrying out the assurance missions

❖ Within NPG Co.Transelectrica S.A.

In 2022 a number of 16 assurance missions were carried out. Taking into account that during an assurance mission several domains can be dwelt with, it was ascertained that:

- ✓ The budgetary domain has not been addressed by none of the assurance missions;
- ✓ 10 assurance missions approached the financial – accounting domain;
- ✓ 5 assurance missions approached the public procurements domain;
- ✓ None of the assurance missions approached the human resources domain;
- ✓ One assurance missions approached the IT domain;
- ✓ None of the assurance missions approached the juridical domain;
- ✓ None of the assurance missions approached the community funds domain;

- ✓ None of the assurance missions approached the SCM/SCIM activity ;
- ✓ None of the assurance missions approached other domains.

Within the public internal audit missions carried out during the year 2022 no irregularities have been ascertained. Within the public internal audit missions carried out during the year 2022 no outstanding recommendations have been ascertained⁶.

Regarding the overseeing of the implementation of the recommendations, this activity refers to the recommendations drawn up by the public internal audit structure within the previous assurance missions, for which the audit structure has the obligation to oversee the implementation method. In this context, during the year 2022 a number of 119 recommendations have been supervised, with the following results:

- ✓ 77 implemented recommendations, of which:
 - 43 recommendations implemented within the established term;
 - 34 recommendations implemented after the established term ;
- ✓ 24 partially implemented recommendations (under implementation), of which:
 - 19 recommendations that did not exceed the established implementation term;
 - 5 recommendations that exceeded the established implementation term;
- ✓ 18 non- implemented recommendations, of which:
 - 16 recommendations that did not exceed the established implementation term;
 - 2 recommendations that exceeded the established implementation term.

Domain	Number of implemented recommendations		Number of partially implemented recommendations		Number of non- implemented recommendations	
	Within the established term	After the established term	That did not exceed the established term	That exceeded the established term	That did not exceed the established term	That exceeded the established term
Budgetary	-	-	-	-	-	-
Financial – accounting	10	12	1	-	9	-
Public procurements	9	-	-	-	4	-
Human resources	-	-	-	3	-	-
Information technology	2	-	3	-	-	2
Legal	-	-	-	-	-	-
Community funds	-	-	-	-	-	-
Entity specific functions	22	22	15	-	3	-
SCM/SCIM	-	-	-	-	-	-
Other domains	-	-	-	2	-	-
TOTAL 1	43	34	19	5	16	2
TOTAL 2	77		24		18	

❖ Within the subsidiaries of NPG Co."Transelectrica" S.A.

Within the subordinated entities CNTEE Transelectrica SA in the year 2022, 10 assurance missions have been performed. Taking into account that during an assurance mission several domains can be dwelt with, it was ascertained that:

- ✓ one assurance mission approached the budgetary domain;

⁶ The non – appropriated recommendations are recommendations that have been included in the final public internal audit report, but were not checked by the manager of the public entity in accordance with the provisions of point 6.6.6 of G.O. no. 1086/2013, mentioning it specifically. In accordance with the applicable legislation in force, these recommendations must be brought to the attention of UCAAPI together with the consequences of not implementing them.

- ✓ 4 assurance missions approached the financial - accounting domain;
- ✓ None of the assurance missions approached the public procurements domain;
- ✓ None of the assurance missions approached the human resources domain;
- ✓ None of the assurance missions approached the IT domain;
- ✓ one assurance mission approached the legal domain;
- ✓ None of the assurance missions approached the community fund domain;
- ✓ 3 assurance missions approached the specific entity domain;
- ✓ None of the assurance missions approached the SCM/SCIM;
- ✓ 2 assurance missions approached other domains.

Within the public internal audit missions carried out during the year 2022 no irregularities have been ascertained in the subordinated entities.

Regarding the overseeing of the implementation of the recommendations, this activity refers to the recommendations performed by the public internal audit structure within the assurance missions from the previous years, for which the public internal audit structure has the obligation to supervise the implementation method. In this context, during the year 2022 a number of 137 recommendations have been supervised, having the following results:

- ✓ 50 recommendations implemented within the established term;
- ✓ 51 partially implemented recommendations (under implementation) that did not exceed the established implementation term;
- ✓ 36 non- implemented recommendations that did not exceed the established implementation term.

Domain	Number of implemented recommendations within all the subordinated entities		Number of partially implemented recommendations within all the subordinated entities		Number of non- implemented recommendations within all the subordinated entities	
	Within the established term	After the established term	That did not exceed the established term	That exceeded the established term	That did not exceed the established term	That exceeded the established term
Budgetary	-	-	-	-	-	-
Financial – accounting	14	-	20	-	6	-
Public procurements	3	-	-	-	8	-
Human resources	3	-	-	-	2	-
Information technology	-	-	-	-	-	-
Legal	-	-	-	-	2	-
Community funds	-	-	-	-	0	-
Entity specific functions	-	-	2	-	2	-
SCM/SCIM	15	-	1	-	8	-
Other domains	15	-	28	-	8	-
TOTAL 1	50	-	51	-	36	-
TOTAL 2	50		51		36	

1. OPCOM – In the year 2022, a number of 5 assurance missions have been performed. Public internal audit missions have approached the following domains (in accordance with the UCAAPI methodology):
 - ✓ Budgetary, Financial – accounting, procurements and investments domains:
 - Assurance mission regarding the evaluation of the activities performed within the Management Financial Control;
 - ✓ The Company's specific functions domain:

- Assurance mission regarding the evaluation of the necessary activities for the organization and operation of the centralized markets of green certificates and natural gas, managed by the company;
- Assurance mission regarding the evaluation of the necessary activities for the organization and operation of the natural gas markets managed by the company;
- Assurance mission regarding the evaluation of the activities performed within the General Secretariat Service – Registration of Participants to ensure the functioning of the markets managed by OPCOM SA.
- ✓ Other domains – (communication):
 - Assurance mission regarding the evaluation of the developed activities in the field of international cooperation and strategy and of OPCOM SA image promotion.

During the public internal audit missions carried out during the year 2022, no irregularities were found and nor were there any recommendations not adopted by the management of the society.

Regarding the supervision of the recommendations implementation, this activity refers to the recommendations formulated by the public internal audit structure within the assurance missions, including those prior to the reference year, for which the public internal audit structure has the obligation to supervise the implementation method. In this context, we mention that no recommendations with the implementation due time in the reference year were issued in the previous year and during the year 2022 a number of 4 recommendations had been issued, of which 2 of them had the implementation due time in the year 2022 and 2 of them have the due time of implementation after the reference year. The status of implementations issued during the reference time is as follows:

Domain	Number of implemented recommendations		Number of recommendations under implementation		Number of non-implemented recommendations	
	Within the established term	After the established term	That did not exceed the established term	That exceeded the established term	That did not exceed the established term	That exceeded the established term
Budgetary	-	-	-	-	-	-
Financial – accounting	-	-	-	-	-	-
Public procurements	-	-	-	-	-	-
Human resources	-	-	-	-	-	-
Information technology	-	-	-	-	-	-
Legal	-	-	-	-	-	-
Community funds	-	-	-	-	-	-
Entity specific functions	-	-	2	-	-	-
SCM/SCIM	2	-	-	-	-	-
Other domains	-	-	-	-	-	-
TOTAL 1	2	-	2	-	-	-
TOTAL 2	2		2		-	

2. SMART

At SMART SA in the year 2022 a number of 2 assurance missions and one ad – hoc mission were carried out. Taking into account that during an assurance mission several domains can be dwelt with, the following were ascertained:

- ✓ 2 regularity missions approached the financial – accounting domain;
- ✓ 0 regularity missions approached the human resources domain;
- ✓ 0 regularity missions approached the legal domain;
- ✓ 1 ad-hoc mission approached other domains.

No irregularities were found during the public audit missions carried out during the year 2022. All recommendations have been adopted. Regarding the supervision of the implementation of the recommendations from the previous years, namely the year 2020:

- ✓ 1 implemented recommendation, of which:
 - 1 implemented recommendation within the established due time.

During the year 2021 a number of 25 recommendations have been supervised, having the following results:

- ✓ 14 implemented recommendations, of which:
 - 14 implemented recommendations within the established due time;
- ✓ 11 partially implemented recommendations (under implementation), of which:
 - 0 recommendations for which the established due time was not exceeded;
 - 11 recommendations for which the established new agreed due time was not exceeded.

During the year 2022 a number of 45 recommendations have been supervised, having the following results:

- ✓ 9 implemented recommendations, of which:
 - 9 implemented recommendations within the established due time;
- ✓ 36 partially implemented recommendations (under implementation), of which:
 - 35 recommendations for which the established due time was not exceeded;
 - 1 recommendation for which the established new agreed due time was not exceeded.

Domain	Number of implemented recommendations		Number of partially implemented recommendations		Number of non-implemented recommendations	
	Within the established term	After the established term	That did not exceed the established term	That exceeded the established term	That did not exceed the established term	That exceeded the established term
Budgetary	-	-	-	-	-	*
Financial – accounting	8	-	19	-	-	-
Public procurements	-	-	-	-	-	-
Human resources	1	-	-	-	-	-
Information technology	-	-	-	-	-	-
Legal	-	-	-	-	-	-
Community funds	-	-	-	-	-	-
Entity specific functions	-	-	-	-	-	-
SCM/SCIM	-	-	-	-	-	-
Other domains	15	-	28	-	-	-
TOTAL 1	24	-	47	-	-	-
TOTAL 2	24		47		*	

3. TELETRANS – in the year 2022 a number of 4 assurance missions were carried out. Taking into account that during an assurance mission several domains can be dwelt with, the following were ascertained:

- ✓ 0 assurance mission approached the budgetary domain;
- ✓ 1 assurance missions approached the financial - accounting domain;

- ✓ None of the assurance missions approached the public procurements domain;
- ✓ None of the assurance missions approached the human resources domain;
- ✓ None of the assurance missions approached the IT domain;
- ✓ one assurance mission approached the legal domain;
- ✓ None of the assurance missions approached the community fund domain;
- ✓ 1 assurance missions approached the specific entity domain;
- ✓ None of the assurance missions approached the SCM/SCIM;
- ✓ 1 assurance mission approached the corruption prevention domain;
- ✓ 1 assurance missions approached other domains.

No irregularities were found during the public audit missions carried out during the year 2022. There were no recommendations formulated and non - adopted by the management of the subsidiary. During the year 2022 a number of 63 recommendations have been supervised, having the following results:

- ✓ 24 implemented recommendations, of which:
 - 24 implemented recommendations within the established due time;
 - 0 implemented recommendations after the established due time;
- ✓ 2 partially implemented recommendations (under implementation), of which:
 - 2 recommendations for which the established due time was not exceeded;
 - 0 recommendations for which the established due time exceeded;
- ✓ 37 non - implemented recommendations, of which:
 - 37 recommendations for which the established due time was not exceeded;
 - 0 recommendations for which the established due time exceeded.

The objective of the supervising of recommendations is both to ensure that the recommendations presented in the internal audit report are implemented exactly on time and in an effective manner, and to assess the consequences in case of non – implementation. After submitting the Action Plan for the implementation of the recommendations of the audited structure, the internal auditors verify the implementation of recommendations within the the established deadlines, updating the Monitoring Sheet for the implementation of recommendations, corresponding to informing of the audited structure or by the evaluations made. The delivering of this action implies the elaboration of a half – yearly report regarding the state of implementation of recommendations developed in the internal audit reports.

Domain	Number of implemented recommendations		Number of partially implemented recommendations		Number of non-implemented recommendations	
	Within the established term	After the established term	That did not exceed the established term	That exceeded the established term	That did not exceed the established term	That exceeded the established term
Budgetary	-	-	-	-	-	-
Financial – accounting	6	-	1	-	6	-
Public procurements	3	-	-	-	8	-
Human resources	2	-	-	-	1	-
Information technology	-	-	-	-	-	-
Legal	-	-	-	-	2	-
Community funds	-	-	-	-	-	-
Entity specific functions	-	-	-	-	4	-
SCM/SCIM	13	-	1	-	8	-
Other domains	-	-	-	-	8	-

TOTAL 1	24	0	2	0	37	0
TOTAL 2	24		2		37	

I.6.2. Performing the counseling missions in the year 2022

❖ In the NPG Co. Transelectrica S.A.

In 2022 no formalized counseling missions were carried out. However, the Public Internal Audit structure provided advice throughout the year to those who requested it. Thus, during the missions performed, clarifications were provided on various legal provisions and/or the operational procedures in force. Also, various requests for clarification from subsidiaries or organizational entities within the Company were promptly responded to.

❖ In the subsidiaries of NPG Co. Transelectrica S.A.

1. OPCOM – it has been performed one formalized counseling mission with the theme: counseling regarding the policy and strategy implementation for the integration and development of the information technology systems within the Company. The specific objective of the counseling mission was to identify ways to implement the strategy and policy for the integration and development of IT systems. Within the counseling report the solution proposal was issued related to the need to update the data/information regarding the responsible persons nominated within the internal procedures.
2. SMART – no formalized counseling missions were carried out.
3. TELETRANS - no formalized counseling missions were carried out.

I.6.3. performing the evaluation missions of the internal audit activity

❖ In the NPG Co. Transelectrica S.A.

During the year 2022 there have not been performed any evaluation mission.

❖ In the subsidiaries of NPG Co Transelectrica S.A.

There was not the case.

I.7. Conclusions

I.7.1. Conclusions regarding the public audit activity carried out within NPG Co. Transelectrica S.A.

The public internal audit by means of the conducted activities adds value both by assessing the internal control system and by analysing of risks associated to auditable activities, as well as by the recommendations included in the elaborated report and sent in order to reach the Company's objectives. These recommendations have determined the audited structures to improve their activities and their internal control system, so that significant progress could be noticed from one audit to another. The monitoring activities are oriented towards the plus value created by the public internal audit in giving support to the Company to achieve its objectives.

The implementation of recommendations made within the public internal audit missions throughout the year 2022 were aimed at and led to:

- ❖ A more efficient knowledge and application of the legislation, of the procedures and instructions related to audited activities;
- ❖ The identification and correction of sanctionable deficiencies by external control bodies;
- ❖ Eliminating the negative aspects from the audited activities in order to reduce the conditions of occurrence of risks;
- ❖ A greater attention in applying the regulations in force related to the administration and management of the assets existing in the patrimony of the audited entities;

- ❖ Improving the way of working regarding the initiation and performance of public procurements procedures within the Company;
- ❖ Improving the way of working regarding the justification of expenses for the employees traveling in the country or abroad;
- ❖ A greater attention to compliance with the regulations in force regarding the performance of the annual inventory of the Company's assets;
- ❖ Improving the way of working regarding the follow – up of the contractual clauses by the contract managers and their attitude in case of non – compliance with these clauses by the contractual partners;
- ❖ Increasing the communication between the Company's entities;
- ❖ Improving the internal control system related to the audited entities and audited activities.

I.7.2. Conclusions related to the public internal audit activity performed within the subsidiaries of the Company

OPCOM	<p>The internal audit structure was functional; in accordance with the legal provisions in force there are 2 people hired full –time. The activities carried out in the audit structure are procedural and comply with the public internal audit methodology. Also, the Specific Activity Rules and the Internal Audit Charter are applied and they are approved by the hierarchically superior entity and the Chief Executive Officer of the company. The Quality Improvement and Insurance Programme (PAIC), approved by the head of office of Internal Audit is implemented. The activity carried out in 2022 within the public internal audit structure was planned in accordance with the legal provisions. The annual public internal audit plan for 2022 was fully accomplished. The public internal audit missions planned were completed on the established due time, in accordance with the annual activity plan approved by the management of the company. Within the internal audit activity, the staff of the audit structure took into consideration the alignment between the main risks the audited structure encountered and the level of effort made by the internal audit towards the possible vulnerabilities that can influence the achievement of their objectives. A minimum number of training days was set within the audit structure, foreseen by the regulation framework and this number is of 15 days of self – training. This form of professional training was formalized by issuing training sheets that can be found within the framework of the structure.</p>
SMART	<p>The internal audit activity added value within the company through the recommendations made throughout the performed missions. These recommendations determined the audited structures to improve their activities, their internal communication and the internal managerial control system. Thus, from one audit to another, progress and increases in the internal procedures revision and rules have been noted in the latest legislative changes with adaptation and practical applicability. The quality improvement of the internal control was appreciated by both the auditor and the management of the company, promoting the achievement of its objectives, intensifying the control, protecting the company's assets and recommending improvement based on risk analysis and systematic approach.</p>
TELETRANS	<p>The internal audit missions aimed to formulate recommendations for removing malfunctions and improving the activities of the audited structures, so that their</p>

efficiency and effectiveness shall increase and this will ultimately contribute to the achievement of the objectives set by the Company. The management's awareness regarding the need to strengthen the internal audit was achieved by the approval without objection of the reports for internal audit mission carried out during the year 2022.

I.8. Suggestions to improve the public internal audit activity

Transelectrica



- ensuring a high qualified personnel in order to audit all the activities carried out by the Company as imposed by Law no. 672/2002 related to public internal audit;
- ensuring a level of remuneration of internal auditors corresponding to the hierarchy of this position within the remuneration system of the Company;
- Conducting regular meetings or discussions of internal auditors with the Company's top management in order to operatively clarify certain issues as well as the expectations of the top management regarding the public internal audit activity;
- the permanent increase in the professional quality of the human resources. Consequently, the professional training of the API staff will be taken into consideration, both by attending professional development courses and by self - training through studying appropriate topics to the professional level;
- Reasserting, in the work meetings of the line management within the Company, the role and function of the internal audit in achieving the objectives of the top management.
- Competition for the post of Chief Inspector.

OPCOM



- as mentioned in the previous chapters, the main action to improve the activity of public internal audit within the company refers to the increasing of professional quality of human resources.
- Consequently, in the year 2023, the professional training for the Internal Audit Office personnel will be taken into consideration, both by attending accredited courses in the field of public internal audit and by self training, by completing topics appropriate to the professional level, approved by the Head of the Internal Audit Office, in accordance with the Quality Insurance and Improvement Programme.

SMART



- the improvement of the internal audit activities will be based on the improvement of the activity through complex professional training programs on concrete fields of the economic activity and forms of organization, as well as a close collaboration with the Internal Audit structure within Transelectrica.

TELETRANS



- Maintaining an adequate professional training of the internal auditors by attending professional training courses given by specialists in the field.
- the improvement of the public internal audit activity aims at the content of the procedural framework, as well as the development of a permanent professional collaboration from a methodological point of view and guidance, between the internal auditors within Teletrans and Transelectrica.

II. Report on risk management process and performance monitoring within NPG Co. Transelectrica in the year 2022

II.1. Organizational framework of risk management

In accordance with applicable legislation - *SGG Order 600/2018 approving the Code of internal managerial control of public entities*, in 2022 the Company's organisation and operation framework was consolidated as necessary to implement and develop the internal managerial control system, based on:

- ✓ Internal procedure: Risk Management, Edition 1, Revision 1;

- ✓ The structure, attributions and responsibilities of the Company's Risk Management Team (EMRC); within the team is constituted the Risk Management and Control Group (GMCR); the Risk Management Team's chairman Company-wide is the Risk Management deputy chief inspector within the Department of Critical Infrastructures. To provide efficient risk management in all Company structures, the leaders of the Company's organisational entities (units, divisions, departments, territorial transmission units) designated each a risk responsible person who is a member in the Company-wide Risk Management Team (EMRC);
- ✓ *Organisation and operation regulation of the Monitoring commission for the Company's internal / managerial control;*
- ✓ *The structure of the Technical Secretariat of the Monitoring commission to implement the Internal /Managerial control system (CM SCIM).*

The Monitoring Committee of the internal/managerial control coordinates the updating of the general and specific objectives of the procedural activities, of the risk management process, the performance monitoring system, the status of the procedures and of the monitoring and of reporting system to the Company's management. The risks related to activities are identified and evaluated within each organizational entity of the Company (unit, department, direction, territorial unit of transmission) in accordance with the elements of the Risk Register, significant risks being centralized by the Critical Infrastructure – Risk Management Department in the Risk Register of the Company. The Monitoring Committee analysis and prioritizes the significant risks that may affect the achievement of the Company's objectives, by establishing annually the risk profile and the risk tolerance limit.

Based on the Risk Register within the Company, the Chairman of the Risk Management Team suggests the risk profile and the risk tolerance limit which are analyzed and checked by the Monitoring Committee and approved by the Directorate of the Company. The managers of the organizational entities within the Company send together with the Risk Register, the control measures for significant risks to the Chairman of the Risk Management Team within the Company who annually elaborates the Plan for the implementation of control measures for significant risks on the Company's level. The Plan is analyzed by the Monitoring Committee and approved by the Directorate of the Company.

The Technical Secretariat of the Monitoring Committee shall submit to the departments responsible for significant risk management the Action Plan approved, in order for it to be implemented. Based on annual reporting process related to the development of the risk management process and the monitoring of performances within the organizational entities of the Company (reports sent by the managers of the organizational entities), the Chairman of the Risk Management Team forwards an information to the executive management of the Company regarding the conducting of the risk management process and the performance monitoring within the Company and this information includes an analysis of identified and managed risks within Transelectrica.

Within Transelectrica the risks that may have a substantial impact on the achievement/fulfillment of the Company's objectives are managed in accordance with the operational procedures specific to the current activities as well as with the specific procedure of *Risk Management*. Thus, the continuous improvement of the manner in which the risk management steps are carried on is ensured, namely the identification, evaluation, setting the management strategy, monitoring the implementation of control measures and the periodic reporting, as follows:

- ✚ Identifying risks in close connection with the activities associated to the specific objectives whose achievement might be influenced by risk occurrence; detecting the threats/vulnerabilities existent in current activities that might lead to unachieved objectives;

- ✚ Risk assessment by estimating the occurrence likelihood, the impact over activities associated to objectives achievement in case it occurs; risk hierarchy and priority depending on risk tolerance;
- ✚ Establishing the risk management strategy (risk response) by identifying the best risk treatment methods, including the control measures; risk analysis and management depending on the risk tolerance limit approved;
- ✚ Monitoring the application of control measures and reviewing them according to the effectiveness of their results;
- ✚ Periodical reporting on risks is submitted whenever necessary or at least once a year and in case risks persist, depending on the occurrence of new risks, the efficiency of the approved control measures, reevaluation of the existing risks, etc.

The procedure offers a working instrument to the personnel of NPG Co. Transelectrica, instrument that facilitates the management of risks in a methodical and efficient way in order to fulfill the Company's objectives. Under the procedure that contains the manner in which the measures of control for limiting the possible threats and consequences on risks occurrence are established, implemented and monitored, the documents regarding the management of risks that can affect the activity of Transelectrica are elaborated annually. The procedure foresees that every organizational entity within the Company has the obligation to systematically analyze at least once a year the risks related to the development of its activity and to elaborate the corresponding plans for limiting the possible consequences of risks occurrence. The management of each organizational entity nominates a person responsible for risks who ensures the annual elaboration of documents of Risk Register, Plan of Measures, Annual Report, the sheets of following up risks when necessary, the elaboration of risk alert forms, when a new risk occurs.

In 2022, the main documents regarding the risk management activity, elaborated within the Company, in order to facilitate the achievement of the Company's objectives, in conditions of economy, efficiency, effectiveness and fulfillment of the requirements, were:

- ✓ *Risk Register of 2022 for significant risks identified in the NPG. Co. Transelectrica;*
- ✓ *INFORMATION NOTE on the development of the risk management process and performance monitoring on NPG Co. Transelectrica in 2021;*
- ✓ *Prioritization of significant risks within the Company;*
- ✓ *The implementation Plan for Control Measures 2022 for significant risks within the Company;*
- ✓ *Internal Reports necessary to elaborate the periodical annual report for the year 2022, drawn up under the requirements of the capital market legislation and the A.N.R.E. regulations.*

Under the internal regulations, The Chairman of the Risk Management Team within the Company initiated the elaboration of the annual report requesting from the managers of the organizational entities the elaborated and approved documents within the organizational entity. Based on the information received, the following were elaborated:

- ❖ *Risk Register 2023 for significant risks identified in the NPG. Co. Transelectrica;*
- ❖ *The implementation Plan for Control Measures 2023 for significant risks within the Company.*

II.2. The analysis of the risks related to the activities – during the year 2022

Within the updating process of Risk Register on the Company it was found that the risk exposure was maintained at the level of the previous year, the residual risks⁷, compared to the previous assessment remaining in general at the same level.

The risks identified in previous years are kept under proper control; however, the risk exposure related to investment and public procurement activities remain high.

⁷ The risk that is left after establishing and implementing the response to risk

Some risks have been reformulated in order to correlate better with Transelectrica's objectives and with the documents approved in the Company.

II.2.1. the risks that occurred in 2022:

- Investment risk: the difficult financial situation SMART subsidiary is facing has been the subject of several information materials forwarded to the management of Transelectrica. The financial activity of the subsidiaries is under monitorization, the *Activity Report of the subsidiaries* being elaborated every quarter;
- Liquidity risk: the Company pays close attention to efficient treasury management, by maintaining sufficient liquid resources to be able to honor obligations as they reach due date, as well as the availability of financing through appropriate credit facilities;
- The difficult process of procurement of works within the RET Maintenance Program, which can lead to incomplete performance of it;
- The difficult process of procurement of works within the Annual Investment Program which can lead to the fulfillment below the established qualitatives and quantitative levels of it.
- Deficiencies in staff recruitment, training and motivation.

II.2.2. the main risks identified within the Company

❖ Operational/strategic and technical risks

- ✓ The loss of stability of the National Power System
- ✓ Failures of installations and equipment; failures/unavailability of installations and equipment ;
- ✓ Malfunctions of the systems and platforms used by the operative management, communications and telecommunications;
- ✓ Unavailability of aggregation/measurement data for OPCOM/OPE
- ✓ The incomplete fulfillment of the RET Maintenance Program
- ✓ The fulfillment below the established qualitatives and quantitative levels of the Annual Investment Program
- ✓ Non - compliance with the legal requirements/conditions;
- ✓ Non - compliance with the legal requirements related to the connection of users to the electricity transmission network;
- ✓ Forecast risk
- ✓ Failure to meet the deadlines when implementing the network codes.

❖ Financial risks related to energy markets

- ✓ Interest risk
- ✓ Foreign currency risk
- ✓ Risk regarding the provisions of the financing agreements
- ✓ Liquidity risk
- ✓ Deterioration risk of the credit rating
- ✓ Price risk due to unpredictability of the energy market which can lead to cost increase related to OTC
- ✓ The risk of non – payment.

❖ Legal risks – licences, contractual risks, including fees from the authorities of compensating payments.

❖ Security risks

- ✓ Breaches in ensuring the security and critical infrastructures ICN/ICE protection and in ensuring the activity continuity during emergency situations,
- ✓ The non – ensuring of the security of classified information,
- ✓ The non – ensuring of the security and protection of cyber infrastructures.

❖ Risks related to the personnel

- ✓ Deficiencies/difficulties in staff recruitment, professional training and motivation, shortage of personnel with quality specialized professional training,
- ✓ Hiring of personnel with low quality specialized training and insufficient professional experience,
- ✓ Non – achievement of the entire Annual Programme for maintenance and professional training ,
- ✓ Impact on the personnel's health and security.

❖ **Environment risks**

- ✓ Not ensuring the environment protection.

For the analysed period of time there were no risks of corruption in the organizational entities.

As the core activity of the NPG Co. Transelectrica, through the territorial transmission units and Uno-DEN, is to ensure the continuous operation and operational management of the National Power System (SEN), in accordance with the quality, safety and efficiency norms provided by the Technical Code of RET and the European and national regulations in force, special priority and attention had been given to the criteria of health and safety of employees, as well as to the continuity of strategic functions for SEN, as system operator and electric energy carrier.

II.2.3. The resulted risk profile and the suggestion to prioritize the risks and the tolerance limits

Within the organizational entity (units, divisions, departments, territorial transmission units), the exposure was evaluated for each risk, both in term of INHERENT risk⁸, as well as RESIDUAL ⁹ risk, evaluations included in the Risk Register in every organizational entity.

- ✓ Risk Matrices and Centraliser containing 137 identified risks in the EXECUTIVE, having the value of inherent and residual exposures, as follows:
 - Inherent risks: 68 low and 69 significant; within the significant ones, 40 are average and 29 high.
 - Residual risks: 94 low and 43 significant, of which 37 average and 6 high.
- ✓ Risks Matrices and Centraliser, containing 120 similar risks identified in the territorial transmission units (TTU) with the inherent and residual values.
 - Inherent risks: 38 low and 82 significant; within the significant ones, 81 are average and 1high.
 - Residual risks: 115 low and 5 significant; of which 5 average and 0 high.

II.3. Holding risks under control. Actions

The actions implemented to hold the risks under control in 2022 were included in the document the *Plan for the implementation of control measures for significant risks*, drawn up at the level of each organizational entity within the Company.

At the level of the Company, the *Plan for the implementation of control measures* was elaborated. The stage of its fulfillment is being observed within the guidance and control actions of the Risk Management and Control Group.

The actions taken in order to keep the risks under control in the year 2022, mainly, have decreased the probability of materialization and impact of the risk, as compared to the level of inherent risks.

The materialized risks were treated in accordance with the adopted strategy, imposed by the circumstances that favored the risk occurrence.

⁸ Exposure to the risk related to the objectives fulfillment, in the absence of any action that could be performed, in order to reduce the probability and/or its impact.

⁹ Exposure to the risk related to the objectives fulfillment, that remains after establishing and implementing the measures to treat the risk

Establishing the risk management strategy involves:

1. The acceptance of the risk,
2. Risk monitoring,
3. Addressing the risk to eliminate/diminish it on an acceptable level through measures,
4. The outsourcing of the risk through: insurance, outsourcing of activity, other contracts with third parties.

For the risks with a minor impact, special measures have been taken to monitor, treat or outsource, the results of their materialization being eliminated in the current maintenance and remediation processes.

Outsourcing measures of externalizing the risk have been taken, for example, measures to conclude insurance contracts at the Company's level, like:

- ✓ Insurance services for buildings, goods and equipment;
- ✓ RCA and CASCO insurance services for vehicles owned by the Company;
- ✓ Professional liability insurance services for the members of the Supervisory Board and of the Directorate.

Mainly, the strategies consisted in:

1. Addressing the significant risks for reduction to an acceptable level through measures and
2. Monitoring the significant risks.

Among the internal control/implementation tools used, we mention:

- ✓ Measures within the procurement/maintenance/investment/personnel professional training programmes;
- ✓ Dedicated measures regarding the identification, monitoring, treating and outsourcing of risks;
- ✓ Insurance contracts that are carried on by the Company;
- ✓ Contractual provisions (regarding performance bond – GBE, penalties);
- ✓ Elaboration or revision of procedures;
- ✓ Change in the procedural and structural organization;
- ✓ Performance indicator attached to the objective;
- ✓ Redistribution of personnel;
- ✓ Establishing or updating data base.

In the event of risks materializing, control and verification measures for similar situations have been intensified to prevent the risks from materializing or the occurrence of new risks. The measures of control are fully implemented or are about to be implemented.

For the year 2023, the actions established to keep the risks under control are included in the document *Plan for the implementation of control measures 2023 for significant risks*, at the level of the Company, approved by the Directorate. This contains for every risk: causes, estimation of inherent risk (probability and impact), measures of control – to prevent, with deadlines and responsible persons, consequences, control measures to limit the consequences, with deadlines and responsible persons, residual risk estimation (probability and impact), entities that manage the risk.

During the year 2022, the risk management activity has been carried out properly within the entire Company, complying entirely and in time with the legal requirements and internal regulations.

However, for the major risks related to delays in achieving the Annual Sectorial Procurement Program, it is necessary to identify and implement drastic measures and the use of all legal tools that can raise the achievement degree of these programmes.

In order to maximize the management process of risks, it is recommended:

- ✚ The substantiation of projects/activities suggested to be included in the annual investment, procurement and maintenance programmes, should also contain elements related to risk

management – which Company's risks are diminishing and the estimation of effects – regarding the changing of impact and of the occurrence probability of those risks; these aspects will also be included in the reports related to the performance of the annual programmes;

- ✚ Identifying the significant risks that can not be managed through procurement, investment and maintenance activities, risks that need to have measures plans regarding their monitorization, treating or outsourcing (together with the related financial suggestions, dedicated to these activities);
- ✚ Reports (syntheses) regarding the manner in which the achieved annual investment, procurement and maintenance programmes should be as well transmitted for information to the Chairman of the Risk Management Team from the Company, in order to supervise the manner in which risks are kept under control;
- ✚ Identification of interdependences – what other organizational entities can induce risks into the activity of another organizational entity; what other organizational entities might be impacted in the case of occurrence of some risks in the activity of an organizational entity;
- ✚ Correlation of the operational procedure to the other internal regulations and the use of a unitary terminology, in order for the current working manner to be in accordance with the legislation in force.

Audit Committee of the Supervisory Board, consisting of:

Chairman of the Audit Committee:	–	Luminița ZEZEANU
Member of the Audit Committee	–	Teodor ATANASIU
Member of the Audit Committee	–	Gheorghe STERP VINGĂRZAN
Member of the Audit Committee	–	Cătălin-Andrei DASCĂL
Member of the Audit Committee	–	Costin-Mihai PĂUN